

# Kung Sing Engineering Corporation

## 2017 Annual Report

*Notice to readers*

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

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## I. Letter to Shareholders

### Dear Shareholders,

First of all, I would like to thank you for your continuing support throughout the year. Kung Sing has responded to the changing business climate by adopting an aggressive stance in strengthening our competitiveness. Total consolidated revenue for 2017 was NT\$3758935(thousands), a 12.36% less compared with NT\$4289591(thousands) in 2016. Net income less 523.36% to NT\$-355334(thousands), compared with 2016 net income of NT\$83931(thousands).

The results of our operating performance in 2017, business plan for 2018, corporate development strategy, external competitive environment, regulatory environment, and macroeconomic conditions, are illustrated as follows:

### Operating Performance in 2016

#### 1. Consolidated financial results

Unit: NT\$ millions

Operating income	Operating profit	Net income
3,759	(399)	(355)

#### 2. Budget implementation

Unit: NT\$ millions

	2017		2016		Percent Change( % )
Operating income	3,759	100%	4,289	100.00%	(12.36)%
Gross profit	(244)	(6.49)%	299	6.97%	(181.61)%
Operating expenses	(155)	(4.12)%	(178)	(4.15)%	12.92%
Operating profit	(399)	(10.61)%	121	2.82%	(429.75)%
Non-operating income	30	0.80%	32	0.75%	(6.25)%
Non-operating expenses	(48)	(1.28)%	(50)	(1.17)%	(4)%
Pre-tax income	(418)	(11.12)%	103	2.40%	(505.83)%
Net income	(355)	(9.44)%	83	1.94%	(523.36)%

### 3. Profitability analysis

	2017	2016
Interest income	(10)	(6)
Interest expenses	26	31
Return on equity (%)	(8.47)	1.98
Pre-tax profit to paid-in capital ratio(%)	(12.02)	2.98
Net profit rate(%)	(9.45)	1.96
After-tax earnings per share (yuan)	(1.01)	0.26

### 4. Research and development status

The Company has a long and robust history in construction, has contracted various major public works including roads, bridges, tunnels, and the rapid transit system, among which for the construction of the MRT Danshui Line, the Company cooperated with V.T. Company from Austria and adopted the “Incremental Launching Method for Prestressed Beams”, cooperated with the DSI technology from Germany on projects 16 and 17 by using the “Cast in Place Cantilever Method”, making the construction to be completed on time, used the “Advanced Shoring Method for Bridges” on project C305, used the Continuing Tunnel Boring Steel Segment Method on project CP263 of the MART Banchiao Line; as for constructions including C359, C360, C356Z(signed), C318 (signed), and C514A (signed), etc, the construction project also included various the domestic advanced methods, such as the incremental launching method, advanced shoring method, and fullstaging method, etc.

## **Business Plan for 2018**

### 1. Business objectives

Complying with the government’s policy direction, the Company continues to focus on contracting public works mainly, supplemented by expanding the civil construction, and to continue to aim at fields including the MRT, roads, bridges, and tunnels, etc, coupling with the most advanced technologies and skills, to strengthen our professional competence and show the Company’s overall strength and persistent momentum in order to build loyalty in employees and identity in shareholders as well as to present Kung Sing’s sustainable management strength to the public. According to the nature of public works carefully assessed choose suitable.

## 2. Sales forecast and sales policy

### (1) Summary of the 2018 Annual Operational Plan

#### A. Operational principles

- a. Sustainable development strategy, the establishment of core values.
- b. The implementation of the budget system and strict control of the construction cost.
- c. Staff morale and the establishment of corporate culture.
- d. Talents nurturing and the enterprise physical constitution.
- e. Standardization and the enhancement of work efficiency.
- f. emphasis on safety and health, environmental protection, reduce workplace hazards.

#### B. Expected sales and the basis

According to the present total amount of construction in progress, the flow of funds and the above assessment into consideration, 2018 years Road and rail transport and other public works will be the main target tracking.

Formulate the Company's 2018 business year contract amounting to NT \$ 7,000 millions.

The 2018 operational plan is as shown in the following:

- a. The business management in the future is still focused on integrated construction works except major public works, we will gradually expand our business services into architecture, environmental protection, machinery and electronics, building materials, and import & export, etc.
- b. Currently, the economy is still in a slump, thus the Company shall attach more importance on steady, dependable operation to ensure the expected profitability of the construction in progress and maintenance of full cash flow as well as to manage to obtain more diversified funding channels and low cost of capital for flexible use.
- c. To strengthen the implementation of project budget system and the execution of construction plan, strictly control the cost of construction as well as to continue to promote the educational training policy, actively cultivate professional personnel, and enhance the Company's overall competence and persistent momentum.
- d. To focus on sustainable management, hold on the coherent persistence, carefully select the construction project, strive for stable revenue and profit, and endlessly seek innovative ideas, have a full grasp of the up-to-date technologies and skills, strengthen our professional competence, expand a wide range of enterprise value, present the company's overall strength and momentum, further to build the loyalty in employees and identity in

shareholders.

C. Important production and marketing policies

- a. To strengthen research and development, enhance the professional and technical standards, and enhance the competitiveness.
- b. To strengthen the labor system, cultivate the basic mechanic strength, and have a full grasp of the construction progress.
- c. To carry out the construction management, foster a third-party team, and achieve the goals of operational plan.
- d. To establish the ERP, sophisticate the information management process, and improve the overall operating efficiency.
- e. To build loyalty in employees and identity in shareholders and enhance the excellent corporate image.

**3. Development Strategy, The Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Conditions**

In 2018, the Company continued to aim at public works such as road and rail transportation.

The Office of the Comptroller of the Executive Yuan predicts a GDP of 2.11% in 2017 years. The GDP forecast for 2018 years was 2.29% on November 30, 2017. However, the National Development Council considered domestic and international situations and government activism policies. With private investment and private consumption as two drivers, GDP is expected to reach 2.6%. However, at present, the global economy has many doubts and interferences in various countries' political and economic factors, such as the Brexit, the change of China's economic growth pattern, the reform of the US new tax system, the geopolitical risks of the Middle East and the Korean Peninsula, and other factors that may affect China's GDP.

In 2018 years, the government strengthened the economic recovery momentum, promoted industrial upgrading and transformation, and revitalized the economic climate. It proposed the "National Development Plan fo2018 Years—Taiwan's Construction, and Seeing Implementation". In order to accelerate industrial innovation and structural transformation, the government fully promoted the economic development measures. , By providing both economic supply and demand, to stimulate private consumption, accelerate the implementation of "forward-looking infrastructure," and encourage non-governmental participation in public development, to expand domestic demand, remove investment barriers, solve the "five problems", implement regulations and relax, while continuing

Promote "5 Plus 2" industrial innovation to implement industrial transformation and upgrading, so that Taiwan's economy can flourish.

In 2018, the government's public building design paintings totaled NT\$ 374.9 billion, an increase of NT\$ 48.3 billion from the same base budget of 2017 of NT\$ 326.6 billion. Among the three sub-categories, "Transportation and Construction", "Environmental Resources" and "Urban Development", which can be contracted into the construction industry, were listed at a total of NT\$ 210.6 billion, and the most important transportation construction category was only NT\$ 122.6 billion, including roads and tracks. Although the two sub-projects such as transportation have a total of 94.7 billion yuan, they have been reduced by 500 million yuan from 2017.

The Government has been actively promoting the domestic public works tenders taken "heterogeneity purchase minimum standards" and "turnkey most advantageous tender," a domestic industry was to avoid vicious competition, and the impact of the project quality and efficiency, to achieve enhancing industrial competitiveness; Furthermore to incorporate design and construction of turnkey with the most advantageous tender way to handle, in addition to cultivate domestic manufacturers to integrate the ability to design, construction, electrical and mechanical equipment, financial management, and can import innovative materials, technologies and construction methods through turnkey, driven by industry energy R & D and technology upgrading, and thus adequate performance and are familiar with international procurement tenders, to establish industrial projects abroad to develop the competitiveness of the market.

To meet this trend, the company's future is still actively seeking manufacturers and related industries and companies excellent consultant team to participate in public works tenders. The Company will be in a fine tradition and past performance, as well as the usual team spirit, constantly innovative technology, strict quality control and progress, all walks of life to provide the best construction services. In order to successfully achieve their goals, create better results to shareholders, our shareholders and pray always uphold the love of the heart, to give support and advice.

Sincerely yours,

Chairman of the board  
Chen, Huang-ming

General manager  
Chiang, Chi-ching

Accounting Supervisor  
Wen, Shu-Chiao



## II. Company Profile

**2.1 Date of Incorporation:** February 01, 1941

### 2.2 Company History

Year	Milestones
1941	Founded by Erh-kung Lu in Shanghai in 1941, joined the national defense construction timely, during the time in the mainland China, contracted a number of major construction projects related to national defense throughout the regions including Yunnan, Kunming, Chongqing, Guangzhou, Guilin, Shanghai, and other major cities.
1947	Registered in February, the paid-in capital was NT\$16 million.
1954	Introduced the prestressed concrete, the result of the load testing of the finished product was highly praised.
1982	<ol style="list-style-type: none"><li>1. The former president, Mr. Erh-kung Lu passed away, and Ms. Shu-yi Lin took the position.</li><li>2. Mr. Chun-jun Pan et al joined the team and were vigorously in the development “Kung Sing”.</li></ol>
1983	Because the president, Ms. Shu-yi Lin resided abroad for a long time, the Board decided to make changes in the managerial level by resolution to appoint Mr. Chun-jun Pan as the president to be in charge of the management of “Kung Sing”, for a new era of Kung Sing since had begun.
1987	The society changed with each passing day, in order to follow up to the progress so that the Company could match up the development of a series of important national constructions, operating equipments must be increased and updated; therefore, the Board passed the resolution to implement a cash capital increase up to NT\$ 84 millions.
1989	As a result of the chairman’s foresights and new operating equipments, the construction of various projects were highly acclaimed, thus received the “Excellent Engineering Award issued by the Taiwan provincial government.”
1991	The government began to promote the Six-year Plan, and the Company was able to contract a number of public works in terms of its capabilities; therefore, implemented another cash capital increase up to NT\$98 millions in order to promote the operational plan.
1993	1.Expanded operations due to operational requirements, implemented another cash capital increase up to NT\$60.2 millions in September,

	<p>purchased a new office building and increased the cash flow schedule.</p> <p>2.Approved by the Securities and Futures Commission, the Company officially became a public company.</p> <p>3. Again received the “Excellent Engineering Award issued by the Taiwan provincial government.”</p>
1994	<p>1.Received the “Excellent Engineering Award issued by the Taiwan Provincial Government” in terms of Tunnels 171K+200~171K+980 on Tai-Chiu Line.</p> <p>2.“Gold Dragon Award for the Priviledged Outstanding Construction Company” for the project CT206 of the Taipei MRT Danshui Line, the project CP263 of the Taipei MRT Banciao Line namely the tunnel project from Chiang-tzh-tsui to Sin-pu stations, and the construction of three-dimensional cross on the mouth of Chung Cheng Rd. in Kaohsiung.</p>
1995	<p>Received the “Excellent Vendor and Excellent Construction Award issued by the Taiwan Provincial Government” in terms of projects of tunnel broadening and the roadbed, road improvement projects from 182K+500~190K+800 on Tai-Chiu Line.</p>
1996	<p>1.The 16, 17 contracted merged project of the broadening from Xizhi to Wugu section on Chung-Shan Freeway was completed and open to traffic, and received a award issued from the Taiwan Area National Freeway Bureau.</p> <p>2. Passed the “ISO 9002” International Quality Standard System.</p> <p>3.Received the “Excellent Construction Award issued by the Taiwan Provincial Government” in terms of the tunnel project of the administration center of the Taroko National Park to the Mystery Valley.</p> <p>4.Won the “Excellent Contruction Company Award issed by the Construciton and Planning Agency, Ministry of the Interior”.</p>
1997	<p>1.Implemented a cash capital increase up to NT\$480 milions due to operational needs.</p> <p>2.Completed the new constructions of Chung-He Tunnel Northern on National Highway No.3 and Hsin-Au Tunnel on Tai-Chiu Line.</p> <p>3.Won the “Excellent Construction Award issued by the Taiwan Provincial Government” in terms of the Ankeng Bridge on the Hsichih and Chung-He section on National Highway No. 3.</p>
1998	<p>Due to the operational need, the Company must have one more supervisor; therefore, the original directors and supervisors resigned all together in June and a re-election took place, new directors and supervisors were: Directors: Chun-jun Pan, Ying-ling Pan, Huang-ming Chen, and Chao-chi Liu of Yi</p>

	Hsin Investment Co. Ltd.; supervisors: Kuei-mei Li, Chao-ming Chen, and Yi-nan Liu.
1999	<ol style="list-style-type: none"> <li>1. Passed the “ISO 14001” International Quality Standard System.</li> <li>2. Obtained the permission of stock trading publicly open on OTC market from GreTai Securities Market.</li> </ol>
2000	<ol style="list-style-type: none"> <li>1. In order to fulfill the promise to Securities &amp; Futures Institute of adding one more spot for external director and supervisor each once the stocks were permitted to be traded publicly open on OTC market, the original director, Ying-ling Pan and supervisors, Chao-ming Chen and Kuei-mei Li resigned, and a re-election took place in June, and the new directors and supervisors were: Directors: Chun-jun Pan, Huang-ming Chen, Chao-chi Liu, and Chung-he Huang of Yi Hsin Investment Co. Ltd.; supervisors: Yi-nan Liu, Hsing-hua Wen of Hung Yi Investment Co. Ltd.</li> <li>2. Based on the overall planning, through the resolution made by the Board, Mr. Huang-ming Chen was appointed as the new president and general manager, and Mr. Chun-jun Pan was invited to be the chairman of Kung Sing Group.</li> <li>3. The original spokesperson, Huang-ming Chen was promoted to the person in charge of the company, and the post of spokesperson was filled by the director of sales department, Tai-ju Liu, and the post of deputy spokesperson was filled by Shun-yi Chuang from the finance department.</li> <li>4. Selected as the “excellent construction industry manufacturer of the year 2000” by the Taipei City government.</li> </ol>
2001	<ol style="list-style-type: none"> <li>1. the Board had re-elected new directors and supervisors in June, and the new directors and supervisors were: Directors: Chun-jun Pan, Huang-ming Chen, Chao-chi Liu, and Ling-hua Wang, of Hsin Yi Investment Co. Ltd.; supervisors: Yi-nan Liu and Jo-ching Fan of Hung Yi Investment Co. Ltd.</li> <li>2. The director, Mr. Huang-ming Chen was appointed to the position of president and general manager in accordance with the Board’s resolution.</li> <li>3. The Tai-Si Kukeng line on the eastward and westward expressways was voted and rewarded as the best construction site.</li> </ol>
2002	<ol style="list-style-type: none"> <li>1. The new construction project of Taipei long-distance communication building, Chunghwa Telecom won the excellent engineering award issued by the ministry of transportation and communication.</li> <li>2. Reviewed and selected as the “excellent construction company of the year 2002” by the Taipei City government.</li> <li>3. The assistant manager of the administration department, Chi-ching</li> </ol>

	Chiang was appointed to the position of deputy spokesperson.
2003	<ol style="list-style-type: none"> <li>1. Broke through all difficulties to contract the civil mechanical and electrical integration project, the CB410 section on Taipei MRT Nei-Hu Line with the cost of 32.8 billion dollars making it the largest amount for a single case ever throughout the world.</li> <li>2. The assistant manager of the sales department was promoted to the supervisor of manager's office.</li> </ol>
2004	<ol style="list-style-type: none"> <li>1. The 20th term of the office for directors and supervisors were expired and in accordance with the provisions of the Companies Act and the Company's Corporate charter, the Board had re-elected new directors and supervisors in May, and the new directors and supervisors were: Directors: Chun-jun Pan of Chuan Fu Investment Co. Ltd., Ling-hua Wang of Hsin Yi Investment Co. Ltd. ; supervisors: Yi-nan Liu of Hung Yi Investment Co. Ltd.</li> <li>2. The representative, Huang-ming Chen was appointed to positions of president and general manager by the Board's resolution.</li> <li>3. Implemented a cash capital increase up to NT\$250 millions in August in order to comply with operational requirements and needs in financial improvement.</li> <li>4. Joint acquisition of land in Yu-chen section, Nankang district, Taipei City of Taiwan Provincial Agribusiness Company with Mr. Wu-hsiung Chen.</li> <li>5. Acquisition of the project, "Road Improvement Engineering on Hsin Pi Doulou Access Road" organized by the Yun-lin County government.</li> <li>6. Elected as the "Excellent environmental large-scale engineering of the year 2004" by the Department of Environmental Protection, Taipei City Government.</li> <li>7. Mr. Chi-ching Chiang was appointed to the position of spokesperson, and the manager of administrative department, Ming-fa Kuo was as the deputy spokesperson.</li> <li>8. Successfully completed the C326 National Highway No. 3 project and received a medals from the Ministry of Transportation and Communications, National Expressway Engineering Bureau.</li> <li>9. The Taipei MRT Xinzhuang Line CK570F project won the second place in the safety and health in construction site regional contest.</li> </ol>
2005	<ol style="list-style-type: none"> <li>1. Obtain "C605 Shuan-tung Nantou Section, National Highway No. 6" organized by the Ministry of Transportation and Communications, Taiwan Area National Expressway Engineering Bureau.</li> <li>2. The 21st supervisor, Yi-nan Liu was dismissed in January, 2006, and in</li> </ol>

	<p>accordance with the provisions of company law and the Corporate charter, a re-election for one supervisor took place during the shareholders' meeting in May, and the new supervisor was Mr. Yun-chieh Fan.</p> <p>3. Implementation of cash capital increase to NT\$295,955,760 by the Board's resolution.</p>
2006	<p>1. Received a ward for outstanding performance in hiring and recruiting indigenous people from the Council of Indigenous Peoples, Executive Yuan.</p> <p>2. Implementation of capital increase to NT\$106,581,540 in July in accordance with the Board's resolution.</p> <p>3. The spokesperson, Chi-ching Chiang was promoted to the deputy general manager.</p> <p>4. Acquisition of the project, "National Highway No.1 Convergence Road, Hsinchu Science Park New Interchange Engineering" organized by Taiwan Area National Freeway Bureau.</p>
2007	<p>1. Elected as the "Excellent Employer of the year 2007" by the Department of Labor.</p> <p>2. The 21st term of the office for directors and supervisors were expired and in accordance with the provisions of the Companies Act and the Company's Corporate charter, the Board had re-elected new directors and supervisors in May, and the new directors and supervisors were: Directors: Chun-jun Pan, Chuan Fu Investment Co. Ltd., Yi Hsin Investment Co. Ltd., and Ling-hua Wang; supervisors: Hung Yi Investment Co. Ltd. and Yun-chieh Fan.</p> <p>3. Implemented a NT\$500 millions cash capital increase in August in order to comply with operational requirements and needs in financial improvements.</p>
2008	<p>1. Acquisition of two projects, "Xinsheng Overpass Modification and Chung-Shan Bridge 2 Demolition and the North End of Xinsheng Overpass Approach" organized by the New Constructive Office.</p> <p>2. Due to the overall planning and approved by the Board, the spokesperson and deputy general manager, Chi-ching Chiang was promoted to the general manager, and the original general manager, Huang-ming Chen continued his post of the president.</p> <p>3. Chi-liang Wang was made the spokesperson, and the supervisor of auditing office, Tai-ru Liu was made the deputy spokesperson.</p> <p>4. Obtain "Taiwan's Taoyuan International Airport's Outside Linking MRT</p>

	<p>System Construction Project”</p> <p>5.The “Integrated Construction Project of the New Interchange on National Highway No. 1 Hsinchu Science Park C564A and C564C” Won the 9th Gold Metal Award for Public Engineering and the 3rd Golden Safety Award for Public Engineering.</p>
2009	<p>1.Obtain“Tai 3 Line 418K+600 Likang Bridge Modification Engineering” organized by the Third District Maintenance Construction Office, Directorate General of Highways.</p> <p>2.Obtain “KCL211 Linlo and Chutien Section Railway Elevated of Engineering” organized by the Railway Reconstruction Bureau.</p>
2010	<p>1.Assisted and completed the “Disaster Prevention Observation of reinforcing samples of bridges and columes establishment” and received a testimonial from the Northern Region Inspection Office of the Council of Labor Affairs, Executive Yuan.</p> <p>2.Won the third place in the 2010 Taipei Labor Safety Knowledge Contest.</p> <p>3.The 22nd term of the office for directors and supervisors were expired and in accordance with the provisions of the Companies Act and the Company's Corporate charter,the Board had re-elected new directors and supervisors in June, and the new directors and supervisors were: Directors: Chun-jun Pan, Chuan Fu Investment Co. Ltd., Yi Hsin Investment Co. Ltd., and Ling-hua Wang; supervisors: Hung Yi Investment Co. Ltd.and Yun-chieh Fan.</p> <p>4.The manager of the department of public works, Tai-ru Liu was made the spokesperson, and the manager of the administrative department, Ming-fa Kuo was made the deputy spokesperson.</p> <p>5.The Taipei MRT Neihu Line CB410 Section Project won the 38th Asia-Pacific Federation Golden Award for Civil Engineering.</p> <p>6.The “KCL211 Linlo and Chutien Section Railway Elevated of Engineering” was elected as the excellent environmental protective construction engineering.</p>
2011	<p>1.The project of the reconstruction of Tai San Line Likang Bridge was awarded the medal of “Solid Foundation of Bridge” by the Ministry of the Transportation and Communications.</p> <p>2.Received a testimonial from the Thailand Trad and Economic Office, Taipei of the professional management and thorough care for Thai labors.</p> <p>3.Eligible for the Executive Yuan Aboriginal employment Aboriginal Committee awarded the 2011 medal of blue-chip manufacturers.</p>

	<p>4.Awarded with the 8th National Yushan Prize for Outstanding Business Leader by the National Competitiveness of Enterprises Association.</p> <p>5.Awarded with the 8th National Yushan Prize for Outstanding Contribution by the National Competitiveness of Enterprises Association.</p> <p>6.Awarded with the 13th National Architecture Golden Award for Public Engineering – Civil Engineering – Bridge Engineering by the National Competitiveness of Enterprises Association and the National Architecture Golden Award Activity Committee.</p> <p>7.Obtain “Reconstruction Project B3 of the Tai-Chiu Line Suhua Highway Kufeng Tunnel” organized by the Suhua Improvement Engineering Office, Directorate General of Highways, Ministry of Transportation and Communications.</p> <p>8.Obtain “New Construction Project B2 of Tai-Chiu Line Suhua Highway Guanyin Tunnel organized by the Suhua Improvement Engineering Office, Directorate General of Highways, Ministry of Transportation and Communications.</p> <p>9.Won the 11th Golden Quality Award for “Particularly good” Prize organized by the Public Construction Commission, Executive Yuan.</p> <p>10.Established a Remuneration Committee in accordance with the Board’s resolution.</p>
2012	<p>1.Received a testimonial from the Thailand Trad and Economic Office, Taipei for taking care of Thai labors.</p> <p>2.The project CE02 of Access MRT System to Taiwan Taoyuan International Airport won the first place in the 2011 Comprehensive Appraisal organized by the Bureau of High Speed Rail.</p> <p>3.The 23rd term of the office for directors and supervisors were expired and in accordance with the provisions of the Companies Act and the Company's Corporate charter,the Board had re-elected new directors and supervisors in June, and the new directors and supervisors were: Directors: Chun Fu Investment Co. Ltd.,Chun Fa Investment Co. Ltd., Hsin Yi Investment Co. Ltd., and Independent Directors:Chen, chin-yueh, Independent Directors:Chang,liang-ming. Supervisors :Wang,Ling-hua ; supervisors: Hung Yi Investment Co. Ltd.</p> <p>4.Obtain purchase project of the cylinder coal bunker of the “New Expansion Plan of Linkou Power Plant”.</p> <p>5.Switch to Listed Companies on December 18, 2012.</p>
2013	<p>1.The project CE02 of Access MRT System to Taiwan Taoyuan</p>

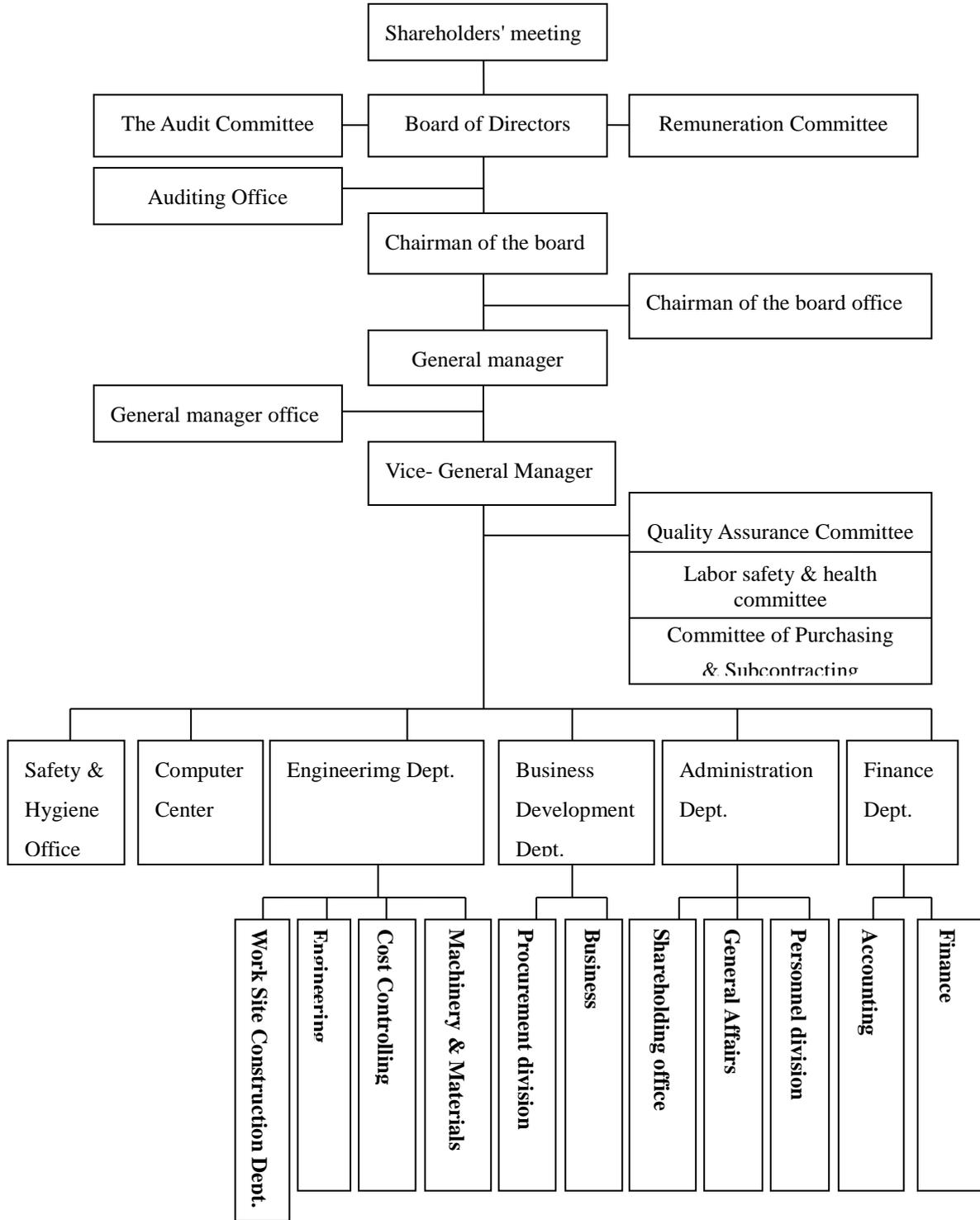
	<p>International Airport won the Environmental Impact Assessment Project Award Excellence Award in the 2012.</p> <p>2. Obtain hiring the handicapped Certification Mark by the Taipei City Government award.</p> <p>3. With the Ministry of Communications to handle the year 2013 "to maintain the transportation, health and safety, environmental protection," demonstration, by the Ministry of Transportation Highway Administration certificates of appreciation.</p> <p>4. Received a testimonial from the Thailand Trad and Economic Office, Taipei for taking care of Thai labors.</p> <p>5. Taiwan Guanyin nine lines Suhua Highway Tunnel Engineering won new Ministry of Transportation Highway Administration issued 2013 annual results good construction Check medal.</p>
2014	<p>1. Han Ban Wang Zhiqiang, director of the construction of the building was awarded the outstanding management personnel.</p> <p>2. Concrete Engineering won the 2014 prize non-building category - excellent work.</p>
2015	<p>1. The 24nd term of the office for directors and supervisors were expired and in accordance with the provisions of the Companies Act and the Company's Corporate charter, the Board had re-elected new directors in June, and the new directors were: Directors: Chun Fu Investment Co. Ltd., Ju hsiang Investment Co. Ltd., and Independent Directors: Chen, chin- yueh, Independent Directors: Chang, liang-ming. Independent Directors: Tu, yi- yang.</p> <p>2. Establishment of an Audit Committee.</p> <p>3. Received a testimonial from the Thailand Trad and Economic Office, Taipei for taking care of Thai labors.</p> <p>4. Eligible ROC National Competitiveness Enterprise Development Association awarded the first prize in the 17th National Gold Medal State Building 17th National Building Gold Medal.</p> <p>5. Obtain corporate governance index, corporate social responsibility Benchmarking Enterprise.</p>
2016	<p>1. Received a testimonial from the Thailand Trad and Economic Office, Taipei for taking care of Thai labors.</p> <p>2. Linkou power plant construction standards won the China Society of Engineers awarded the fine engineering award!</p> <p>3. Obtain engineering project Railway Electrification for the chaofang section of SOUTH-LINK line, civil electrical &amp; nechanical from</p>

	<p>CHAOZHOU to LINBIAN , LOT 811.</p> <p>4. Won the "2016 TCSA Taiwan Enterprise Sustainability Award" Taiwan Enterprise Sustainability Award Bronze Award.</p> <p>5. Concrete Engineering won the 2016 category - excellent work.</p>
2017	<p>1. Obtain C031 agent Tainan Nanping to Wanrong two-track civil and tram line project.</p> <p>2. Received a testimonial from the Thailand Trad and Economic Office, Taipei for taking care of Thai labors.</p> <p>3. National Gold Medal State Building 19th National Building Gold Medal.</p> <p>4. Won the "2017 TCSA Taiwan Enterprise Sustainability Award" Taiwan Enterprise Sustainability Award Bronze Award.</p> <p>5. Won the 17th Public Works Gold Award for a masterpiece of water conservancy engineering.</p> <p>6. Obtain Taichung Port 106 pier new construction project.</p>

### III. Corporate Governance Report

#### 3.1 Organization

##### 3.1.1 Organizational Chart



### 3.1.2 Major Corporate Functions

Department	Functions
Auditing Office	To check and verify duties performed by various departments, including policies, regulations, and orders as well as expenses.
General Manager Office	Business data analysis, legal consultation and reconciliation, assessment and integration of construction contracts, implementations of various litigation and arbitration cases.
Labor safety & health committee	<ol style="list-style-type: none"> <li>1.To discuss and do a research on implementation plans related to regulations and safety &amp; health education.</li> <li>2.To discuss and do a research on how to prevent the hazards of machinery, equipment or raw materials, and materials.</li> <li>3.To discuss and do a research on countermeasures of operational environmental test results.</li> <li>4.To discuss and do a research on matters related to health management and labor safety &amp; health management.</li> </ol>
Quality assurance committee	<ol style="list-style-type: none"> <li>1.To verify and check the quality plan of project constructions.</li> <li>2.To supervise the implementation of quality control plan.</li> </ol>
Business Development Dept.	<ol style="list-style-type: none"> <li>1.Business:Developments of all construction projects, investment and opening operations, and contract signing, etc.</li> <li>2. Procurement division: Market survey analysis, procurement and contract out matters, information for suppliers, and data filing, etc.</li> </ol>
Engineering Dept.	<ol style="list-style-type: none"> <li>1.Machinery &amp; Materials: The management, allocation, assignment, lease, inventory, and effective reports of usage of machinery equipments.</li> <li>2.Cost Controlling: Construction quality control, analysis on differences, etc.</li> <li>3.Engineering:Construction implementation, progress, and quality managements, documentation, estimations on payment requests, and construction coordination, etc.</li> </ol>

Safety & Hygiene Office	To plan and organize labor safety & health education training programs, set up occupational hazard prevention plan, handle the processing of information related to safety & health, work on statistics and data filing, etc.
Computer Center	Information system development, maintenance training program planning, and computer equipment maintenance and management, etc.
Administration Dept.	<p>1. Personnel division: To simulate and do a research on systems, implementations, and revisions, organize welfares, plan human resources and training programs, etc.</p> <p>2. General Affairs: Simulations, implementations, and revisions of all general affairs, procurement, custody, recipient, allocation, maintenance of public goods, working environment and improvement, maintenance, safety, documentation, receipt and delivery, filing of equipment, registration, inventory, custody, maintenance of properties, and allowance payments, etc.</p> <p>3. Shareholding office: To handle the matters related to company stocks and shareholders, and managements of general affairs, personnel, and stock affairs.</p>
Finance Dept.	<p>1. Finance: Payments of all amounts, the cash dispatch, the use of control, reconciliation processing with the company, contract execution, implementation, cash, receipts, securities and payments of advance payment guarantee application and extension, etc.</p> <p>2. Accounting: Establishment and implementation of accounting systems, accounting accounts handling, cost planning analysis, budgeting, analysis on a variety of operation, managerial reports design, etc.</p>

### 3.2 Directors and Management Team

May 1, 2018

#### 3.2.1 Directors

Title	Nationality/ Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Taiwan Taipei	Ch'uan Fu Invest ment Co. Ltd.	Men	June, 2015	3	May , 1994	6794068	1.95	9844068	2.83	0	0.00	0	0.00	Ph.D in Business Management, Nankai University  Master degree in Geotechnical Engineering, State University of New York  Master degree in Transportation Engineering, National Taiwan University  Bachelor degree in Civil Engineering, National Taiwan University  Executive Director of General Affairs, Chinese National Federation of Industries  Director of General Affairs, Construction Engineering Industry Association of Taiwan  Executive Director, National Federation of Engineering Industries Association, R.O.C	Kung Sing Engineering Corporation Chairman Foundation for the Constructio n of Industrial Developme nt Foundation Chairman Executive Director of the National Industry Federation of the Republic of China Director of Taiwan Commodity Exchange Center (Kunshan) Co., Ltd.	None	None	None
	Republic of China	Representative: Chen huan g-min g							0	0.00	0	0.00	0	0.00					

Director	Taiwan Taipei	Ch'uan Fu Investment Co. Ltd.	Men	June, 2015	3	May, 1994	6794068	1.95	9844068	2.83	0	0.00	0	0.00	Graduated from Tunghai Senior High School President, Chun Jun Construction Co. Ltd. Executive Director, Taiwan Professional Boxing Association	Chairman, Chin Pone Construction Company Chairman, Kung Sing Engineering Corporation	None	None	None
	Republic of China	Representative: Chian g,chi-ching							30145	0.01	9000	0.00	0	0.00	Executive Director, Construction Association Consultant, Executive Yuan The current Chinese KMT Central Committee The current Executive Director, National Association of Construction	Chairman, Homewell China Chairman, Merit Century Investments Limited			
Director	Taiwan Taipei	Ju hsian g Investment Co. Ltd.	Men	June, 2015	3	June, 2015	4070000	1.17	4070000	1.17	0	0.00	0	0.00	Bachelor degree in Physics, Tunghai University Section Chief of Academic Affairs, Taipei Shixin High School Director of Information Management Office, Kung Sing Engineering Corporation	Construction Industry Development Foundation CEO	None	None	None
	Republic of China	Representative: Lin, Chun g-chen							20809	0.00	0	0.00	0	0.00	Foundation construction industry Development Foundation CEO Taiwan create Engineering Industry Association Secretary				

Director	Taiwan Taipei	Ju hsian g Invest ment Co. Ltd.	Men	June, 2015	3	June, 2015	4070000	1.17	4070000	1.17	0	0.00	0	0.00	Department of Business Administration Northeastern University graduate	Yuan Hsuan Construction Co., Ltd. Vice Chairman	None	None	None
	Republic of China	Representative: Chian g, jung-ching							30000	0.01	0	0.00	0	0.00	Yuan hsuan Construction Co., Ltd. Vice- General Manager Yuan hsuan Construction Co., Ltd. Vice Chairman				
Independent Directors	Republic of China	Chen, chin-yueh	Men	June, 2012	3	June, 2015	0	0.00	0	0.00	0	0.00	0	0.00	Hsin Fu hsing Co., Ltd. independent directors	New Fuxing Microwave Communication Co., Ltd. Independent Director	None	None	None
Independent Directors	Republic of China	Chan g,lian g-min g	Men	June, 2012	3	June, 2015	50000	0.01	50000	0.01	0	0.00	0	0.00	Waterland Venture Capital Co., Ltd. Consultants	None	None	None	None
Independent Directors	Republic of China	Tu, yi-yang	Men	June, 2015	3	June, 2015	0	0.00	0	0.00	0	0.00	0	0.00	Ch'un Yi Joint CPA group Accountants	Li Yang Certified Public Accountants	None	None	None

**Major shareholders of the institutional shareholders**

May 1, 2018

Name of Institutional Shareholders	Major Shareholders
Ch'uan Fu Investment Co. Ltd.	Pan, Chun-jun ( 43.7% )、 Li, Kuei-mei ( 52.5% )、 Pan ,Yi-chen ( 0.88% )、 Pan, Chi-ju ( 0.88% )、 Pan, Ying-chuan ( 0.83% )、 Pan , Ying-hsun ( 0.7% )、 Pan , Ying-ling ( 0.51% )
Ju hsiang Investment Co. Ltd	Pan, Chun-jun ( 42.86% )、 Li, Kuei-mei ( 39.29% )、 Pan ,Yi-chen ( 3.57% )、 Pan, Chi-ju ( 3.57% )、 Pan, Ying-chuan ( 3.57% )、 Pan , Ying-hsun ( 3.57% )、 Pan , Ying-ling ( 3.57% )

**Professional qualifications and independence analysis of directors and supervisors**

May 1, 2018

Criteria  Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Ch'uan Fu Representative: Chen ,huang-ming	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓		0
Ch'uan Fu Representative: Chiang,chi-ching			✓			✓		✓			✓	✓		0
Ju hsiang Representative: Lin, Chung-chen			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Ju hsiang Representative: Chiang, jung-ching			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Chen, chin-yueh			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chang,liang-ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Tu,yi- yang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.2 Management Team

May 1, 2018

Title	Nationality / Country of Origin	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
General manager	Republic of China	Chiang,chi-ching	Men	08 15,2008	30,145	0.01	9,000	0.00	0	0.00	Graduated from Tunghai Senior High School President, Chun Jun Construction Co. Ltd. Executive Director, Taiwan Professional Boxing Association Executive Director, Construction Association Consultant, Executive Yuan The current Chinese KMT Central Committee The current Executive Director,National Association of Construction	Chairman, Chin Pone Construction Company Chairman, Kung Sing Engineering Corporation Chairman, Homewell China Chairman, Merit Century Investments Limited	None	None	None
Vice- General Manager	Republic of China	Liu, Tai-ru	Men	03 16,2016	50,718	0.01	781	0.00	0	0.00	Air Force Institute of Technology, Civil Engineering Manager, Public Works Department, Kung Sing Engineering Corporation	Supervisors, Kung Sing Engineering Corporation	None	None	None
Vice- General Manager	Republic of China	Tai, Yin-chou	Men	11 01,2017	208	0	0	0	0	0	Bachelor degree in Civil Engineering, National Chung Hsin University Project Member, China Engineering	None	None	None	None
Assistant manager	Republic of China	Liu, Yung-ching	Men	01 01,2017	13,257	0.00	0	0.00	0	0.00	Department of Civil Engineering, Southeast University of Science and Technology	None	None	None	None

Director, Auditing Office	Republic of China	Liu, Te-chang	Men	12 16,2002	0	0.00	0	0.00	0	0.00	Bachelor degree in Economics, Chinese Culture University Section Chief, Kung Sing Engineering Corporation	None	None	None	None
Manager, Business Development Dept.	Republic of China	Yeh, Tsan-yu	Men	07 01,2017	0	0.00	0	0.00	0	0.00	Department of Civil Engineering, National Taiwan University Graduate School of Civil Engineering, Jiaotong University	None	None	None	None
Manager, Finance Dept.	Republic of China	Huang, li-wang	Men	02 01,2012	21,570	0.01	0	0.00	0	0.00	section manager, Kung Sing Engineering Corporation	None	None	None	None
Accounting Supervisor	Republic of China	Wen, Shu Chiao	Men	12 06,2012	10,206	0.00	0	0.00	0	0.00	Deming College of Business Accounting Statistics Branch Vice- section manager, Kung Sing Engineering Corporation	None	None	None	None

### 3.2.3 Remuneration of Directors, President, and Vice President

#### Remuneration of Directors

**Unit: NT\$ thousands**

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D)		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Compensation (G)				The company	Companies in the consolidated financial statements			
		The company	All companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements						
Chairman of the board	Ch'uan Fu Representative: Chen ,huan g-min g	0	0	0	0	0	0	1,520	1,520	(0.43)	(0.43)	4,056	4,056	82	82	0	0	0	0	(1.61)	(1.61)	None
Directors	Ch'uan Fu Representative: Chian g,chi-ching	0	0	0	0	0	0	1,520	1,520	(0.43)	(0.43)	2,483	3,865	158	158	0	0	0	0	(1.19)	(1.56)	None

Directors	Ju hsian g Representative: Lin, Chung-chen	0	0	0	0	0	0	120	120	(0.03)	(0.03)	0	0	0	0	0	0	0	0	0	(0.03)	(0.03)	None
Directors	Ju hsian g Representative: Chian g, jung-ching	0	0	0	0	0	0	120	120	(0.03)	(0.03)	0	0	0	0	0	0	0	0	0	(0.03)	(0.03)	None
Independent Directors	Chen, chin-yueh	0	0	0	0	0	0	200	200	(0.06)	(0.06)	0	0	0	0	0	0	0	0	0	(0.06)	(0.06)	None
Independent Directors	Chang,lian g-min g	0	0	0	0	0	0	200	200	(0.06)	(0.06)	0	0	0	0	0	0	0	0	0	(0.06)	(0.06)	None
Independent Directors	Tu,yi-yang	0	0	0	0	0	0	200	200	(0.06)	(0.06)	0	0	0	0	0	0	0	0	0	(0.06)	(0.06)	None

In addition to the above remuneration, director remuneration shall be disclosed as follows when received from companies included in the consolidated financial statements in the most recent year to compensate directors for their services such as being independent contractors.

None

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	Chen ,huang-ming Chiang,chi-ching Lin, Chung-chen Chiang, jung- ching Chen, chin- yueh Chang,liang-ming Tu,yi- yang	Chen ,huang-ming Chiang,chi-ching Lin, Chung-chen Chiang, jung- ching Chen, chin- yueh Chang,liang-ming Tu,yi- yang	Lin, Chung-chen Chiang, jung- ching Chen, chin- yueh Chang,liang-ming Tu,yi- yang	Lin, Chung-chen Chiang, jung- ching Chen, chin- yueh Chang,liang-ming Tu,yi- yang
NT\$2,000,001 ~ NT\$5,000,000	0	0	Chiang,chi-ching	0
NT\$5,000,001 ~ NT\$10,000,000	0	0	Chen ,huang-ming	Chen ,huang-ming Chiang,chi-ching
NT\$10,000,001 ~ NT\$15,000,000	0	0	0	0
NT\$15,000,001 ~ NT\$30,000,000	0	0	0	0
NT\$30,000,001~ NT\$50,000,000	0	0	0	0
NT\$50,000,001 ~ NT\$100,000,000	0	0	0	0
Over NT\$100,000,000	0	0	0	0
Total	7	7	7	7

### Remuneration of the President and Vice President

Unit: NT\$ thousands

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation Paid to the President and Vice Presidents from an Invested Company Other than the Company's Subsidiary
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
								Cash	Stock	Cash	Stock			
General manager	Chiang,chi-ching	2,207	3,559	158	158	275	306	0	0	0	0	(0.75)	(1.13)	None
Vice - General Manager	Liu, Tai-ru	1,393	1,393	32	32	172	172	0	0	0	0	(0.46)	(0.45)	None
Vice - General Manager	Tai, Yin-chou	264	264	4	4	0	0	0	0	0	0	(0.08)	(0.08)	None

Range of Remuneration	Name of President and Vice President	
	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	Tai, Yin-chou 、 Liu, Tai-ru	Tai, Yin-chou 、 Liu, Tai-ru
NT\$2,000,001 ~ NT\$5,000,000	Chiang,chi-ching	Chiang,chi-ching
NT\$5,000,001 ~ NT\$10,000,000	0	0
NT\$10,000,001 ~ NT\$15,000,000	0	0
NT\$15,000,001 ~ NT\$30,000,000	0	0
NT\$30,000,001 ~ NT\$50,000,000	0	0
NT\$50,000,001 ~ NT\$100,000,000	0	0
Over NT\$100,000,000	0	0
Total	3	3

Unit: NT\$ thousands

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	General manage	Chiang,chi-ching	0	0	0	0
	Vice- General Manage	Liu, Tai-ru				
	Vice- General Manage	Tai, Yin-chou				
	Assistant manager	Liu, Yung-ching				
	Manager, Finance Dept.	Huang, li-wang				
	Accounting Supervisor	Wen, Shu Chiao				

### 3.2.4 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Year	Total remuneration paid to directors, supervisors, presidents and vice presidents		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2017	12,254	13,637	(3.50)	(3.84)
2016	14,618	16,471	16.11	19.62

Directors, supervisors	Traveling expenses	Paid monthly.
	Remuneration	In accordance with the Corporate charter 15: Referring to the domestic and foreign standards, the Board makes the decision along with the approval from the Remuneration Committee.
General manager,	Salary	In accordance with the Company's personnel managing rules, and the remuneration committee's considerations.
Vice- General Manager	Bonus	In accordance with the Corporate charter 16: Referring to the domestic and foreign standards, the Board makes the decision along with the approval from the Remuneration Committee.

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

Compensations for the president, directors are determined according to Corporate charter, the status of business divisions in achieving their goals, and personal performance evaluation, referring to the domestic and foreign standards and authorizing by the Board; remuneration derived from the distribution of earnings for directors are determined according to the situation of the earnings distribution of the

year and regulations, and recognition from the Board is required. In addition, remuneration for the general manager and deputy general manager from the Company include the salary, bonus, and employees' bonus derived from earnings distribution, the salary and bonus are determined according to the personnel rules along with the Company Act and the Board's resolution; employees' bonus derived from earnings distribution is determined according to the earnings distribution of the year and Corporate charter, along with the recognition from the Board.

The Board has passed the resolution and the Company has established the remuneration committee on December 28th, 2011.

Salaries for directors, supervisors, and managers are determined according to considerations made by the committee, performances of directors and managers along with the policy, regulations, standards, and the structure of salary and compensation shall take into account in determining the amount of salaries for directors and managers.

The company paid the directors, general manager and deputy general manager of standards or remuneration structure and system will be based on future

Risk adjustment factors, and should guide the directors, general manager and deputy general manager for the company to go beyond the pursuit of gratuity in the risk of behavior in order to avoid payment of remuneration to the company suffered losses but inappropriate circumstances.

### 3.3 Implementation of Corporate Governance

#### 3.3.1 Board of Directors

A total of 7 (A) meetings of the Board of Directors were held in the previous period.

The attendance of director were as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B/A 】	Remarks
Chairman	Ch'uan Fu Representative: Chen ,huang-ming	7	0	100%	
Director	Ch'uan Fu Representative: Chiang,chi-ching	7	0	100%	
Director	Ju hsiang	7	0	100%	

	Representative: Lin, Chung-chen				
Director	Ju hsiang Representative: Chiang, jung- ching	6	0	85.71%	
Independent director	Chen, chin- yueh	7	0	100%	
Independent director	Chang,liang-ming	7	0	100%	
Independent director	Tu,yi- yang	6	0	85.71%	

**Other mentionable items:**

- If any of the following circumstances occur,, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:
  - Matters referred to in Article 14-3 of the Securities and Exchange Act : None
  - Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors : None
- If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:  
None
- Measures taken to strengthen the functionality of the board:In 2017, held two remuneration committee meeting to strengthen the performance evaluation and pay structure, and the company every year, the directors of the self-assessment, as the board of directors of the performance appraisal basis, and by the chairman and board of directors after the assessment, To review and improve.

**Diversity of Directors**

Diversification project Name of director	Gender	Manag- -ement	Leaders- hip decision	Industry knowled- -ge	Financial Accounti- ng	legal	International outlook Market view
Chen ,huang-ming	Men	●	●	●			●
Chiang,chi-ching	Men	●	●	●			●
Lin, Chung-chen	Men	●		●			
Chiang, jung- ching	Men			●			
Chen, chin- yueh	Men	●				●	●
Chang,liang-ming	Men				●		●
Tu,yi- yang	Men				●	●	

Other details please refer to page 26 of the Chinese annual report.

### 3.3.2 Audit Committee (or Attendance of Supervisors at Board Meetings)

#### Audit Committee

A total of 7 (A) Audit Committee meetings were held in the previous period. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【 B/A 】	Remarks
Independent director	Tu,yi-yang	6	0	85.71%	
Independent director	Chen, chin-yueh	7	0	100%	
Independent director	Chang, liang-ming	7	0	100%	

Other mentionable items:

1. If any of the following circumstances occur, the dates of meetings, sessions, contents of motion, resolutions of the Audit Committee and the Company's response to the Audit Committee's opinion should be specified:

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

None

(2) Other matters which were not approved by the Audit Committee but were approved by two-thirds or more of all directors.

None

2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None

3. Communications between the independent directors, the Company's chief internal auditor and CPAs (e.g. the material items, methods and results of audits of corporate finance or operations, etc.)

(A)communication policy between independent directors and internal audit supervisors and accountants:

1. Independent directors and accountants conduct written or face-to-face communication on each quarter of the Company's financial report completion phase to confirm the reliability of the company's disclosure of financial information, the work of the auditors, the company's significant risks and the understanding of the management reduce risk. The accountant on the company's financial report to complete the stage, a significant adjustment of entries and unadjusted entries, customs personal information, customer statement, accountant's independence and independent directors to report and communicate, in case of major abnormalities matters, and have to convene the meeting at any time.

2. Internal audit supervisors and independent, etc. are quarterly meetings, the implementation of the company's internal audit and internal control of the operation of the situation to mention report, in case of major unusual matters,

may be convened with the meeting.

(B)Communication focus and the company to deal with the situation, please refer to the Chinese version of the annual report.

### 3.3.3 Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	√		The company in November 13, 2014 on the basis of "publicly traded corporate governance codes of practice" provides the final version of the corporate governance code of practice, the Board of Directors by the purposes and on April 28, 2017 the Board adopted the hird amendment to publicly expose MOPS ( <a href="http://mops.twse.com.tw/mops/web/t100sb04_1">http://mops.twse.com.tw/mops/web/t100sb04_1</a> )	None
2. Shareholding structure & shareholders’ rights (1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	√		Internal control of the Company set about parties on record operating procedures, the actual operation of the process in conformity to prescribed procedures and made a record, the company website investor contact zone and set up the window, a spokesman for the	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	✓		<p>establishment of mechanisms to deal with shareholder proposals, doubts, disputes and litigation matters. .</p> <p>The Finance &amp; Shared Services Division is responsible for collecting the updated information of major shareholders and the list of ultimate owners of those shares.</p>	None
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	✓		<p>Rules are made to strictly regulate the activities of trading, endorsement and loans between the Company and its affiliates. In addition, the “Criteria of Internal Control Mechanism for a Public Company”, outlined by the Financial Supervisory Commission when drafting the guidelines for the “Supervision and Governance of Subsidiaries”, was followed in order to implement total risk control with respect to subsidiaries.</p>	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Does the company establish internal rules against insiders trading with undisclosed information?	√		To protect shareholders’ rights and fairly treat shareholders, the Company has established the internal rules to forbid insiders trading on undisclosed information(amended in August 2015 Preventing insider trading management system operations). The Company has also strongly advocated these rules in order to prevent any violations.	None
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members?	√		Member diversification is considered by the Board members. Factors taken into account include, but are not limited to gender, age, cultures, educational background, race, professional experience, skills, knowledge and terms of service. The Board objectively chooses candidates to meet the goal of member	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		√	<p>diversification.</p> <p>The company is currently in addition to salary compensation committee, the audit committee was set up in 2015 (still the establishment of non-mandatory), other functional panel will assess whether to set.</p>	other functional panel will assess whether to set.
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	√		<p>The company has formulated rules and procedures for evaluating the Board’s performance and conducts it annually. The Company uses two methods to evaluate the performance of the Board.</p> <p>1. Self-assessment of Board members Board members fill in the” Self-Assessment Questionnaire for Board Members” at the end</p>	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>of each year. To evaluate the performance of each members effectively, the questionnaire contains the following factors:</p> <ul style="list-style-type: none"> <li>A. Their grasp of the Company's goals and missions;</li> <li>B. Their recognition of director's duties;</li> <li>C. Their degree of participation in the Company's operations;</li> <li>D. Their management of internal relationships and communications;</li> <li>E. Their professionalism and continuing professional education;</li> <li>F. Internal controls.</li> </ul> <p>2. A total of 25, the end of the assessment by the directors after the assessment of the chairman of the board, the beginning of each year by the board of directors to do the final assessment, evaluation results are divided into</p>	

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Does the company regularly evaluate the independence of CPAs?	√		<p>five levels: excellent, good, good, yet, to be strengthened. 2017 Board performance evaluation is excellent.</p> <p>The Company evaluates the independence of CPAs annually, ensuring that that they are not stakeholders such as a Board member, supervisor, shareholder or person paid by the Company.</p>	None
4. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders’	√		The company provides the shareholder affairs office of the administrative department according to law, handles matters such as board meetings and shareholders meetings, and constructs maintenance company website information disclosure and corporate governance, stakeholders, and corporate social responsibility related information.	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
meetings)?				
5. Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	√		The Company provides detailed contact information, including telephone numbers and email addresses in the “Stakeholder Area” section of the corporate website. In addition, personnel are in place to exclusively deal with issues of social responsibility, ensuring that various interested parties have channels to communicate with the Company.	None
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	√		The Company designates Taishin International Bank Ltd. to deal with shareholder affairs.	None
7. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	√		The Company has set up a Chinese/English website ( <a href="http://www.kseco.com.tw">http://www.kseco.com.tw</a> ) to disclose information regarding the Company’s financials, business and corporate governance status.	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	√		<p>The Company has assigned an appropriate person to handle information collection and disclosure. Contact person: Shareholding office.</p> <p>The Company has established a spokesman system. Investor conference information is disclosed on the corporate website.</p>	None
<p>8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</p> <p>(1) Please refer to page 35 for the status directors and supervisors participating in the meeting of the board of directors. For employees’ interests and care, please refer to pages 96.</p> <p>(2) For the risk management policy and risk assessment standard, please refer to pages 109-113. The relationship with suppliers and the status of customer policy, please refer to pages 93. For the relationship among investors and interests of related parties, please refer to “For investors” on the company’s website.</p> <p>(3) In addition to dedication to its regular management and profit maximization, the company as well is aware of its corporate responsibility for the society, and constantly pays attention to consumers’ interests and environmental protection. Please refer to pages 54-63 regarding</p>				

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>responsibility to the society stated in the area for investors on the company’s website.( <a href="http://www.kseco.com.tw/venture/">http://www.kseco.com.tw/venture/</a>)</p> <p>(4) The company’s directors are evaded from participating in the voting of cases involved with interests and forces and may cause harm to the company’s interests listed by the Board.</p> <p>(5) The company has not yet purchased the liability insurance directors and supervisors, we will comply with the laws and regulations and execute accordingly in the future.</p> <p>(6) In order to enhance the company’s operation, the company successively checks and complies with the authorities and set up related measures and internal operating procedure based on needs. Such as “procedure of meetings of the Board of Directors”, “procedures of the acquisition or disposition of assets”, “procedures of engaging in derivative transactions”, “procedures and rules of shareholders’ meeting”, “election measures for directors and supervisors”, “procedures of derivative transactions”, “budget management measures”, “subsidiary management measures”, “prevention of insider trading management systems”, and “public information reporting and operational control”. Among which, “prevention of insider trading management systems” and “public information reporting and operational control” are the major information processing procedures, as all related departments and staff are dealing with important information or disclosure, must follow the related procedures and regulations.</p> <p>As a site is established, the company always offers a complete internal control system to each site, and when amendments and additions are made, all staff, managers, and directors will be noticed immediately.</p>				

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	

(7) Directors training records:

Title	Name	Training hours	Study period		Sponsoring Organization	Course
			From	To		
Director	Chen ,huang-min g	3H 3H	2017/12/20 2017/12/21	2017/12/20 2017/12/21	Securities and Futures Development Foundation	1. Discussion on the Influence of the New Law of Money Laundering Prevention on Enterprises. 2. Enterprise Financial Crisis Early Warning and Type Analysis.
Director	Chiang,c hi-ching	6H	2017/09/28	2017/09/28	Taiwan Stock Exchange Stock Co., Ltd. Company	2017 Mr. Xu Yuandong Memorial Financial Forum
Director	Lin, Chung-c hen	3H 3H	2017/08/01 2017/11/30	2017/08/01 2017/11/30	Securities and Futures Development Foundation	1.Insider trading shares of listed companies follow legal advocacy briefing. 2. The System of Secretary of the Board of Directors and the New System of Corporate Governance Revised by the Company Law
Director	Chiang, jung-ching	3H 3H	2017/07/07 2017/10/25	2017/07/07 2017/10/25	Securities and Futures Development Foundation Corporate Corporate	1.Insider trading shares of listed companies follow legal advocacy briefing. 2. The 13th International Forum on

Evaluation Item				Implementation Status <sup>1</sup>		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
				Yes	No	
					Governance Association	Corporate Governance
Independent director	Tu,yi-yang	3H 3H 3H	2017/07/07 2017/11/27 2017/11/29	2017/07/07 2017/11/27 2017/11/29	Securities and Futures Development Foundation National Association of the Chinese Institute of Certified Public Accountants	<ol style="list-style-type: none"> <li>1. Insider trading shares of listed companies follow legal advocacy briefing.</li> <li>2. Talking about Director's Duties of Trustee.</li> <li>3. Case study of inheritance inheritance practice and accountant.</li> </ol>
Independent director	Chen, chin-yueh	3H 3H	2017/07/12 2017/07/14	2017/07/12 2017/07/14	Securities Futures Corporation Market Development Foundation Securities and Futures Development Foundation	<ol style="list-style-type: none"> <li>1. Insider Equity Promotion Advisory Meeting.</li> <li>2. Insider trading shares of listed companies follow legal advocacy briefing.</li> </ol>
Independent director	Chang,liang-min g	3H 3H	2017/07/07 2017/10/25	2017/07/07 2017/10/25	Securities and Futures Development Foundation Corporate Corporate Governance Association	<ol style="list-style-type: none"> <li>1. Insider trading shares of listed companies follow legal advocacy briefing.</li> <li>2. The 13th International Forum on Corporate Governance</li> </ol>

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>9. Has the company implemented a self-evaluation report <sup>2</sup> on corporate governance or has it authorized any other professional organization to conduct such evaluation? If so, please describe the opinion from the Board, the result of self or authorized evaluation, the major deficiencies, suggestions, or improvements.</p> <p>The Company has set corporate governance codes of practice and perform in accordance with the norms of the Code. 2017 Annual Corporate Governance Evaluation (certificate-based evaluation will be carried out), the Company completed the self-assessment before the end of January 2018, 30 April 2018 will be released by the group certificate 89.08 score, the results of the assessment of all listed companies in the affected the top twenty percent.</p> <p>Missing improvement:</p> <ol style="list-style-type: none"> <li>1. Plan to increase the number of female directors.</li> <li>2. Plan to conduct GHG inventory and disclosure.</li> </ol>				

Note: 1. Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.

2. A self-evaluation report is defined as the company assessing its corporate governance evaluation items with appropriate explanations on current corporate operations and implementation.

### 3.3.4 Composition, Responsibilities and Operations of the Remuneration Committee

1. Composition: The Company has set up a Remuneration Committee and has three members of the Remuneration Committee on December 28, 2011, with the same term as the appointed Board of Directors.

2. Duties: The Committee shall, with the care of good management, faithfully perform the following functions and submit the recommendations to the Board for discussion.

(1) To formulate and regularly review the policies, systems, standards and structure of directors and managers' performance evaluation and payroll remuneration.

(2) to regularly assess and determine the remuneration of directors and managers.

#### A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note)								Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks	
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8			
Independent director	Tu, yi- yang		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3	None
Independent director	Chen, chin- yueh			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	None
Independent director	Chang, liang- ming			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of

- outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
  5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
  6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
  7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
  8. Not a person of any conditions defined in Article 30 of the Company Law.

#### **B. Attendance of Members at Remuneration Committee Meetings**

There are 3 members in the Remuneration Committee. A total of 3 (A) Remuneration Committee meetings were held in the previous period. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) 【 B/A 】	Remarks
Convener	Chen, chin-yueh	2	0	100%	
Committee Member	Tu,yi-yang	2	0	100%	
Committee Member	Chang, liang-ming	2	0	100%	
Other mentionable items:					
1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.					

2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

### 3.3.5 Corporate Social Responsibility

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
<p>1. Corporate Governance Implementation</p> <p>(1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?</p>	√		<p>The Company's Corporate Social Responsibility Policy:</p> <p>The company is the foundation of sustainable development foundation, integrity and fulfill the "Cost-led, time is to quality as the most important, safety first" business philosophy, and the company's operating principle of "safety, quality, schedule, environmental protection, cost," and with good to make corporate social responsibility for the mission, is committed to achieve the investors, governments, consumers, employees, communities and other stakeholders of corporate social responsibility, we would like to reveal the following CSR policy:</p> <p>A.Construction of zero accidents, full safety is guaranteed.</p> <p>B.Enhance the quality of management, enhance customer satisfaction.</p> <p>C.Work into the overall control, such as the timely completion of quality.</p> <p>D.Friends of Nature is committed to environmental conservation practices.</p> <p>E.Exact cost control, information transparency, to ensure that the interests of investors.</p> <p>F.Long-term nurturing talent, take care of the welfare of employees, creating high-quality work environment.</p> <p>G. Caring community development, it is promoting social welfare, and maintain good neighborhood relations.</p>	None

Evaluation Item	Implementation Status <sup>1</sup>		Abstract Explanation <sup>2</sup>	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
(2) Does the company provide educational training on corporate social responsibility on a regular basis?			And review the effectiveness of the implementation details of the preparation of the Company's "Corporate Social Responsibility Report" (the 2017 Corporate Social Responsibility Report will be uploaded MOPS before the end of June 2018)	None
		√	The Company conducts corporate social responsibility education and training every year. Completion of the course on August 9, 2017	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	√		The Company to the executive branch as to promote corporate social responsibility into the operating unit, the regular report of the meeting, and a CSR report notifiable Board.  Operation process and governance structure, please refer to the company's website: <a href="http://www.kseco.com.tw/tc/responsibility.aspx?cid=27&amp;cchk=A3450C32-ACF0-4D13-81C1-976EF7C59836">http://www.kseco.com.tw/tc/responsibility.aspx?cid=27&amp;cchk=A3450C32-ACF0-4D13-81C1-976EF7C59836</a>	None
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	√		The company has set "personnel management approach", "staff assessment methods" as a basis for a reasonable salary remuneration of employees, and made clear rewards and penalties, and corporate social responsibility policies combining	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	√		<p>A. Recycled asphalt concrete recycling, recycled asphalt concrete manufacturing and the use of recycled asphalt concrete. Using a secondary burner: the sizzling sand mix AC and fumes generated by the secondary treatment, in order to reduce air pollution.</p> <p>B. Pre-cast Original use: The company Airport MRT CE02 standard construction projects, railway stations, elevated steel structure, Pre-cast box girder, Pre-cast parapet, Pre-cast cable trenches and covers for Pre-cast elements. In the system construction methods, not only can improve the rate of construction, save money, but also reduce carbon dioxide emissions during construction.</p> <p>C. Reinforced length using material:</p> <p>a. CE02 airport MRT construction project reinforced application using standard length when ordering way to reduce steel cut more than expected.</p> <p>b. Reduce steel consumption can reduce carbon dioxide output of about 10,484,922kg.</p> <p>D. Concrete mixed with blast furnace powder            BF powder instead of cement, blast furnace powder recycling, reduce the amount of cement to use. (1 tonne of cement produced 409.57 kg of carbon dioxide emissions, furnace slag cement and other alternative</p>	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
			materials to produce 1 tonne emissions only 68.3 kg (furnace slag abrasives energy) of carbon dioxide)	
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	√		The company adopted the ISO 14001 environmental management system verification, and location of the project in accordance with the local environment, set environmental protection measures, and in accordance with the owners and government agencies related environmental laws and requirements, with the implementation of environmental management systems.	None
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	√		The company participated in the “Voluntary Green Electricity Price System Project of the Ministry of Economic Affairs in 2017 and voluntarily purchased green power at 18365 degrees. This green power is 100% renewable energy power, mainly from wind and solar energy, and its power generation equipment is set according to the “Announcement of the Ministry of Economic Affairs”. The Regulatory Measures for the Establishment of Renewable Energy Power Generation Equipment, and approved by the Energy Agency. During the production of green electricity, the carbon emission factor approaches zero, and the purchase of green electricity will help reduce carbon dioxide emissions. Shorten the operation of large-scale equipment for one hour, reduce contract capacity, deactivate the number of blowers and pumps, drillers, and shotcreting machines. The office turned off the lights for one hour at noon, and the offices and	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
			<p>dormitories saved energy and reduced carbon emissions.</p> <p>At present, the company has taken leave, overtime, business trips, and work attendance status, all of which have been used electronically to reduce waste of paper and effectively achieve the goal of energy conservation and carbon reduction.</p> <p>For other relevant energy-saving, carbon reduction and greenhouse gas reduction strategies, please refer to chapter 3 of the 2017 Corporate Social Responsibility Report “Environmental Friendly”.</p>	
<p>3. Preserving Public Welfare</p> <p>(1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?</p>	√		<p>The Company in accordance with the Labor Standards Law provide for personnel management practices, as the company's personnel management policy basis.</p>	None
<p>(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?</p>	√		<p>The company set up and staff suggestion box "system for handling employee complaints" to provide employee voice channel in order to strengthen cooperation between employers and employees. Employee Opinion appeal methods are as follows:</p> <p>A.Employee as verbal complaints made by various departments who accepted Record, Chen reported immediately processed.</p>	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
			<p>B.If damage to the interests of employees, or other comments, the book can be Surface appeal matters, each unit shall immediately identified at management,or layer packet processing, and processing results or circumstances apply by return Pleader.</p> <p>C.The complainant Department \ Staff: The company spokesman and deputy spokesman</p>	
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	√		The company provide a safe, healthy and comfortable working environment, staff health checks every year to arrange, and hold regular safety and health education and training, colleagues can be aware of safety and health related specifications.	None
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	√		The company set up "EIP" as an internal mechanism for network messaging and bulletin policies.	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
(5) Does the company provide its employees with career development and training sessions?	√		The company provides educational training quality management manual, staff assessment functions, training, career employees so that the plan can grow with the overall interests of the company.	None
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	√		The Company is the construction industry, mainly in technology upgrading, there is no research and development. Procurement has set procurement management system, including supplier management, please, procurement, acceptance, payment process. Production follows the building management system and related government regulations to protect consumers and the interests of stakeholders and interested parties had set up the company's website zone, as the complaint and contact the pipe.	None
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	√		The Company is the construction industry, mainly to undertake public works projects, so as to comply with the relevant government regulations, such as government procurement law, engineering, warranty work.	None
(8) Does the company evaluate the records of suppliers’ impact on the environment and society	√		The company strictly regulate third-party standards in environmental protection and labor safety and health aspects of, and evaluated before the purchase operation, and in the contract set environmental and social responsibility with Ezekiel, please vendor a statement of assurance.	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation <sup>2</sup>	
before taking on business partnerships?				
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	√		The company strictly regulate third-party standards in environmental protection and labor safety and health, the contract expressly provided in the environmental and social responsibility with Ezekiel and stop contracting mechanism.	None
4. Enhancing Information Disclosure (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post	√		The Company is a listed company, it is information on corporate social responsibility, whether in the annual report, the company's website the company, will be published, to expose, to serve in an open, transparent corporate governance, corporate social responsibility to promote the message. 2017 Corporate Social Responsibility Report will be uploaded MOPS before the end of June 2018.	None

Evaluation Item	Implementation Status <sup>1</sup>		Abstract Explanation <sup>2</sup>	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
System (MOPS)?				
<p>5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation:</p> <p>The company in August 12, 2015 the Board of Directors through the implementation of the Code of corporate social responsibility practices. The first revision on November 9, 2016. Please refer to the operating situation of the Company "Corporate Social Responsibility Report," and the operation of the Code provides no difference.</p>				
<p>6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices :</p> <p>The Company's other corporate social responsibility related operations and the specific promotion plans and implementation results have been disclosed on the corporate social responsibility section of the company's website. (<a href="http://www.kseco.com.tw/tc/responsibility.aspx?cid=27&amp;cchk=A3450C32-ACF0-4D13-81C1-976EF7C59836">http://www.kseco.com.tw/tc/responsibility.aspx?cid=27&amp;cchk=A3450C32-ACF0-4D13-81C1-976EF7C59836</a>)</p>				
<p>7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions:None</p>				

Note: 1. Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.  
2. Companies who have compiled CSR reports may cite the source from specific pages of their CSR reports instead.

### 3.3.6 Ethical Corporate Management

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs				
(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	√		The Company has a "Code of Good Practice" to demonstrate the policies and practices of good faith operation and to implement the implementation of the Company's integrity management in the first annual report of the Board of Directors.	None
(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the	√		The company's internal system has a "report illegal and immoral or not honest." Letter of the handling of cases, "clear procedures for the operation, behavioral guidelines, irregular disciplinary and appeals system, and the	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>policies?</p> <p>(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies?</p>	✓		<p>implementation of the implementation.</p> <p>The Company has a "Code of Conduct" and "Measures to report cases of unlawful and unethical or dishonesty" and to promptly advise against measures to prevent dishonesty.</p>	None
<p>2. Fulfill operations integrity policy</p> <p>(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the</p>	✓		<p>The company and the manufacturer, the manufacturer of the first to assess the integrity of behavior, and the relevant provisions made in good faith behavior contract.</p> <p>Administration Department of the Company for the introduction of part-time business integrity</p>	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>Board to be in charge of corporate integrity?</p> <p>(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?</p>	√		<p>unit, and report to the Board of Directors.</p> <p>The Company follows the Company Act, the Securities and Exchange Act, Business Entity Accounting Act, Political Donations Act, Law Against Accepting Bribes Act, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest and other relevant regulations for listed companies. The Company also conducts due diligence before trading with upstream and downstream companies to minimize the risks. At the same time, the Company has made a hotline available for submissions of regarding conflicts of interest.</p>	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	√		The annual handling self-assessment review by the internal audit unit and each unit its own subsidiaries inspection reports, including the control environment, risk assessment, control activities, information disclosure and so on, and with the internal audit unit found the lack of improvement in abnormal control matters case, as the Board of Directors and Managing assess the overall effectiveness of the internal control system and the internal control system statement issued by the main basis.	None
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	√		The Company carries out regular training for employees every year.	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
3. Operation of the integrity channel				
(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	√		The Company has a "Employee Complaint Handling System" and "the handling of cases of illegal and unethical or dishonesty", and the prosecution of the pipeline of the person.	None
(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	√		Standard operating procedures for the investigation and prosecution matters related security mechanisms: 1. On receipt of report telephone or mail, receiving personnel record made, Chen reported immediately processed. 2. If an interested party rights are infringed or when there are other opinions, to report the matter in writing, the contractor should immediately identify each process, or layer packet processing,	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the company provide proper whistleblower protection?	√		and handling the case by return results or prosecutors. 3. Prosecutors funded under the provisions of a Personal Data Protection Act, the investigation also absolutely confidential, and may not disclose  The company strictly prohibits retaliation for good faith communications or persons who assist in the investigation of any kind.	None
4. Strengthening information disclosure (1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	√		The Company MOPS and the company's official website Jie public integrity management Code of Practice for New staff integrity of business-related workshops, business units evaluate suppliers assessments on good faith behavior, and	None

Evaluation Item	Implementation Status <sup>1</sup>			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			Administration and audit chamber to promote part of the integrity management unit, reporting to the Board of Directors. company’s website : <a href="http://www.kseco.com.tw/tc/regulations.aspx">http://www.kseco.com.tw/tc/regulations.aspx</a>	
5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation. There have been no differences.				
6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies). 2015.03.27 The Board adopted amendments " the Code of integrity management", and report on 2015.06.26 the shareholders' meeting.				

Note: Regardless of whether the evaluation item is achieved or not, the company shall state an appropriate explanation.

### 3.3.7 Corporate Governance Guidelines and Regulations

The company's corporate governance codes of practice have been disclosed in MOPS, and the other related regulations is also disclosed on the company website investor area, at the following address:

<http://www.kseco.com.tw/tc/index.aspx>

### 3.3.8 Other Important Information Regarding Corporate Governance

The Company is to enhance the implementation of the corporate governance operations, and another view and with the authorities and, as the need to draw the relevant procedures and measures internal operating procedures specification. For guidelines, see the company's website :

<http://www.kseco.com.tw/tc/index.aspx>

### 3.3.9 Internal Control Systems

Please refer to page 41 of the Chinese annual report.

### 3.3.10 Major Resolutions of Shareholders' Meeting and Board Meetings

Item	Date	Major resolutions
Board meeting	03,24,2017	<ol style="list-style-type: none"><li>1. Resolution recognizes the through the company 2016 annual financial statements and consolidated financial statements.</li><li>2. Resolution recognizes the "Internal Control System Statement by the Company.</li><li>3. Resolution Employees and Directors' Compensation Distribution in 2016.</li><li>4. Amendment to the Company" Acquisition or disposal of asset processing procedures ”.</li><li>5. Resolution our 2017 shareholders' meeting related matters.</li><li>6. Resolution our working capital and the amount of bank guarantee comprehensive credit extension case.</li></ol>
Board meeting	04, 28, 2017	<ol style="list-style-type: none"><li>1. Adoption of the Proposal for Distribution of 2016 Profits.</li><li>2. Amendment to the Company" Code of Corporate Governance Practices”.</li><li>3. Resolution Evaluate the independence of</li></ol>

		<p>the Company's visa accountants.</p> <ol style="list-style-type: none"> <li>4. Resolution Subsidiary Hong Kong MERIT CENTURY company overseas investment withdrawal case.</li> <li>5. Resolution subsidiary Samoa Kung Sing Investment International Holdings Company Capital Increase.</li> <li>6. Resolution the Company Investment Kung Sing Development Co., Ltd., due to business due to the overdue collection of accounts receivable, should be funds to deal with.</li> </ol>
Board meeting	05, 11, 2017	<ol style="list-style-type: none"> <li>1. The resolution passed the company's bank guarantee limit and the overall amount of the working capital transfer application and extension.</li> </ol>
Shareholders' meeting	06, 14, 2017	<ol style="list-style-type: none"> <li>1. Approved the 2016 business report and financial statement. Execution situation: It is submitted to the shareholders' meeting for approval and resolution.</li> <li>2. Adoption of the Proposal for Distribution of 2016 Profits. Execution situation: At the end of 2016, the distributable surplus was NT\$ 106,724,893. After the regular shareholders meeting decided to pass the surplus, the cash dividend was 0.2 yuan, amounting to NT\$ 69,505,483. It was issued on September 1, 2017.</li> <li>3. A Amend some of the articles of the company's "Procedure for Acquiring or Disposing of Assets". Execution situation: After the resolution is passed by the shareholders' meeting, it will be implemented.</li> </ol>
Board meeting	08, 09, 2017	<ol style="list-style-type: none"> <li>1. The resolution passed the company's bank guarantee limit and the overall amount of the working capital transfer application and extension.</li> </ol>

Board meeting	10, 26, 2017	<ol style="list-style-type: none"> <li>1. The resolution through the company raised the issuance of the first domestic case of a secured convertible company debt.</li> <li>2. Through the resolution, the company raised and issued the first domestic secured convertible corporate bonds, and handled bank performance guarantees.</li> <li>3. The resolution promotes business demand funds through investment Kung Sing Development Co., Ltd. and plans to increase capital again.</li> <li>4. The resolution was passed by the investment company SAMOA Kung Sing Holdings Co., Ltd. to invest in overseas Philippine countries.</li> </ol>
Board meeting	11, 13, 2017	<ol style="list-style-type: none"> <li>1. The resolution passed amendments to the company's internal control system, "The Board of Directors' Operations Management System" and "The Audit Committee's Rules of Procedure and Management System."</li> <li>2. The resolution passed amendments to certain provisions of the company's "organizational rules of the audit committee"</li> <li>3. The resolution passed amendments to certain provisions of the "Rules of Procedure of the Board of Directors" of the company.</li> <li>4. The resolution passed amendments to certain provisions of the "Rules of Responsibility Area of Independent Directors" of the Company.</li> <li>5. The resolution passed the liquidation of the dissolution of the subsidiary Neil Co., Ltd.</li> </ol>
Board meeting	12, 27, 2017	<ol style="list-style-type: none"> <li>1. The resolution passed the company's "2018 Annual Operating Plan."</li> <li>2. The resolution passed the company's "2018 audit plan."</li> <li>3. The resolution passed amendments to the "Regulations of the Compensation Committee of the Company".</li> <li>4. The resolution passed the amendment of the company's internal control system "management system of the salary and compensation committee operation".</li> <li>5. The resolution passed the assessment of the independence of the company's visa accountants.</li> <li>6. The resolution passed the company's bank guarantee limit and the overall amount of the working capital transfer period to</li> </ol>

		<p>approve the case.</p> <p>7. The resolution passed the subsidiary Merit Century Overseas Investment Company and intends to dispose of the entire equity interest.</p>
Board meeting	01, 26, 2018	<p>1. The board of directors of the Company passed the proposed withdrawal of the first domestic guaranteed convertible bonds. The total amount of Taiwan dollars was 1000 million yuan.</p> <p>2. The company plans to replace the case of former case with capital increase by issuance of new shares</p>
Board meeting	03, 14, 2018	<p>1. Resolution Employees and Directors' Compensation Distribution in 2017.</p> <p>2. Resolution recognizes the through the company 2017 annual financial statements and consolidated financial statements.</p> <p>3. The resolution passed the 2017 annual profit and loss provision.</p> <p>4. Resolution recognizes the "Internal Control System Statement by the Company.</p> <p>5. The resolution passed the full re-election of the directors.</p> <p>6. The resolution passed the nomination period and location of director candidates of the company.</p> <p>7. Restrictions on Disqualification of New Directors and Their Representatives from Prohibition of Competition.</p> <p>8. Resolution our 2018 shareholders' meeting related matters.</p> <p>9. The resolution passed the company's bank guarantee limit and the overall amount of the working capital transfer application and extension.</p> <p>10. The resolution passed a review of 2017 directors and managers' remuneration.</p> <p>11. The resolution passed the company's general manager salary compensation adjustment.</p>
Board meeting	05, 14, 2018	<p>1. The resolution passed amendments to the operating rules of the "Computerized Computer Management System" part of the company's internal control system.</p> <p>2. The resolution passed the review of the qualifications of candidates for directors and independent directors.</p> <p>3. The resolution passed the Chairman Chen's</p>

		<p>clearing Seniority and the deputy general manager's retirement pension.</p> <ol style="list-style-type: none"> <li>4. The resolution passed the establishment of Fujian Dongfu Gongsheng Construction Engineering Co., Ltd., which was established as an investment in a third party. It intends to transfer the entire equity and apply for cancellation of the verification of the Investment Review Committee.</li> <li>5. The resolution passed the company's bank guarantee limit and the overall amount of the working capital transfer application and extension.</li> <li>6. The resolution passed the approve the 2017 profit and loss appropriation. Proposed statutory surplus reserve and capital reserve to make up losses.</li> <li>7. The resolution passed the capital reserve to shareholders (NT\$ per share): 0.6 , The total amount is NT\$208,516,448.</li> <li>8. The resolution passed amendments to the company's 2018 regular shareholder meeting agenda (new discussion items).</li> <li>9. The resolution passed the assessment of the independence of the company's visa accountant.</li> <li>10. The resolution passed the 2018 annual financial statement of the company and the profit-making business income tax to examine the appointment and remuneration of the visa accountant.</li> </ol>
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**3.3.11 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors**

None

**3.3.12 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D**

None

**3.4 Information Regarding the Company's Audit Fee and Independence**

### 3.4.1 Audit Fee

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
PWC Taiwan	Wang, Fang-yu	2017.01.01~2017.12.31	None
	Hsiao,Chin-mu		

Note: If the Company has changed CPA or Accounting Firm during the current fiscal year, the company shall report the information regarding the audit period covered by each CPA and the replacement reason.  
Unit: NT\$ thousands

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000				
2	NT\$2,000 ~ NT\$4,000				
3	NT\$4,000 ~ NT\$6,000		4,960		4,960
4	NT\$6,000 ~ NT\$8,000				
5	NT\$8,000 ~ NT\$10,000				
6	Over NT\$100,000				

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
PWC Taiwan	Wang, Fang-yu	4960	0	0	0	0	0	2017/01/01~2017/12/31	
	Hsiao, Chin-mu								

### 3.4.2 Replacement of CPA

#### A. Regarding the former CPA

None

#### B. Regarding the successor CPA

None

### 3.4.2 Replacement of CPA

**A. Regarding the former CPA**

Replacement Date	January 01, 2017		
Replacement reasons and explanations	The need for internal organizational changes in accounting firms.		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties	CPA	The Company
	Status		
	Termination of appointment	NA	
No longer accepted (continued) appointment			
Other issues (except for unqualified issues) in the audit reports within the last two years	None		
Differences with the company	Yes	-	Accounting principles or practices
		-	Disclosure of Financial Statements
		-	Audit scope or steps
		-	Others
	None	✓	
	Remarks/specify details:		
Other Revealed Matters	None		

## B. Regarding the successor CPA

Name of accounting firm	PwC Taiwan
Name of CPA	Hsiao,Chin-mu
Date of appointment	January 01, 2017
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

### 3.4.3 Audit Independence

The Company's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations did not hold any positions in the Company's independent auditing firm or its affiliates during 2016.

None

### 3.5 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders

Title	Name	Unit: Shares			
		2017		As of May 01, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman of the board	Ch'uan Fu Investment Co. Ltd.	0	0	0	0
Director Representative	Chen ,huang-ming	0	0	0	0
Director Representative	Chiang,chi-ching	0	0	0	0
Director	Ju hsiang Investment Co.,	0	0	0	0

	Ltd				
Director Representative	Lin, Chung-chen	0	0	0	0
Director Representative	Chiang, jung- ching	0	0	0	0
Independent Directors	Tu,yi- yang	0	0	0	0
Independent Directors	Chen, chin- yueh	0	0	0	0
Independent Directors	Chang, liang- ming	0	0	0	0
General manager	Chiang,chi-ching	0	0	0	0
Vice-General manager	Liu, Tai-ru	0	0	0	0
Assistant manager	Liu, Yung-ching	0	0	0	0
Financial Officer	Huang, li-wang	0	0	0	0
Accounting Supervisor	Wen, Shu Chiao	0	0	0	0

### 3.5.1 Shares Trading with Related Parties

None

### 3.5.2 Shares Pledge with Related Parties

None

### 3.6 Relationship among the Top Ten Shareholders

As of 05/01/2018

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Su, po-ch'eng	34,721,000	9.99	0	0	0	0	None	None	
Su, min-sheng	19,716,000	5.67	0	0	0	0	None	None	
Lin, yi-feng	10,800,000	3.11	0	0	0	0	None	None	
Tang, chia-yu	9,902,000	2.85	0	0	0	0	None	None	
Standard Chartered International Commercial Bank's Sales Department is entrusted with custody of the British St. Regis Fund Investment Account	9,880,000	2.84	0	0	0	0	None	None	
Ch'uan Fu Investment Co. Ltd.	9,844,068	2.83	0	0	0	0	Pan, chun-jung	Major Shareholders	
Ch'uan Fu Representative : Pan, ying- hsun	0	0	0	0	0	0	Pan, chun-jung	Father and daughter	
Su,wu-yu	9,819,000	2.83	0	0	0	0	None	None	

Pan, kuan-ju	7,001,214	2.01	0	0	0	0	Pan, chun-jung	Father and son	
Pan, chun- jung	5,854,394	1.68	0	0	0	0	Chun Fu Investment Co. Ltd.	Major Shareholders	
							Pan, kuan-ju	Father and son	
Hsin yi Investment Co. Ltd.	5,707,338	1.64	0	0	0	0	None	None	
Hsin yi Representative : Lin, chun- ch'en	20,809	0.01	0	0	0	0	None	None	

### 3.7 Ownership of Shares in Affiliated Enterprises

Unit: shares/ %

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
Nile Co. Ltd.	* Note1	73.17%	0	0	* Note1	73.17%
Chan-pan Construction Co. Ltd.	51,000	100%	0	0	51,000	100%
Kung Sing International Holding Company Limited	1,700	100%	0	0	1,700	100%
Jiangsu Chingchan Engineering Consultants Co., Ltd	42,000	60%	0	0	42,000	60%
Kung Sing Engineering Corporation	* Note2	100%	0	0	* Note2	100%
Merit Century Investments Limited	1,510	100%	0	0	1,510	100%
Kung Sing International (Hong Kong) Ltd.	1,200	100%	0	0	1,200	100%

\* Note1 : In November 2017 for liquidation.

\* Note2 : Sold its entire equity in December 2017.

## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Source of Capital

##### A. Issued Shares

As of 05/01/2018

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT\$ thousands)	Shares	Amount (NT\$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
1947.02	10	1,600,000	16,000,000	1,600,000	16,000,000	Original set-up	None	
1987.09	10	10,000,000	100,000,000	10,000,000	100,000,000	Cash capital increase	None	
1991.07	10	19,800,000	198,000,000	19,800,000	198,000,000	Cash capital increase	None	
1993.09	10	120,000,000	1,200,000,000	80,000,000	800,000,000	Cash capital increase	None	Note 1
1995.11	10	120,000,000	1,200,000,000	84,000,000	840,000,000	Capital increase via earnings	None	Note 2
1996.12	10	120,000,000	1,200,000,000	89,040,000	890,400,000	Capital increase via earnings	None	Note 3
1997.07	18	180,000,000	1,800,000,000	140,000,000	1,400,000,000	Cash capital increase and capital increase via earnings	None	Note 4
1998.07	10	180,000,000	1,800,000,000	147,000,000	1,470,000,000	Capital increase via earnings	None	Note 5
1999.07	10	180,000,000	1,800,000,000	154,350,000	1,543,500,000	Capital increase via earnings	None	Note 6
2000.09	10	180,000,000	1,800,000,000	162,067,500	1,620,675,000	Capital increase via earnings	None	Note 7
2004.09	13.2	205,000,000	2,050,000,000	187,067,500	1,870,675,000	Cash capital increase	None	Note 8
2005.09	10	250,000,000	2,500,000,000	216,663,076	2,166,630,760	Capital increase via earnings, employee bonuses, capital surplus	None	Note 9
2006.09	10	250,000,000	2,500,000,000	227,321,230	2,273,212,300	Capital surplus transferred to common stock	None	Note 10
2007.09	10	350,000,000	3,500,000,000	274,018,814	2,740,188,140	Capital increase via earnings, employee bonuses, capital surplus	None	Note 11
2007.09	15	350,000,000	3,500,000,000	324,018,814	3,240,188,140	Cash capital increase	None	Note 12
2008.09	10	350,000,000	3,500,000,000	347,527,413	3,475,274,130	Capital increase via earnings, employee bonuses, capital surplus	None	Note 13

Note 1: Approved by (82) TaiTsaiCheng(1)30906, Securites and Futures Bureau, Financial Supervisory Commission, August 7<sup>th</sup> 1993.

Note 2: Approved by (84) TaiTsaiCheng(1)39282, Securites and Futures Bureau, Financial Supervisory Commission, July 3<sup>rd</sup>, 1995.

Note 3: Approved by (85) TaiTsaiCheng(1)41856, Securites and Futures Bureau, Financial Supervisory Commission, July 13<sup>th</sup>, 1996.

Note 4: Approved by (86) TaiTsaiCheng(1)49306, Securites and Futures Bureau, Financial Supervisory Commission, June 26<sup>th</sup>, 1997; (86) TaiTsaiCheng(1)58455, Securites and Futures Bureau, Financial Supervisory Commission, July 22<sup>nd</sup>, 1997.

Note 5: Approved by (87) TaiTsaiCheng(1)59553, Securites and Futures Bureau, Financial Supervisory Commission, July 13<sup>th</sup>, 1998.

Note 6: Approved by (88) TaiTsaiCheng(1)63392, Securites and Futures Bureau, Financial Supervisory Commission, July 9<sup>th</sup>, 1999.

Note 7: Approved by (89) TaiTsaiCheng(1)61307, Securites and Futures Bureau, Financial Supervisory Commission, July 15<sup>th</sup>, 2000.

Note 8: Approved by TaiTsaiCheng1Tze0930125632, Securites and Futures Bureau, Financial Supervisory Commission, June 16<sup>th</sup>, 2004.

Note 9: Approved by TaiTsaiCheng1Tze0940124898, Securites and Futures Bureau, Financial Supervisory Commission, June 22<sup>nd</sup>, 2005.

Note 10: Approved by TaiTsaiCheng1Tze0950132742, Securites and Futures Bureau, Financial Supervisory Commission, July 26<sup>th</sup>, 2006.

Note 11: Approved by TaiTsaiCheng1Tze0960031153, Securites and Futures Bureau,

Financial Supervisory Commission, June 21<sup>st</sup>, 2007.  
 Note 12: Approved by TaiTsaiCheng1Tze0960030934, Securites and Futures Bureau,  
 Financial Supervisory Commission, June 26<sup>th</sup>, 2007.  
 Note 13: Approved by TaiTsaiCheng1Tze0970033529, Securites and Futures Bureau,  
 Financial Supervisory Commission, July 4<sup>th</sup>, 2008.

## B. Type of Stock

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common shares	347,527,413	102,472,587	450,000,000	None

## C. Information for Shelf Registration

None

### 4.1.2 Status of Shareholders

As of 05/01/2018

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	3	171	64	27,567	27,805
Shareholding (shares)	0	5,003,178	31,476,577	17,896,347	293,151,311	347,527,413
Percentage	0.00%	1.44%	9.06%	5.15%	84.35%	100%

### 4.1.3 Shareholding Distribution Status

#### A. Common Shares

As of 05/01/2018

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	18,862	1,217,699	0.35%
1,000 ~ 5,000	5,439	11,687,964	3.36%
5,001 ~ 10,000	1,369	10,551,151	3.04%
10,001 ~ 15,000	601	7,615,572	2.19%
15,001 ~ 20,000	310	5,803,324	1.67%
20,001 ~ 30,000	388	9,851,776	2.83%
30,001 ~ 40,000	183	6,657,387	1.92%
40,001 ~ 50,000	145	6,812,056	1.96%
50,001 ~ 100,000	224	16,106,480	4.63%

100,001 ~ 200,000	128	18,289,315	5.26%
200,001 ~ 400,000	64	17,486,821	5.03%
400,001 ~ 600,000	27	13,582,014	3.91%
600,001 ~ 800,000	13	9,354,000	2.69%
800,001 ~ 1,000,000	7	6,541,000	1.88%
1,000,001 or over	45	205,970,854	59.27%
Total	27,805	347,527,413	100.00%

## B. Preferred Shares

The company did not issue Preferred Shares.

### 4.1.4 List of Major Shareholders

As of 04/16/2017

Shareholder's Name	Shareholding	
	Shares	Percentage
Su, po-ch'eng	34,721,000	9.99
Su, min-sheng	19,716,000	5.67
Lin, yi-feng	10,800,000	3.11
Tang, chia-yu	9,902,000	2.85
Standard Chartered International Commercial Bank's Sales Department is entrusted with custody of the British St. Regis Fund Investment Account	9,880,000	2.84
Ch'uan Fu Investment Co. Ltd.	9,844,068	2.83
Su, wu-yu	9,819,000	2.83
Pan, kuan-ju	7,001,214	2.01
Pan, chun- jung	5,854,394	1.68
Hsin yi Investment Co. Ltd	5,707,338	1.64

#### 4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT\$

Items	2016	2017	01/01/2018-03/31/2018
<b>Market Price per Share</b>			
Highest Market Price	12.65	16.95	17.95
Lowest Market Price	9.50	9.86	14.90
Average Market Price	10.54	11.91	16.48
<b>Net Worth per Share</b>			
Before Distribution	12.17	10.96	11.04
After Distribution	11.97	(Note 4)	-
<b>Earnings per Share</b>			
Weighted Average Shares (thousand shares)	347,527	347,527	347,527
Diluted Earnings Per Share	0.26	(1.01)	0.09
Adjusted Diluted Earnings Per Share	0.26	(Note 4)	-
<b>Dividends per Share</b>			
Cash Dividends	0	(Note 4)	-
Stock Dividends			
• Dividends from Retained Earnings	-	(Note 4)	NA
• Dividends from Capital Surplus	-	(Note 4)	NA
Accumulated Undistributed Dividends	-	(Note 4)	NA
<b>Return on Investment</b>			
Price / Earnings Ratio (Note 1)	40.54	(11.79)	NA
Price / Dividend Ratio (Note 2)	52.70	-	NA
Cash Dividend Yield Rate (Note 3)	0.02	-	NA

Note 1: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 2: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 3: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

Note 4: The board of directors has yet to approve, on behalf of shareholders' meeting, the proposal for profit sharing for 2018.

#### 4.1.6 Dividend Policy and Implementation Status

##### A. Dividend Policy

Dividend policy: According to the Corporate charter and related laws and regulations, earnings in the final accounts, should it exist, should be used to pay tax and duties, with the remainder being used to cover loss of previous year first, If there is still surplus, 10% of the amount should be appropriated for legal reserves and special legal reserves according to the law, and in accordance with Article 41 in Securities and Exchange Act, the reminder after transferred into the capital surplus could be allocated in accordance with the Corporate charter and the Board's resolution. The dividend policy is based on the industry environment the company is located at and its

financial planning, and considerations for the company's sustainable management and stable development, as well as the maximum protection of the interests of shareholders, thus the policy is as follows:

1. Condition and timing of the dividend payout:

The company is currently in the growth stage, in a number of major public works projects are being carried out, the demand for capital for ardent. To support the required business growth, the company paid dividends to meet the future operation and development of the principle of sound financial structure and comprehensive consideration, after maintaining a stable dividend and protection of shareholders' reasonable remuneration and other conditions, and then the board of directors will begin to stimulate the distribution of earnings, and through approvals from the general shareholders' meeting and authorities, the dividend payout will take place accordingly.

2. Payout ratios of cash dividend and stock dividend

Earnings in the final accounts, should it exist, should be used to pay tax and duties, with the remainder being used to cover loss of previous year first, and then 10% of the amount should be appropriated for legal surplus reserve, and if there is still surplus, after the board's discussion, resolution will take place during the general shareholders' meeting, and there are two ways of dividend payout, which are stock dividend and cash dividend, the ratio of cash dividend cannot be lower than 10% of the total dividend for shareholders.

## **B. Proposed Distribution of Dividend**

1. The company's 2017 annual dividend distribution, the Board of Directors already in May 14, 2018, The resolution passed the capital reserve to shareholders (NT\$ per share): 0.6 , The total amount is NT\$208,516,448.
2. This case has waiting submit to the general shareholders' meeting on June 29th, 2018.

### **4.1.7 Employee Bonus and Directors' and Supervisors' Remuneration**

A. Employee bonus and directors and supervisors Reward specified in the company's corporate charter:

1. When the Company in accordance with the annual profit after deducting accumulated deficit situation, as there are balance, employee compensation should be set aside 3-5%, not more than 3% of the remuneration of directors. Employee compensation in the preceding paragraph to whom shares or cash, the payment must include the object in line with the conditions set by the Board of Directors of subordinate employees, to authorize the Board to develop the relevant measures, only to cash remuneration of directors whom. After the above provisions of the Board of Directors resolution, and then report to the general meeting of shareholders.

B. The Estimated Basis for Calculating the Employee Bonus and Directors' and Supervisors' Remuneration:

The staff remuneration and the reward to directors and supervisors, based on the current net profit before tax to make up for losses in previous post, taking into

consideration the relevant laws and regulations, the Articles of Association, and past experience of the appropriate estimate. Actual allotment amount if there are differences and estimated the number of columns, depending on changes in accounting estimates process, as the annual shareholders' meeting resolution adjustment recorded.

**C. Profit Distribution for Employee Bonus and Directors' and Supervisors' Remuneration for 2017 Approved in Board of Directors Meeting**

(1) Recommended Distribution of Employee Bonus and Directors' and Supervisors' Remuneration: (NT\$ thousands)

Employee Bonus – in Cash	\$ 0
Employee Bonus – in Stock	0
Directors' and Supervisors' Remuneration	<u>0</u>
Total	\$ 0

(2) Ratio of Recommended Employee Stock Bonus to Capitalization of Earnings: Unallocated Employee stock Bonus dividend.

(3) Recounted EPS after Recommended Distribution of Employee Bonus and Directors' and Supervisors' Remuneration: The profit and loss reserve does not intend to pay employees and directors, nor does it affect the calculation of earnings per share.

**D. Information of 2016 Earnings Set Aside for Employee Bonus and Directors' and Supervisors' Remuneration:**

Distribution of 2016 Earnings (NT\$ thousands)	
Stock Dividends	\$ 0
Cash Dividends	\$ 0
Directors' Remuneration	\$2,259
Employee Bonus	\$3,764

The above-mentioned actual distribution of employee bonus and directors' remuneration was in line with the recommended resolution of the Board of Directors.

**4.1.8 Buyback of Treasury Stock**

None

**4.2 Bonds**

None

**4.3 Global Depository Receipts**

None

#### **4.4 Employee Stock Options**

None

#### **4.5 Status of New Shares Issuance in Connection with Mergers and Acquisitions**

None

#### **4.6 Financing Plans and Implementation**

**None**

## **V. Operational Highlights**

### **5.1 Business Activities**

#### **5.1.1 Business Scope**

##### **A. Main areas of business operations**

1. E101011 General Construction
2. E401010 Dredging
3. E599010 Plumbing
4. E801010 Interior Renovation
5. E801020 Doors and Windows Installation
6. E801030 Interior Light Steel Frame Engineering
7. E801040 Glass Installation
8. E801070 Kitchen and Bathroom Equipment Installation
9. E901010 Painting Works
10. E903010 Corrosion and Rust-Proof Works
11. EZ02010 Crane Engineering
12. EZ207010 Drilling Engineering
13. EZ99990 Other Engineering
14. C901040 Ready-Mix Concrete Manufacturing
15. C901050 Cement and Concrete Manufacturing
16. CD01020 Rail Vehicles and Parts Manufacturing
17. CD01990 Other Vehicles and Parts Manufacturing
18. F111090 Building Materials Wholesale
19. F113010 Machinery Wholesale
20. F401010 International Trade
21. F113030 Precision Instruments Wholesale
22. H701010 Residences and Buildings Development, Sale and Lease
23. H701020 Industrial Factory Buildings Development, Sale and Lease
24. H701040 Specialized Fields Construction and Development
25. H701050 Public Works Construction and Investment
26. H701060 New County and Community Development
27. H701070 Zone Expropriation and Urban Land Consolidation Agencies
28. H703090 Real Estate Trading
29. H703100 Real Estate Lease
30. H701080 Urban Renewal
31. J101040 Wastes Treatment
32. J101990 Other Sanitation and Pollution Protection Services
33. E501011 Water Supply Piping
34. E601010 Electrical Equipment Installation
35. E602011 Frozen and Air-conditioning Engineering
36. E603040 Fire Safety Equipment Installation Engineering
37. ZZ99999 In addition to licensed businesses, the company may operate those businesses that are not prohibited or restricted by law.

## B. Revenue distribution

Unit ; NT\$ thousands

Major Divisions	Total Sales in Year 2017	(%) of Total Sales
public construction	3,758,745	99.99
others	190	0.01
total	3,758,935	100.00

## C. Main products

1. Civil engineering: Airport MRT construction, railway reconstruction, the Taipei Metropolitan Area Rapid Transit project, bridge construction via special methods such as advancing shoring method and incremental launching method, and regional highway projects.
2. Marine works : Taichung Port No. 106 New Construction Project
3. Tunnel Project : Su-Hua Highway Guanyin Valley Wind Tunnel.
4. Construction works : Sin-Dian case construction project

## D. New products development

To query the projects released from the Executive Yuan's website and related press, and to select the most favored, high-tech, and value-added projects and include them into the company's annual business plan in order to prepare to be participating in the bidding, including large-scale civil constructions such as road, bridge, and MRT organized by the Ministry of Transportation and Communications, the Ministry of the Interior, and the Taipei City Government.

### 5.1.2 Industry Overview

Please refer to page 59-61 of the Chinese annual report.

### 5.1.3 Research and Development

Please refer to page 61-63 of the Chinese annual report.

A. The company is in the construction industry and it aims on the enhancement of technology, thus there is no direct research cost.

B. Research and Development Achievements of the CRI in the Past Two Years

None

### 5.1.4 Long-term and Short-term Development

Please refer to page 63 of the Chinese annual report.

A. Long-term Development

B. Short-term Development

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### A. Sales (Service) Region

The company is mainly focused on undertaking the national public constructions, supplemented by the and public civil engineering and architectural engineering, major products comprise the road construction, bridge construction, and tunnel construction, etc. construction sites are throughout the northern, central, and southern parts. In recent years, in response to the government's "Look East" policy, the company has been participated actively in the eastern part of development plan, which will enable the company to be unrestricted in the tender area. Our services are throughout the province, all businesses are within the country.

#### B. Market Share (%) of Major Product Categories in the Last Two Years

Year	Turnover in the construction industry	Turnover of the company	Market share (%)
2016	2,151,691 millions	4,290 millions	0.20
2017	2,146,522 millions	3,759 millions	0.18

#### C. Market Analysis of Major Product Categories

1. Supply and demand
2. Growth

Details Please refer to page 64-66 of the Chinese annual report.

#### D. Favorable and Unfavorable Factors in the Long Term

##### 1. Favorable factors

- (1) The government continues to promote the significant CEPD plan.
- (2) The domestic economy gradually recovers, and continues to grow.
- (3) The Government promulgated the "Government Procurement Law.
- (4) The government is actively engaging in the rewards of excellent construction companies in order to create more competitiveness for excellent construction companies through incentives.
- (5) In order to stabilize the domestic economy, the government promoted "the expansion of domestic demand programs" and introduced the BOT models to significant constructions in order to stimulate the private capital investment.
- (6) Since 1999, regarding new project tenders above \$50 million, vendors could receive prepayments of 30% after they have provided the same amount of guarantee.
- (7) Government to expand public construction investment, boost the economy, the implementation of "12 major construction overall plan" is expected from the Republic of China from 1999 to 2016 only, priority to promote 12 infrastructure.
- (8) Accession to the WTO to expand overseas market.

##### 2. Unfavorable factors

- (1) Rigorous labor safety penalties, increase in the labor safety cost.

Countermeasure – Strengthen the labor safety educational training, enhance the labor safety concept, impose a self-inspection system, reduce labor safety fines, and enhance safety.

- (2) Instability of the bulk material prices of construction projects.

Countermeasure – As a result of bulk materials (such as: gravel, concrete, steel, earth, oil, etc.) accounted for a high proportion of the entire cost of the project, and in order to reduce the risk, work contracts the company undertakes are still mainly public works, because after winning the bid, the price adjustment amount can be used to pay to vendors for materials, or materials can be used to make up the increased cost expenditure, raw materials reduction or increases in prices.

- (3) People's wisdom grows, projects being protested, a delay in the construction progress.

Countermeasure –Actively engaged in establishing good interpersonal relationships in order to establish a common living body and reduce the opposition.

- (4) People are more environmentally conscious now, thus the cost of environmental protection expenditure increases.

Countermeasure –The company has passed the "ISO14001" International Environmental Management System Certification, through the implementation of the system, and with the additional provision of pollution control equipment, to increase environmental operating manpower, as well as measures to enhance staff environmental education training.

- (5) Construction regulations are not perfect, finalized contracts unfair terms still exist.

Countermeasure –In addition to coordinate with the owner, may as well apply for the conciliation from the Public Construction Commission, Executive Yuan, or arbitration from the Arbitration Association.

- (6) Malignant low price bidding

Countermeasure –To strengthen the cost control, do careful assessments in advance, to tender with technical, special construction methods and specific qualifications, and improve the Bid rate.

- (7) After entering into the WTO, foreign vendors get to bid independently, competitive forces thus have formed.

Countermeasure –Will work to improve the quality of construction, construction management capabilities of high-efficiency, and high standards of construction technology in order to expand the overseas market.

## **5.2.2 Production Procedures of Main Products**

### **A. Major Products and Their Main Uses**

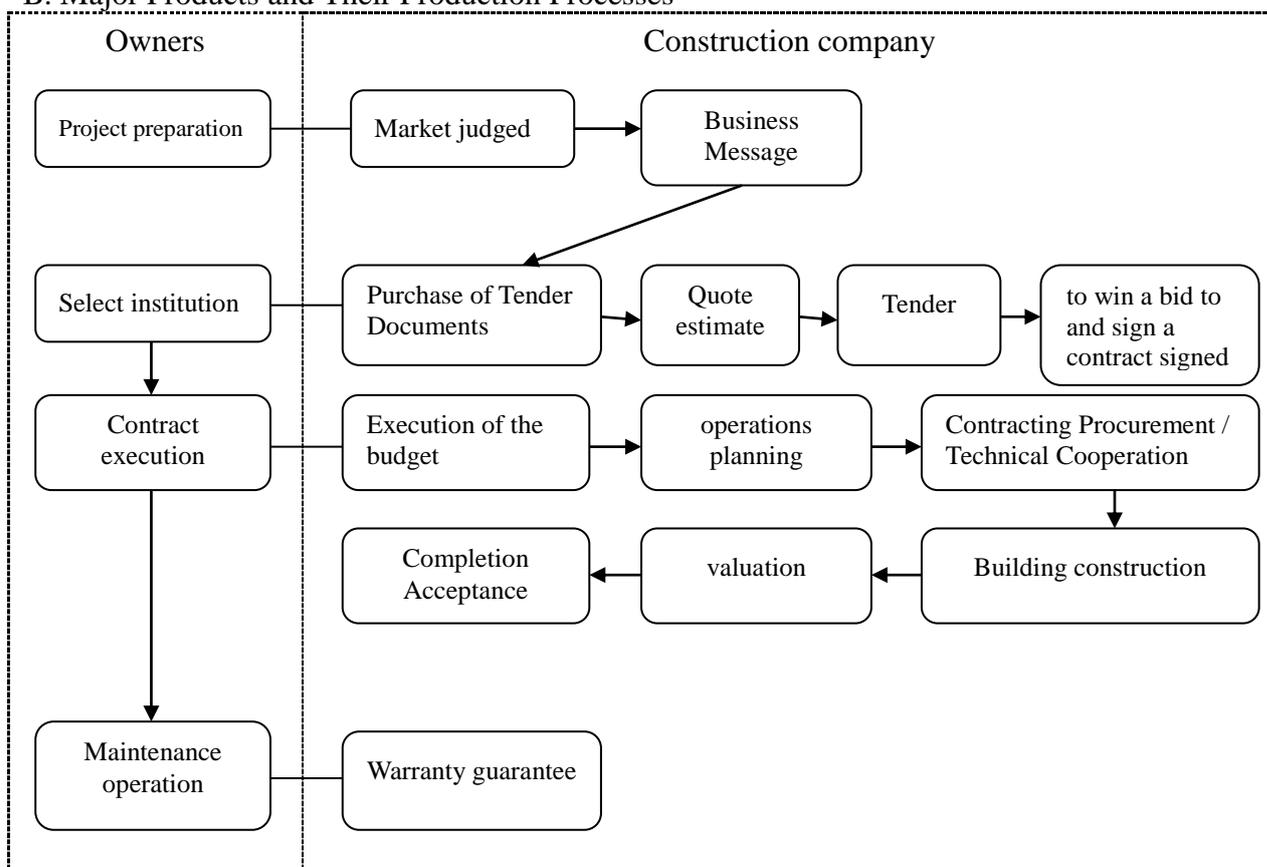
- (1) Civil engineering

National Highway 3, the Taipei MRT construction, National Highway 1 widening, new methods for bridge constructions, tunnel construction, and regional elevated highways. Use to provide public transportation and people's basic livelihood needs of public facilities, and to enhance the quality of people's lives.

- (2) Marine works : Linkou power plant renewal and expansion project.

- (3) Tunnel Project : Su-Hua Highway Guanyin Valley Wind Tunnel. Providing convenient public transportation

## B. Major Products and Their Production Processes



### 5.2.3 Supply Status of Main Materials

The company's engineering construction is contract for labor and materials-based, except some are provided by the owner according to the contract, the rest is procured by the company itself, and its main bulk building materials are offered by domestic suppliers, some special materials are ordered from abroad. The company has been in the market for 70 years, only the national gravel and earth are in shortage, and the price of Petroleum oil rises, the upstream and downstream raw material supply chain is very solid, if events of huge ups and downs in the prices of bulk materials take place during the construction, the company may be able to control materials and vendors, as well as to effectively control the duration period, construction quality, and costs of materials via the floating price adjustment mechanism signed with suppliers, thus no shortages or interruptions could occur.

### 5.2.4 Major Suppliers and Clients

Please refer to page 67 of the Chinese annual report.

### A. Major Suppliers in the Last Two Calendar Years

Unit: NT\$ thousands

Item	2016				2017				2018 (As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	Hsueh Chih Construction company	1,604,910	41.64%	None	Hsueh Chih Construction company	1,060,915	31.00%	None	Asia Cement	121,426	20.56%	None
2	Asia Cement	612,425	15.89%	None	Asia Cement	714,972	20.90%	None	Tung Ho Steel Enterprise Corp.	76,465	12.95%	None
3	Taiwan Cement Corporation	414,355	10.75%	None	Ya t'ung energy company	395,262	11.55%	None	Hsueh Chih Construction company	68,310	11.57%	None
4	Ya t'ung energy company	268,169	6.98%	None	Tung Ho Steel Enterprise Corp.	314,464	9.19%	None	Ya t'ung energy company	59,504	10.08%	None
5	Tung Ho Steel Enterprise Corp.	228,017	5.92%	None	Taiwan Cement Corporation	132,647	3.88%	None	Shang Ting Construction company	22,424	3.80%	None
6	Shang Ting Construction company	12,730	0.33%	None	Shang Ting Construction company	0	0.00%	None	Taiwan Cement Corporation	6,848	1.16%	None
	Others	712,666	18.49%		Others	803,314	23.48%		Others	235,556	39.88%	
	Net Total Supplies	3,853,903	100.00%		Net Total Supplies	3,421,574	100.00%		Net Total Supplies	590,533	100.00%	

Note: Major suppliers refer to those commanding 10%-plus share of annual order volume.

B. Major Clients in the Last Two Calendar Years

Unit: NT\$ thousands

Item	2016				2017				2018(As of March 31)			
	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer	Company Name	Amount	Percent	Relation with Issuer
1	Directorate General of Highways	2,504,411	58.38%	None	Directorate General of Highways	2,481,629	66.02%	None	Directorate General of Highways	465,156	67.66%	None
2	Taiwan Power Company	1,583,373	36.91%	None	Taiwan Power Company	1,004,983	26.74%	None	Railway Reconstruction Bureau, Ministry of Transportation and Communications	130,743	19.02%	None
3	Railway Reconstruction Bureau, Ministry of Transportation and Communications	107,481	2.51%	None	Railway Reconstruction Bureau, Ministry of Transportation and Communications	254,655	6.78%	None	Taiwan Power Company	75,626	11.00%	None
4	Bureau of High Speed Rail, MOTC	605	0.01%	None	Bureau of High Speed Rail, MOTC	-529	-0.01%	None	Bureau of High Speed Rail, MOTC	0	0.00%	None
	Others	93,721	2.19%		Others	18,197	0.48%		Others	15,936	2.32%	
	Net Sales	4,289,591	100.00%		Net Sales	3,758,935	100.00%		Net Sales	687,461	100.00%	

Note: Major clients refer to those commanding 10%-plus share of annual order volume.

### 5.2.5 Production in the Last Two Years

Unit: NT\$ thousands

Output Year	2017			2016		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Major Products (or by department)						
Public construction		-	4,003,387	-	-	3,990,011
Total	-	-	4,003,387	-	-	3,990,011

### 5.2.6 Shipments and Sales in the Last Two Years

Unit: NT\$ thousands

Shipments & Sales Year	2017				2016			
	Local		Export		Local		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Major Products (or by departments)								
Operating income	-	3,758,935	-	-	-	4,289,591	-	-
Total	-	3,758,935	-	-	-	4,289,591	-	-

### 5.3 Human Resources

Year		2016	2017	Data as of ending data in the current year
Number of Employees	Manager	7	10	10
	General staff	244	222	220
	Foreign labor	498	348	388
	Total	749	580	618
Average Age		45.42	46.33	46.64
Average Years of Service		9.24	9.81	10.04
Education	Ph.D.	0.80	0.86	0.87
	Masters	13.95	12.07	11.74

	Bachelor's Degree	31.87	31.90	32.61
	Senior High School	17.13	18.10	18.70
	Below Senior High School	4.38	2.59	2.60

## 5.4 Environmental Protection Expenditure

### 5.4.1 Total Losses and Penalties

Unit: NT\$ thousands

	2016	2017	The current year as of March 31st, 2018
Pollution	Violations of air pollution law	Violations of environmental law	Violations of environmental law
Amount of penalty	\$320	\$80	\$0

### 5.4.2 Countermeasures

Based on the recent widespread environmental awareness and the concept of sustainable management, the company views the pollution prevention and environmental protection as the corporate responsibilities, every construction process is performed in accordance with the provisions of the Labor Safety and Health, contractors are required to carry out sound environmental practices to reduce pollution penalties. The implementation of environmental protection on the existing site has won praises from the surrounding residents, thus further enhanced the corporate image. On the other hand, the company obtained the ISO 14001 international environmental management certification in March 1999, showing its emphasis on the environmental protection and pollution prevention, under the premise that the company is aiming at the fulfillment of pollution prevention, a possible expenditure in the future will likely to occur.

## 5.5 Labor Relations

Please refer to page 69-72 of the Chinese annual report.

## 5.6 Important Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Engineering contract	Bureau of High Speed Rail, MOTC	2008.10.03~ 2015.09.02	Access to Taiwan Taoyuan International Airport The MRT construction plan CE02	None
Engineering contract	Railway Reconstruction Bureau, Ministry of Transportation and Communications	2009.07.29~ 2016.01.24	Project KCL211, elevated railway engineer at Linglo, Chutien section	None
Engineering contract	North Project Office of Taiwan Power (shares) Nuclear Fire Department	2010.06.14~ 2017.03.25	Linkou power plant expansion plan New constructions of outlet diversion dike, northern breakwater, coal unloading terminal, the contact bridge	None
Engineering contract	Suhua Improvement Engineering Office, Directorate General of Highways, Ministry of Transportation and Communications	2011.11.01~ 2019.01.08	Construction of Tai-Chiu Line KuanYin Tunnel (project B2)	None
Engineering contract	Suhua Improvement Engineering Office, Directorate General of Highways, Ministry of Transportation and Communications	2011.11.01~ 2018.08.17	Construction of Tai-Chiu Line KuFeng Tunnel (project B3)	None
Engineering contract	North Project Office of Taiwan Power (shares) Nuclear Fire Department	2012.04.26~ 2019.01.20	Linkou power plant expansion plan, drum coal bunker system project in turn-key-basis	None
Engineering contract	Railway Reconstruction Bureau, Ministry of Transportation and Communications	2016.09.06~ 2021.03.31	Engineering project Railway Electrification for the chaofang section of SOUTH-LINK line, civil electrical & mechanical from CHAOZHOU to LINBIAN , LOT 811.	None

Engineering contract	Railway Reconstruction Bureau, Ministry of Transportation and Communications	2017.09.20~ 2020.12.03	C031 Hualien Township, Nanping to Wanrong railway line, double track civil work and tram system project.	None
Engineering contract	TIPC ,PORT OF TAICHUNG TAIWAN INTERNATIONAL PORTS CORPORATION.	2018.03.28~ 2019.10.31	Taichung harbor dock No.106 new construction project.	None

## VI. Financial Information

### 6.1 Five-Year Financial Summary

#### 6.1.1 Condensed Balance Sheet

#### Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years					As of the printing date of this annual report	
	2013	2014	2015	2016	2017		
Current assets	7,824,811	7,308,200	7,328,025	7,027,855	7,183,756	7,479,688	
Property, Plant and Equipment	681,956	941,509	899,612	817,407	735,534	719,286	
Intangible assets	-	-	-	-	-	-	
Other assets	744,652	902,071	662,614	628,077	630,748	630,831	
Total assets	9,251,419	9,151,780	8,890,251	8,473,339	8,550,047	8,829,805	
Current liabilities	Before distribution	4,673,743	4,697,551	4,383,934	3,827,940	4,087,838	4,384,763
	After distribution	4,760,625	4,697,551	4,383,934	3,897,445	(Note 1)	(Note 1)
Non-current liabilities	303,592	391,471	359,583	316,985	398,147	353,880	
Total liabilities	Before distribution	4,977,335	5,089,022	4,743,517	4,144,925	4,485,985	4,738,643
	After distribution	5,064,217	5,089,022	4,743,517	4,214,430	(Note 1)	(Note 1)
Equity attributable to shareholders of the parent	4,242,504	4,013,509	4,099,845	4,228,310	3,810,098	3,837,624	
Capital stock	3,475,274	3,475,274	3,475,274	3,475,274	3,475,274	3,475,274	
Capital surplus	310,362	310,362	310,362	310,362	310,362	310,362	
Retained earnings	Before distribution	416,709	166,702	245,023	338,692	(81,428)	68,364
	After distribution	329,827	166,702	245,023	269,187	(Note 1)	(Note 1)
Other equity interest	40,159	61,171	69,186	103,982	105,890	(16,376)	
Treasury stock	-	-	-	-	-	-	
Non-controlling interest	31,580	49,249	46,889	100,104	253,964	253,538	
Total equity	Before distribution	4,274,084	4,062,758	4,146,734	4,328,414	4,064,062	4,091,162
	After distribution	4,187,202	4,062,758	4,146,734	4,258,909	(Note 1)	(Note 1)

Note1: Wait shareholders' meeting resolutions.

## 6.1.2 Condensed Statement of Comprehensive Income/Condensed Statement of Income

### Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: NT\$ thousands

Item \ Year	Financial Summary for The Last Five Years					As of the printing date of this annual report
	2013	2014	2015	2016	2017	
Operating revenue	4,399,069	5,846,800	7,141,468	4,289,591	3,758,935	687,461
Gross profit	313,653	15,145	285,426	299,580	(244,452)	27,766
Income from operations	136,813	(172,185)	130,060	121,489	(399,202)	(14,489)
Non-operating income & expenses	(16,848)	(12,215)	(46,834)	(18,081)	(18,470)	35,034
Income before tax	119,965	(184,400)	83,226	103,408	(417,672)	20,545
Net income (Loss)	88,857	(158,533)	80,787	83,931	(355,334)	29,830
Other comprehensive income (income after tax)	21,141	16,504	3,189	37,749	1,666	(7,178)
Total comprehensive income	109,998	(142,029)	83,976	121,680	(353,668)	22,652
Net income attributable to shareholders of the parent	95,568	(158,617)	83,147	90,716	(350,373)	30,256
Net income attributable to non-controlling interest	(6,711)	84	(2,360)	(6,785)	(4,961)	(426)
Comprehensive income attributable to Shareholders of the parent	116,709	(142,113)	86,336	128,465	(348,707)	23,078
Comprehensive income attributable to non-controlling interest	(6,711)	84	(2,360)	(6,785)	(4,961)	(426)
Earnings per share	0.27	(0.46)	0.24	0.26	(1.01)	0.09

### 6.1.3 Auditors' Opinions from 2012 to 2016

Year	Accounting Firm	CPA	Audit Opinion
2013	PwC Taiwan	Liang,Hua-ling Lin, Se-kai	No opinions after revisions were made
2014	PwC Taiwan	Chang ,Tso- ch'eng Lin, Se-kai	No opinions after revisions were made
2015	PwC Taiwan	Chang ,Tso- ch'eng Lin, Se-kai	No opinions after revisions were made
2016	PwC Taiwan	Chang ,Tso- ch'eng Wang, Fang-yu	No opinions after revisions were made
2017	PwC Taiwan	Wang, Fang-yu Hsiao,Chin-mu	No opinions after revisions were made

## 6.2 Five-Year Financial Analysis

### Consolidated Financial Analysis – Based on IFRS

Item		Year		Financial Analysis for the Last Five Years					As of the printing date of this annual report
		2013	2014	2015	2016	2017			
Financial structure (%)	Debt Ratio	53.80	55.61	53.36	48.92	52.47	53.67		
	Ratio of long-term capital to property, plant and equipment	671.26	473.09	500.92	568.31	606.66	617.98		
Solvency (%)	Current ratio	167.42	155.57	167.16	183.59	175.73	170.58		
	Quick ratio	106.87	97.89	93.92	92.40	88.22	80.71		
	Interest earned ratio (times)	3.78	(2.34)	2.98	4.36	(14.98)	3.77		
Operating performance	Accounts receivable turnover (times)	3.12	4.15	4.17	2.71	3.49	2.37		
	Average collection period	116.99	87.95	87.53	134.69	104.58	154.01		
	Inventory turnover (times)	1.97	2.51	2.61	1.26	1.16	0.72		
	Accounts payable turnover (times)	2.40	2.89	3.74	2.62	3.04	2.23		
	Average days in sales	185.28	145.42	139.85	289.68	314.66	506.94		
	Property, plant and equipment turnover (times)	6.83	7.20	7.76	5.00	4.84	3.78		
	Total assets turnover (times)	0.48	0.64	0.80	0.51	0.44	0.31		
Profitability	Return on total assets (%)	1.36	(1.23)	1.28	1.26	(3.92)	1.66		
	Return on stockholders' equity (%)	2.08	(3.80)	1.97	1.98	(8.47)	2.93		
	Pre-tax income to paid-in capital (%)	3.45	(5.31)	2.39	2.98	(12.02)	2.36		
	Profit ratio (%)	2.02	(2.71)	1.13	1.96	(9.45)	4.34		
	Earnings per share (NT\$)	0.27	(0.46)	0.24	0.26	(1.01)	0.09		
Cash flow	Cash flow ratio (%)	(7.09)	4.15	(29.91)	12.42	(1.65)	(11.47)		
	Cash flow adequacy ratio (%)	47.10	(2.64)	(59.27)	(23.33)	(39.74)	(57.86)		
	Cash reinvestment ratio (%)	(9.73)	2.40	(28.24)	9.92	(2.89)	(10.63)		
Leverage	Operating leverage	1.00	1.00	1.00	1.00	1.00	0.99		
	Financial leverage	1.28	0.76	1.48	1.34	0.94	0.66		

### 6.3 Audit Committee's Report for the Most Recent Year

#### **Review Report of Audit Committee**

The Board of Directors has submitted the 2017 annual business report, financial statements and consolidated financial statements. In it of which the financial statements and consolidated financial statements have been checked by accounts Wang, Fang-yu and Hsiao,Chin-mu from PwC Taiwan, and an audit report was issued.

The above-mentioned business report, financial statements and consolidated financial statements, verified by the Audit Committee, was found complied with related provisions of Company Act, in accordance with requirement in Article 219, reported as above.

For your honor's approval  
Sincerely,

The 2018 General Meeting of Shareholders, Kung Sing Engineering Corporation

Audit Committee Convenor : Tu,yi- yang

Audit Committee : Chen, chin- yueh

Audit Committee : Chang, liang- ming

March 14th, 2018

## **Review Report of Audit Committee**

The Board of Directors has submitted the 2017 profit and loss appropriation, verified by the Audit Committee, was found complied with related provisions of Company Act, in accordance with requirement in Article 219, reported as above.

For your honor's approval

Sincerely,

The 2018 General Meeting of Shareholders, Kung Sing Engineering Corporation

Audit Committee Convenor : Tu,yi- yang

Audit Committee : Chen, chin- yueh

Audit Committee : Chang, liang- ming

May 14th, 2018

**6.4 Financial Statements for the Years Ended December 31, 2016 and 2015, and  
Independent Auditors' Report**

Please refer to page 94-154 of the Chinese annual report.

**6.5 Financial Statements for the Years Ended December 31, 2016 and 2015, and  
Independent Auditors' Report**

Please refer to page 155-208 of the Chinese annual report.

## VII. Review of Financial Conditions, Financial Performance, and Risk

### Management

#### 7.1 Analysis of Financial Status

Unit: NT\$ thousands

Item	Year		Difference	
	2017	2016	Amount	%
Current Assets	7,183,756	7,027,855	155,901	2.22
Fixed Assets	735,543	817,407	(81,864)	(10.02)
Other Assets	630,748	628,077	2,671	0.43
<b>Total Assets</b>	<b>8,550,047</b>	<b>8,473,339</b>	<b>76,708</b>	<b>0.91</b>
Current Liabilities	4,087,838	3,827,940	259,898	6.79
Long-term Liabilities	398,147	316,985	81,162	25.60
<b>Total Liabilities</b>	<b>4,485,985</b>	<b>4,144,925</b>	<b>341,060</b>	<b>8.23</b>
Capital stock	3,475,274	3,475,274	0	0.00
Capital surplus	310,362	310,362	0	0.00
Retained Earnings	(81,428)	338,692	(420,120)	(124.04)
Other Adjustments	105,890	103,982	1,908	1.83
<b>Total Stockholders' Equity</b>	<b>4,064,062</b>	<b>4,328,414</b>	<b>(264,352)</b>	<b>(6.11)</b>

Analysis of changes in financial ratios:

1. Increase in non-current liabilities: The main reason is due to the completion of some of the projects this year and the preparation of guaranteed liabilities.
2. Retained Earnings Decrease: This was mainly due to a review of the project's gross profit for part of the project during the year and the recognition of losses based on the completion ratio, resulting in a significant reduction in operating profit and net profit before tax.

- **Effect of changes on the company's financial condition:** The Company's financial condition has not changed significantly.
- **Future response actions:** Not applicable

## 7.2 Analysis of Financial Performance

Unit: NT\$ thousands

Item	Year		Difference	
	2017	2016	Amount	%
Gross Sales	3,758,935	4,289,591	(530,656)	(12.37)
Operating cost	(4,003,387)	(3,990,011)	(13,376)	0.34
Operating margin	(244,452)	299,580	(544,032)	(181.60)
Operating expenses	(154,750)	(178,091)	23,341	(13.11)
Operating profit	(399,202)	121,489	(520,691)	(428.59)
Operating income and expenses	(18,470)	(18,081)	(389)	2.15
Pre-tax net profit	(417,672)	103,408	(521,080)	(503.91)
Income tax expense	62,338	(19,477)	81,815	(420.06)
The current net profit	(355,334)	83,931	(439,265)	(523.36)
This issue other comprehensive income net of tax	1,666	37,749	(36,083)	(95.59)
Issue comprehensive income	(353,668)	121,680	(475,348)	(390.65)
Net profit attributable to owners of the parent company	(350,373)	90,716	(441,089)	(486.23)
Comprehensive profit attributable to owners of the parent company	(348,707)	128,465	(477,172)	(371.44)
Analysis of changes in financial ratios:				
1. Operating profit, net operating profit, net profit before tax, net profit for the current period, consolidated profit and loss for the current period, net profit attributable to the owners of the parent company and consolidated profit and loss attributable to owners of the parent company are all reduced: Mainly due to the review of part of the works during the year The gross profit resulted in a substantial reduction in operating profit and net profit before tax.				
2. Reduction of income tax: Decrease in income tax due to a decrease in profit during the year.				

- **Effect of changes on the company's future business:** The Company's business scope has not changed significantly.
- **Future response actions:** Not applicable.

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for the Current Year

Unit: NT\$ thousands

1. Operating activities: Cash outflow \$67,482.
2. Investing activities: outflow \$619,069.
3. Financing activities: inflow \$5,000.

Analysis of change in cash flow in the current year:

1. Net cash outflow from operating activities for the year: This was mainly due to the increase in expenditure on retention of completed projects, resulting in increased outflow of funds.
2. Net cash outflow from investing activities during the year: The increase in restricted assets of advance receipts for major projects.
3. Net cash inflow from fund-raising activities during the year: mainly due to the decrease in bank borrowings.

### 7.3.2 Remedy for Cash Deficit and Liquidity Analysis

Item	Year		
	2017	2016	Variance (%)
Cash Flow Ratio (%)	(1.65)%	12.42%	(113.29)
Cash Flow Adequacy Ratio (%)	(39.74)%	(23.33)%	(70.34)
Cash Reinvestment Ratio (%)	(2.89)%	9.92%	(129.13)
<p>Analysis of financial ratio change:</p> <p>Cash Flow Ratio/Cash Flow Cash Ratio/Cash Reinvestment Ratio: Mainly due to increased expenditures on retained construction projects, increase in project advances, restricted assets, cash flow ratio, cash flow license ratio, and cash reinvestment ratio reduction.</p>			

### 7.3.3 Cash Flow Analysis for the Coming Year

Unit: NT\$ thousands

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (Inflow) (3)	Cash Surplus (Deficit) (1)+(2)-(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plans	Financing Plans
546,125	(232,095)	1,214,201	(900,171)	-	1,000,000

### 7.4 Major Capital Expenditure Items

None.

### 7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

1. Reinvestment policy:

The company's reinvestment policy is based on the core business.

2. The profit generated from the reinvestment:

The company investment interests of the year 2017, evaluated and identified by the equity methods, was \$-39 thousand.

3. Investment plans in the coming one year:

In addition to increase investments in the reinvestment businesses, Chan Pan Construction and Kung Sing Development gradually and continue to work on the development projects of Major Nankang and Major Shindian in the coming one year, the company will also continue to work on the development projects in the mainland China and Southeast Asia, which are conducive to the company's business. Also, for the biotech medical beauty business conduct developmental assessment to facilitate the expansion of business development.

### 7.6 Analysis of Risk Management

#### 7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

**(1) Interest rate**

In 2017, the interest expenses of the Company represented 0.7% of annual revenue. Going forward, the Company will continue to carefully monitor interest rate movements, adopt proper hedging strategies, and make use of capital markets financing instruments to ensure that our financing costs are at a comparatively low level.

**(2) Foreign exchange rates**

The company is an engineering corporation, undertaking various domestic significant public constructions, the source of raw materials are mostly within the domestic market, thus impacts of exchange rate changes are minor.

**(3) Inflation**

The impact of inflation does not currently have a significant impact on the Company's profits and business operations.

**7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions**

The Company did not engage in any high-risk or high-leveraged investments. The transactions and procedures related to lending and endorsement are based on the Company's "Procedures for Lending" and "Procedures for Endorsement Guarantee". Furthermore, derivative transactions follow the "Procedures for Acquisition and Disposal of Assets".

### 7.6.3 Future Research & Development Projects and Corresponding Budget

Construction-related technology chosen by the Ministry of Public Works and various construction premises of the company's own research and development or introduction by a professional third-party abroad, does not specifically set up R & D department, no research and development expenses generated.

In recent years, the Company has been out of contract public works and other technology more popular roads and transit projects, but the challenge is more complex geological and by weather and other natural environmental factors and even tunnels, large storage tank (bunker) and maritime engineering. How this for the more technical work of the special law, committed to the development and research department of the Company for future research plans.

Coupled with Taiwan's industrial structure changes, so that the entire fast-changing human resource allocation in Taiwan, resulting in the construction industry demand for manpower is clearly insufficient. In view of this, how will the construction industry-oriented automation engineering methods, systematic, modular, shorten the construction period and reduce manpower, improve the effectiveness of conduct direction; at the same time in order to improve management efficiency, how to manage the site construction industry number of bits of information and technology, We are all subject of future development.

It has been listed as future research plans stated as follows:

item	category	Technology Research Project
1	management	Research on the practical application of BIM in construction projects
2	design	Study selection tunnel geological Improvement and Application of the Method
3	construction	Study stone riprap embankment throw off work Law
4	construction	Study Method of sliding caissons
5	management	Research on power analysis of the tunnel
6	management	Analysis of the amount of speed shotcrete job of coagulant
7	design	Study arrangement armor blocks the best way
8	design	Soil and Water Conservation hillside

		development of highly sensitive filling area
9	design	Study selection and application of the ground improvement construction method of fly ash Coast.
10	construction	Study Method of coal bunker climbing formwork.

#### **7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

The Company consistently pays close attention to any changes in local and foreign policies and makes appropriate amendments to our systems when necessary. During 2017 and as of the date of publication of this annual report, changes in related laws have not had a significant impact on our operations.

#### **7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales**

The company obtains the industrial information and has a full grasp of the newest messages circulating in the market through seminars organized by industrial and professional organizations, plus the existing outstanding technical capabilities and advantages of the basis of competition, supplemented by innovative and groundbreaking development strategies, surely will create better performances in the future.

#### **7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

Since its inception, the Company has consistently maintained an ethical business philosophy and fulfilled its social responsibilities. Aside from working to strengthen internal management and conforming to all relevant corporate governance requirements, the Company has also organized numerous public welfare activities.

#### **7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans**

The Company has no ongoing merger and acquisition activities. In considering future

M&A activities, the Company will evaluate their efficiency, risks, vertical integration and other factors in accordance with its internal control system.

**7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans**

NA

**7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration**

Project main raw material for steel, concrete, cement, sand, brick, in addition to part of the contract by the owners according to the feed, the main bulk of the domestic large building material can be supplied, some special materials are ordered from abroad, mostly various construction equipment purchase or lease to foreign to domestic manufacturers, and uphold sustainable business philosophy, over the years has established good relations and interaction with various third-party manufacturers, the supply situation is normal, so there is no danger of the main raw material purchase concentrated.

And the company's engineering contract, nor confined to a single nature covered the tunnel engineering, bridge engineering, MRT project, roads and general residential buildings, etc., are the source of its operating income, plus stage a letter project itself general civil engineering contract also gradually, therefore, it is in terms of operating income, there is no general risk concentrated in manufacturing sales.

**7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%**

None

**7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights**

The company does not have operate the situation changed

### **7.6.12 Litigation or Non-litigation Matters**

(1) Major ongoing lawsuits, non-lawsuits or administrative lawsuit: In terms of the construction engineering controversies, appropriate loss of all cases has been entered into the accounting book.

(2) Major ongoing lawsuits, non-lawsuits or administrative lawsuits caused by directors, supervisors or shareholders with over 10% shareholdings: None.

### **7.6.13 Other Major Risks**

None

## **VIII. Special Disclosure**

### **8.1 Summary of Affiliated Companies**

Please refer to page 91 of the Chinese annual report.

**8.2 Private Placement Securities in the Most Recent Years:** None

**8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years:**None

