Stock Code: 2546

# Annual Report
2019

# Kedge Construction Co., Ltd.

Published date: May 29, 2020
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*Notices to Readers：*
*This English version annual report is a translation of the Chinese version and is not an official document of the shareholder's meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.*

I. Spokesperson or Acting Spokesperson of the company:
Spokesperson:Hui-Jen Huang
Title: General Manager
E-mail: phwang@kindom.com.tw
Acting Spokesperson: Chin-Hua Fan
Title: Assistant General Manager
E-mail: gfan@kindom.com.tw
Tel: (02) 2378-6789
Fax: (02) 2739-6710

II. Head Office, Branch Offices and Factories: No branch or factory
Address: 6F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)
Tel: (02) 2378-6789
Fax: (02) 2739-6710

III. Share Transfer Agency
Name: CTBC Bank Transfer Agency
Address: 5F., No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)
Tel: (02) 6636-5566
Website: https://ecorp.ctbcbank.com/cts/index.jsp

IV. Certified Public Accountants for the Most Recent Fiscal Year:
Name of Accounting Firm: KPMG Taiwan
Name of CPAs: Ti-Nuan Chien, Shu-Ying Chang
Address: 68F., No. 7, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)
Tel: (02) 8101-6666
Website: http://www.kpmg.com.tw

V. Information on Overseas Securities: None

VI. Company Website: http://www.kedge.com.tw

# Contents

# Chapter 1. Letter to Shareholders

Dear Shareholders,

In 2019, under the continuous impacts of US-China trade war and the uncertainty over Brexit, plus the sluggish domestic and external demand in China, and the struggling trade disputes between Japan and South Korea, despite monetary easing and low-interest rates, the trade and investment have lost momentum, economic performance outside the United States are ups and downs, and the global recovery is still far from being robust. Taiwan, by contrast, despite the turmoil caused by international trade disputes, has benefited from the effects of order transfers and reinvestment by Taiwanese businessmen. As the budget growth for public construction development and forward-looking contracting continued to be released and the momentum of the project promotion in the construction industry gets stronger, it is conducive for the business development of the construction industry in both public and private sectors.

Based on 40 years of experience in construction management and the joint efforts of more than 500 employees, Kedge Construction Co., Ltd. has continuously won the support of leading indicator customers in the technology industry in 2019, and maintained the operation scale of NT$10 billion as well as stable operating profits.

I. Operating Results for 2019

The consolidated operating income of 2019 included project income and non-operating income and totaled NT$11.494 billion, slightly increased by 0.3% from 2018. The proportion of project income reached the goal of stabilizing the revenue scale according to the construction progress and input.

The total consolidated operating expenses in 2019 was NT$10.994 billion, including engineering costs, operating expenses and non-operating expenses, which slightly increased by 0.5% compared with 2018. The main reasons include that the project cost keeps the same with the volume of the project, and the operating expenses are partly caused by the increase of the employee benefit expenses compared with the previous period due to the increase of the number of employees, the adjustment of salary, the increase of education and training and other expenditures.

Kedge Construction Co., Ltd. has maintained the operation scale of NT$10 billion in 2019, obtained funds according to agreements to enrich its book, realized net consolidated cash inflow from operating activities of NT$1.36 billion, net consolidated cash outflow from consolidated investment and financing activities of NT$426 million, with a consolidated net cash inflow of NT$1.76 billion compared with 2018, the overall business condition equivalent to that of 2018, consolidated net profit of NT$402 million, and earnings per share of NT$3.79.

Adhering to the business philosophy of "integrity, quality, service, innovation and sustainability," in 2019, Kedge has continuously studied and improved construction methods, applied BIM technology platform and 3D aerial image application, accumulated experience on various types of building material usage, explored the possibility of construction with new technology, provided the best service for customers constantly, and made joint efforts to create a more comfortable, safe, environmentally friendly and energy-saving space. In addition, the company passed the certification of International Standard ISO 19650 Building Information Modeling (BIM) in 2019, passed the certification of BSI International Building Information Modeling (BIM) Standard in 2018, and became the first enterprise acquiring double-certification of BSI and ISO 19650 Building Information Modeling (BIM) in Taiwan, keeping up with the international step.

II. Annual Business Plan for 2020

In addition to undertaking major public construction projects in line with government policies, including civil engineering of railways, tunnels, bridges, and other projects, and turnkey projects with the most favorable standards and special indicators in 2020, the company will continue to contract technology factory and office projects, fine residential commercial development projects, implement the development policy of "precise construction, turnkey project, talent cultivation, regional expansion," enhance operational performance and profit margins to create greater corporate value through innovation in service, technology, quality and management.

As of the end of February 2020, there were 26 projects acquired, including 11 major indicative technology factory projects: 13 residential and commercial building projects such as Kindom Taijing, Kindom Tachi, Kindom Innovation Hall, 2 civil engineering projects of civil engineering and general mechanical and electrical engineering of C712A - Pu'an-Jinlun Section, C212 - Tainan Station undergrounding, as well as 11 major indicative technology factory projects of the construction turnkey project of the new medical building of Taipei Veterans General Hospital, Phase I of the BOT project of Fengshan Hospital, the construction project of the public and first building of the Southern Area of the Academia Sinica, the turnkey project of Baogao Smart Industrial Park, the reconstruction turnkey project of South Gate Building and Market, the new construction project of Nanhu Elementary School Sports Center, the turnkey project of Taoyuan Convention and Exhibition Center, and F18P3 CUP and F18 N3 hypothetical foundation pile earthwork of Taiwan Semiconductor Manufacturing Company (TSMC). The total contract amount is about NT$42 billion, which will be recognized according to the whole operation condition in the future, and it is expected to achieve good performance.

III. The Effect of External Competition Environment, the Legal Environment, and the Overall Business Environment

According to the analysis of DGBAS, Executive Yuan, the international situation in 2020 is still full of uncertainties, including the risk of escalation in the US-China trade war, the tendency and pace of the Federal Reserve’s monetary policy, the US' risk of geopolitical uncertainty in the Northeast Asia, Brexit and future negotiations on a new relationship between the UK and the EU, China’s enhancement on the effect of fiscal policies to stimulate domestic demand and the loosening monetary policies, all of which will have an impact on the economic growth in 2020. As Taiwan's advanced semiconductor production capacity has been promoted in succession, with the global supply chain restructuring, continued capacity expansion due to the returning businessman, the continuous development of global 5G communication, and smart IoT and other related emerging applications, an increase in the economic growth rate over 2019 is expected compared with 2018.

Affected by the continued spread of the coronavirus pandemic (COVID-19), in addition to measures such as lockdown and postponement of work in mainland China, other countries also carried out a number of anti-epidemic control bans and suspended most economic activities, resulting in a gloomy outlook for the global economy. The United States, China, the United Kingdom, France, Japan and South Korea all experienced negative growth in the first quarter. The subsequent recovery depends on the effectiveness of epidemic control in various countries and is still full of uncertainty. Due to the relatively mild epidemic situation in Taiwan, despite the shrinking global demand due to COVID-19 and the sharp drop in raw material prices, production and consumption activities still continued. Affected by the US-China trade war and the COVID-19 epidemic, and under the circumstance that "Made in China" products are not trusted, opportunities for Taiwanese manufacturers to benefit from it have increased.

In terms of public construction, due to the government's continued efforts to expand domestic demand for investment and improve the national policy on infrastructure for industrial transformation, the total additional special budget for year 2020 was NT$265.1 billion, an increase of NT$9.3 billion or about 3.7% over 2019. In addition, since the outbreak of COVID-19, the government has taken appropriate anti-epidemic measures and timely put forward a number of bailout plans in advance, which is expected to contribute to the business development of the construction industry in such fields as technology and energy infrastructure. In the aspect of private investment and construction, the development of industrial factory and commercial office buildings increased due to Taiwanese businessmen's willingness to invest back in Taiwan, and the cognitive gap of residential housing price is narrowed due to successive adjustment. However, affected by the spread of the epidemic, it is expected that the quantities of residential development projects will be partly delayed due to the adoption of the strategy of "volume reduction and price stability" by builders and the differences in rigid demands in the regions.

In terms of raw materials for construction, the global spread of the epidemic has led to a sharp decline in oil demand. The international oil price has recently collapsed to its lowest level in the most recent two decades. In addition, for the cement, sand and concrete parts of domestic major materials, the supply in some areas is affected by the low rate of returning to work in China's producing areas, resulting in the insufficient sand and gravel sources in the north, which will increase the risk of scheduled transportation cost. Furthermore, the supply of international materials such as steel, aluminum, copper and other metal goods or the oil price are expected to continue downward. Kedge Construction has a complete supply chain. By effectively managing the construction schedule with sequential tasks, the company regularly reviews the supply and demand trends of major building materials, will continue to pay attention to the follow-up changes of the epidemic, and conduct flexible procurement and adjust the construction schedule accordingly to ensure the on-time delivery, cost and quality of projects, and to create a win-win and mutually beneficial high-quality project with the owners and suppliers.

In regard to the labor market, domestic students are reluctant to engage in the construction industry, resulting in an age gap and long-term labor shortage, which will affect the operating cost, construction quality and project progress. Due to a large number of housing projects in the six cities, the return of Taiwanese businessmen to build factories and the continued release of government investment projects, the construction manpower is tight. And under the impact of the epidemic, the problem of labor shortage will become more serious. Kedge Construction values labor relations and regards every colleague as an important partner. The company builds the growing foundation of human resources through three strategies: attracting, nurturing and retaining talents, including making efforts to create a friendly working environment, planning a comprehensive education and training system, encouraging staff to self-develop and enhance their professional skills, so as to nurturing talent and reinforcing the synergy of Kedge Construction.

IV. Future Development

Adhering to the business philosophy of "integrity, quality, service, innovation and sustainability" and the core value of "continuous innovation, implementation of reform and pursuit of excellence," Kedge Construction has been constantly upgrading its soft and hard power, making full use of the BIM technology innovation service to work towards the high technology threshold project, continuously creating a safer and healthier construction environment to promote the cultivation and inheritance of talents, and providing construction projects of high quality. The Company implements the mission of "making owners at ease, customers at ease, employees feel warm", and performs well corporate social responsibility, puts people first and focuses on the natural environment, dedicating to be a quality construction service representative brand.

Wishing you all
Good health and good luck.

Kedge Construction Co., Ltd.
Chairman Miriam Ma

# Chapter 2. Company Profile

I. Date of Incorporation: April 13, 1982.

II. Company History:

| | |
|---|---|
| April 1982: | The company was registered and incorporated in Taoyuan County with a capital of NT$3 million. |
| October 1987: | The company increased its capital to NT$7.5 million. |
| February 1990: | The company was promoted to a class A construction plant, and increased its capital to NT$22.5 million in the same year. |
| December 1994: | The company relocated to 6F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.), and increased its capital to NT$190 million in the same year. |
| December 1995: | The company passed the national quality certification ISO 9002, being the second construction factory in Taiwan to pass the certification. |
| September 1996: | The company passed the assessment of Chinese Society for Quality and was awarded the "Quality Control Group Award". In the same year, the company increased its capital to NT$368.5 million and won the "Chinese Architectural Golden Stone Award - Construction Quality". |
| June 1997: | The company increased its capital to NT$461.175 million and was selected as an excellent construction plant by Construction and Planning Agency, Ministry of the Interior. |
| December: | The re-invested company Guanqing Electromechanical Co., Ltd. was registered for incorporation. |
| January 1998: | The re-invested company Jiequn Investment Co., Ltd. was registered for incorporation. |
| May: | The company passed the international environmental protection certification ISO 14001. |
| July: | The company was listed on Taipei Exchange. |
| August: | The company increased its capital to NT$530.351 million and was selected again as an excellent construction plant of Taiwan Province. |
| July 1999: | The company was awarded the Gold Medal for "Excellent Trademark Design" by the Bureau of Standards, Metrology and Inspection, M.O.E.A. |
| May 2000: | The company increased its capital to NT$676.993 million. |
| September: | The company's shares were changed to list on the stock exchange. |
| May 2001: | The company decreased its capital to NT$671.063 million. |
| October: | The company decreased its capital to NT$661.063 million. |
| July 2009: | The company issued domestic guarantee convertible corporate bonds of NT$240 million for the first time. |
| October: | The company acquired the Green Building Label Certificate from the Ministry of the Interior for the "New Construction of the Children's Medical Building of the Affiliated Hospital of the National Taiwan University College of Medicine" it built. |
| April 2010: | The company converted its corporate bonds into common stocks to increase the paid-in capital to NT$664.041 million. |
| October: | The company issued 27,200 shares to increase capital by cash for the first time, and increased the paid-in capital to NT$958.007million. |
| April 2011: | The company converted its corporate bonds into common stocks to increase the paid-in capital to NT$1,040.118 million. |
| August: | The company converted its corporate bonds into common stocks to increase the paid-in capital to NT$1,079.497 million. |
| November 2012: | The company canceled its treasury shares for capital reduction to decrease the paid-in capital to NT$1,060.357 million. The construction of the New |

Building of the Cross-Strait Exchange Foundation won the 14th National Gold Award for Architecture - Construction Quality Class - National First Award.

December: The YCL-121 Yuanlin Overpass Project won the Public Construction Golden Safety Award - Engineering Class - Finalist.

October 2014: The Rainwater and Waterway Engineering at Fukuo Road won the Public Construction Golden Safety Award - Engineering Class - Outstanding.

May 2015: The construction turnkey projects of the New Taipei City Yong-He Civil Sports Center, Xi-Zhi Civil Sports Center and Shulin Civil Sports Center won the 2014 New Taipei City Occupational Safety Award - Excellent Public Construction Class - Excellent Award, and the Rainwater and Waterway Engineering at Fukuo Road won the 2014 Taipei City Labor Safety Award - Excellent Entity Class.

November 2015: The company was awarded the 2015 Taiwan Corporate Sustainability Awards, including Taiwan Corporate Sustainability Report Awards and Taiwan Corporate Sustainability Performance - Growth through Innovation Award.

October 2016: The construction turnkey project of the New Taipei City Shulin Civil Sports Center won the 2016 New Taipei City Government Public Construction Quality Award.

November 2016: The construction turnkey projects of the New Taipei City Yong-He Civil Sports Center and Xi-Zhi Civil Sports Center won the 16th Public Construction Quality Excellence Award-Gold Award for Architecture.

June 2017: The construction turnkey projects of the New Taipei City Yong-He Civil Sports Center, Xi-Zhi Civil Sports Center and Shulin Civil Sports Center won the Engineering Excellence Award of Chinese Institute of Engineers.

November: The company was awarded the 2017 TCSA Taiwan Corporate Sustainability Awards - Real Estate and Construction Industry - Gold Award.

January 2018: The company passed the new national quality management certification ISO 9001:2015.

November: The company won the 2018 TCSA Taiwan Corporate Sustainability Awards - Sustainability Report Awards - Gold Award, and was the first to pass the certification of the International Building Information Modeling (BIM).

December: The company obtained the certificate of civil construction industry passing the ISO 45001 new version certification of occupational safety and health management, being the first in the country.

July 2019: The company obtained the Carbon Footprint Verification Statement for the C1 Section Project of Anshuo-Caopu Section of South Link Highway of Provincial Highway No. 9 from Taitung City to Fenggang.

September: Civil Engineering and General Mechanical and Electrical Engineering of the Pu'an-Jinlun Section of the C712A Section won the 13th Public Construction Golden Safety Award - Outstanding of the Ministry of Labor.

September: The company obtained the first national ISO 19650 BIM Verification Certificate.

November: The company was awarded the Gold Award and Innovation Growth Award of the 12th TCSA Taiwan Corporate Sustainability Awards - Sustainability Report Gold Awards and Growth through Innovation Award.

November: The BOT project of Fengshan Hospital won the 2019 Urban Construction Quality Gold Award and Green Building Gold Excellence Award of the Kaohsiung City Government.

November: The company was awarded the 2019 Green Procurement Performance Excellence Award by the New Taipei City Government.

December: The company obtained the first national BS 8001 Circular Economy

Verification Certificate.

III. Information on the merger and acquisition activities, strategic investments in affiliated enterprises and corporate reorganization in the most recent fiscal year and the current fiscal year up to the date of publication of the annual report: None.

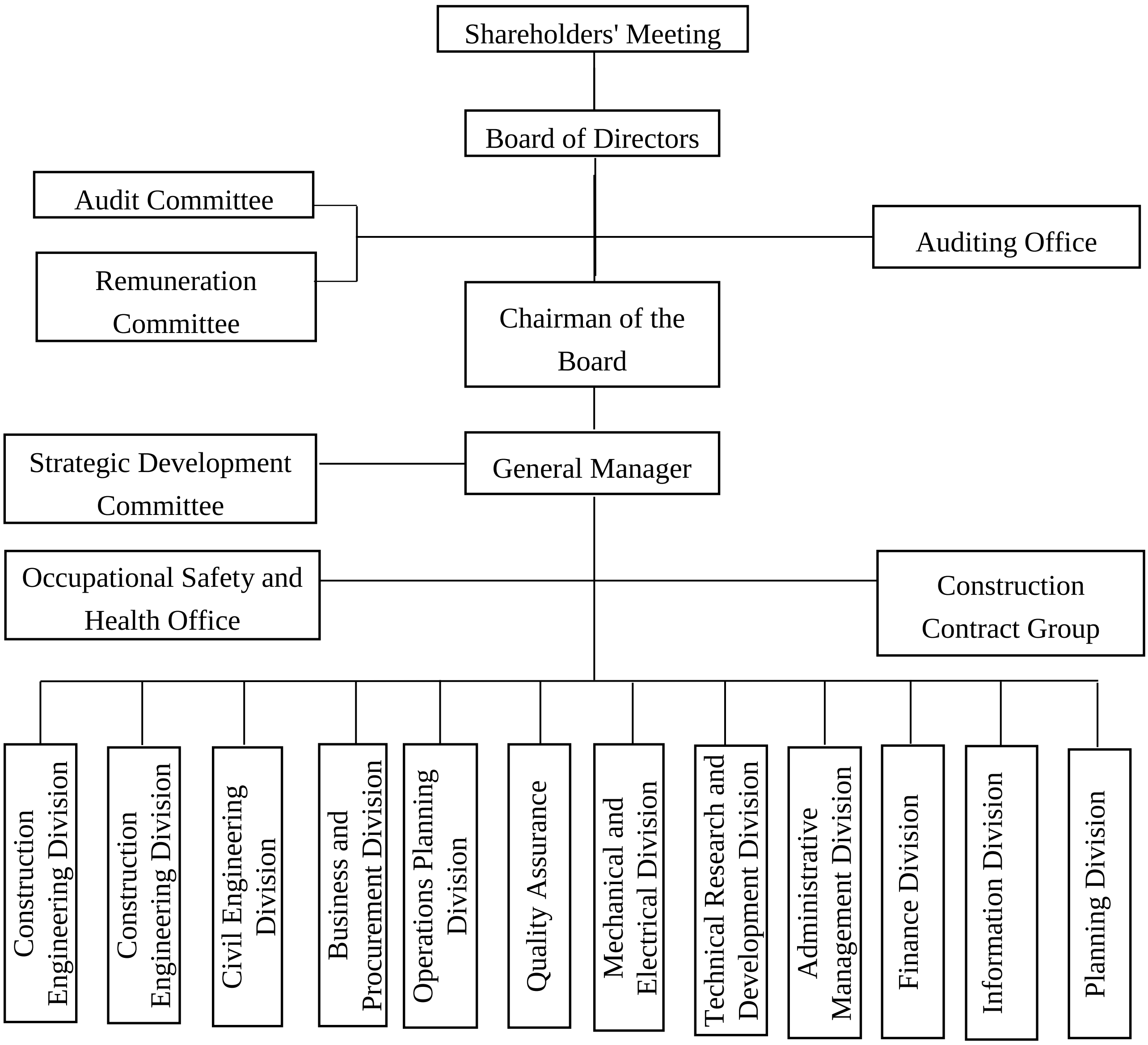
IV. Instances in which a major quantity of shares belonging to Directors, Supervisors, or shareholders holding greater than a 10 percent stake in the company is transferred or otherwise changes hands in the most recent fiscal year and the current fiscal year up to the date of publication of the annual report: None.

V. Any change in managerial control, any material change in operating methods or type of business, and any other matters of material significance that could affect shareholders' equity in the most recent fiscal year and the current fiscal year up to the date of publication of the annual report: None.

# Chapter 3. Corporate Governance Report

## I. Organizational System:

### (I) Organization Structure:



(II) The Tasks of Each Principal Division:

| Name of Division | Tasks |
|---|---|
| Auditing Office | 1. Establish and implement the company's audit system.<br>2. Evaluate the company's operation performance and quality management. |
| Audit Committee | The functional committee established pursuant to Article 14-5 of the Securities and Exchange Act, consisting of all Independent Directors, is established to assist the Board of Directors in carrying out its supervisory functions and improving corporate governance performance. |
| Remuneration Committee | The functional committee established in accordance with 14-6 of the Securities and Exchange Act shall, in a professional and objective manner, evaluate the company's remuneration policies and systems for Directors, Supervisors and Managerial Officers of the company and make recommendations to the Board of Directors for their reference in making decisions. |
| Strategic Development Committee | Plan operational objectives and establish development strategies, and be responsible for industry trend analysis and evaluation of planning-related innovations or certification of benchmarking standards. |
| Construction Contract Group | 1. Review the contract documents, drawings and tender conditions of the works owners.<br>2. Review the scope of contractor's contractual responsibility, material specifications, and use of construction methods, etc.<br>3. Assist in reviewing the appropriateness of issued documents for construction site to avoid subsequent disputes stipulated in the contract. |
| Occupational Safety and Health Office | 1. Plan and implement the management of labor safety and health, and formulate plans to prevent occupational disasters.<br>2. Manage and control the labor safety and health works of engineering projects, including reviewing and developing construction safety plans, safety facility standards, and assessing dangerous workplace. |
| Construction Engineering Division | Be responsible for the schedule arrangement, construction planning management, project cost control and quality management of residential, commercial and projects engineering. |
| Construction Engineering Division | Be responsible for the schedule arrangement, construction planning management, project cost control and quality management of factories, turnkey and projects engineering. |
| Civil Engineering Division | Be responsible for the schedule arrangement, construction planning management, project cost control and quality management of roads, bridges and projects engineering. |
| Business and Procurement Division | 1. Business Department: Draw up business contracting plan, be responsible for business development and bidding integration, maintain and serve client relationship.<br>2. Procurement Department: Develop procurement operating procedures, implement procurement, contract awarding and management and control of schedule, including price comparison and award of bid, contract signing, development of manufacturers, credit investigation and evaluation. |

| Name of Division | Tasks |
|---|---|
| Operations Planning Division | 1. Operation Management Department: Draw up, control and review the schedule planning and audit schedule valuation of engineering projects, and formulate relevant management measures for the support of the works projects.<br>2. Cost Management Department: Manage and control engineering project costs, draw up, control and review the project budget and cost control of each project, and formulate management process for the support of the works projects. |
| Quality Assurance Department | Be responsible for the improvement recommendations of quality assurance operations or procedures, and the overall management of ISO standards and procedures. |
| Mechanical and Electrical Division | 1. Formulate, analyze and review mechanical and electrical standard operating procedures.<br>2. Set up the management of sub-projects and subcontracts.<br>3. Manage and control the quality and progress of mechanical and electrical facilities, test and review mechanical and electrical systems. |
| Technical Research and Development Division | Research and develop the construction innovation engineering technology, develop and manage the BIM technology application, and provide technical support for engineering projects. |
| Administrative Management Division | 1. Human Resources Department: Be responsible for the strategic planning of human resources, promotion and training programs, employee remuneration, rewards and welfare work, employee care and labor issues handling.<br>2. General Affairs Department: Be responsible for property management, general affairs procurement and general administration.<br>3. Legal Department:<br>3.1 Implement and control legal risks and provide legal advice.<br>3.2 Approve various contracts and official documents and control the relevant printing.<br>3.3 Handle litigation or provide legal compliance advice for non-litigation dispute cases. |
| Finance Division | 1. Accounting Department: Be responsible for accounting, management of shareholder services, budget management, and auditing and providing various financial analysis management statements.<br>2. Fund Center: Be responsible for the planning and management of funds and transactions with banks. |
| Information Division | Be responsible for the development planning and implementation of the company's information software and hardware, the construction of the information system for the future development of the enterprise, the maintenance and management of computer equipment. |
| Planning Division | 1. Build the corporate brand image to enhance the market competitiveness and visibility.<br>2. Assist in industry innovation and competitiveness analysis of benchmarking standards.<br>3. Plan and implement corporate image campaigns and manage official websites and social media. |

## II. Information on the Company's Directors, Supervisors, General Manager, Assistant General Managers, Deputy Assistant General Managers, and the Supervisors of All the Company's Divisions and Branch Units:

### (I) Directors and Supervisors：

April 17, 2020 (unit: shares)

| Title (Note 1) | Nationality or Place of Registration | Name | Gender | Date Elected (Assumed) | Term of Contract (Year) | Commencement Date of The First Term (Note 2) | Shares Held when Elected | | Current Shareholding | | Shares Held by Spouse and Children of Minor Age | | Shares Held through Nominees | | Principal Work Experience and Academic Qualifications (Note 3) | Position(s) Held Concurrently in the company and/or in Any Other Company | Other Managers, Directors and Supervisors Having a Spousal Relationship or a Relationship within the Second Degree of Kinship with Another | | | Remarks (Note 4) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| Chairman of the Board (Note 5) | Taiwan | Kindom Development Co., Ltd. Representative: Miriam Ma | Female | 2017.06.19 | 3 | 2008.06.13 | 36,247,768<br>1,561,153 | 34.18%<br>1.47% | 36,247,768<br>1,919,153 | 34.18%<br>1.81% | - | - | - | - | MBA, University of California, Irvine | 1. Chairman of Kedge Construction Co., Ltd.<br>2. Director of ReadyCom eServices Corp.<br>3. Director of Yude Investment Co., Ltd.<br>4. Supervisor of Kindom Development Co., Ltd.<br>5. Supervisor of Guanqing Electromechanical Co., Ltd.<br>6. Supervisor of Guan Cheng Co., Ltd. (GLOBAL MALL BANQIAO STORE)<br>7. Chief Executive Officer of Kindom Yu San Education Foundation | Director | Mei-Chu Liu | Mother and daughter | - |
| Director | Taiwan | Kindom Development Co., Ltd. Representative: Mei-Chu Liu | Female | 2017.06.19 | 3 | 2017.12.22 (appointment of the reassigned legal person) | 36,247,768<br>1,641,407 | 34.18%<br>1.55% | 36,247,768<br>2,824,973 | 34.18%<br>2.66% | - | - | - | - | Department of Chinese Literature, Tamkang University | 1. Chairman of Yude Investment Co., Ltd.<br>2. Director of Kindom Development Co., Ltd. | Chairman of the Board | Miriam Ma | Mother and daughter | - |
| Director | Taiwan | Kindom Development Co., Ltd. Representative: Yi-Fang Huang | Male | 2017.06.19 | 3 | 2014.03.13 | 36,247,768<br>- | 34.18%<br>- | 36,247,768<br>- | 34.18%<br>- | - | - | - | - | Construction Engineeringand Management, Department of Civil Engineering, National Taiwan University | Executive Assistant General Manager, Civil Engineering Division, Kedge Construction Co., Ltd. | - | - | - | - |
| Director (Note 6) | Taiwan | Kindom Development Co., Ltd. Representative: Ai-Wei Yuan | Male | 2017.06.19 | 3 | 2014.06.17 | 36,247,768<br>- | 34.18%<br>- | 36,247,768<br>- | 34.18%<br>- | - | - | - | - | Construction Engineeringand Management, Department of Civil Engineering, National Taiwan University | Senior Assistant General Manager, Planning and Design Division, Kindom Development Co., Ltd. | - | - | - | - |
| Director | Taiwan | Kindom Development Co., Ltd. Representative: Shih-Hsuan Chou | Male | 2017.06.19 | 3 | 2011.04.01 | 36,247,768<br>73,789 | 34.18%<br>0.07% | 36,247,768<br>73,789 | 34.18%<br>0.07% | - | - | - | - | Construction Engineeringand Management, Department of Civil Engineering, National Taiwan University | Executive Assistant General Manager, Construction Engineering Division, Kedge Construction Co., Ltd. | - | - | - | - |
| Director | Taiwan | Kindom Development Co., Ltd. Representative: Ming-Tao Chen | Male | 2017.06.19 | 3 | 1999.03.30 | 36,247,768<br>- | 34.18%<br>- | 36,247,768<br>- | 34.18%<br>- | - | - | - | - | 1. PhD in Accounting, MBA, University of Illinois<br>2. Professor, Institute of Finance, Fu Jen Catholic University<br>3. Professor, Department of Accounting, National Chung Cheng University | 1. Director, AMPOC Far-East Co., Ltd.<br>2. Director, Global Mall Co., Ltd.<br>3. Independent Director, President Chain Store Corporation | - | - | - | - |
| Independent Director | Taiwan | Shen-Yu Kung | Male | 2017.06.19 | 3 | 2017.06.19 | - | - | - | - | - | - | - | - | EMBA, National Chengchi University | 1. Independent Director, Kindom Development Co., Ltd.<br>2. Chief Investment Officer, Sinar Mas Paper (China) Investment Co., Limited<br>3. Independent Director, Donpon Precision Inc.<br>4. Independent Director, Ever Power Co., Ltd. | - | - | - | - |
| Independent Director | Taiwan | Hung-Chin Huang | Male | 2017.06.19 | 3 | 2017.06.19 | - | - | - | - | - | - | - | - | MPACC, Shanghai University of Finance and Economics | 1. Independent Director, Kindom Development Co., Ltd.<br>2. CPA, Henghui United Accounting Firm<br>2. Lecturer, Department of Accounting, Fu Jen Catholic University | - | - | - | - |
| Supervisor | Taiwan | Peng-Lung Hua | Male | 2017.06.19 | 3 | 2010.06.01 | - | - | - | - | - | - | - | - | Architecture, Feng Chia University | Acting Assistant General Manager, Planning and Design Division, Kindom Development Co., Ltd. | - | - | - | - |

Please refer to the Table 1 in the next page for the information on the major shareholder of a juristic person shareholder if a Director is a representative of the juristic person shareholder, and the major shareholder if the major shareholder of the juristic person shareholder is a juristic person.

Note 1. Any disruption of duty as a Director or Supervisor after he/she is elected for the first time shall be included in a separate note.

Note 2. Work experiences of anyone in the table above that are related to their current roles, such as previous employment at CPA firms or employment in affiliated companies, shall be disclosed along with job titles and responsibilities.

Note 3. Where the Chairman of the Board of Directors and the General Manager or person of an equivalent post of a company are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof, and the measures adopted in response thereto.

Note 4. The former Chairman of the Board resigned as representative on April 24, 2020.

Note 5. The Director was elected by the Board of Directors as Chairman on April 24, 2020.

Table 1. Major Shareholders of the Juristic Person Shareholders: April 17, 2020

| Name of Juristic Person Shareholder (Note 1) | Major Shareholders of the Juristic Person Shareholders (Note 2) |
|---|---|
| Kindom Development Co., Ltd. | Yude Investment Co., Ltd. (19.12%) |
| | Mei-Chu Liu (12.13%) |
| | Guanyi Investment Co., Ltd. (3.94%) |
| | Mike Ma (1.79%) |
| | Changlin International Co., Ltd. (1.75%) |
| | Jiequn Investment Co., Ltd. (1.69%) |
| | Nien-Pang Chiu (1.35%) |
| | Public Service Pension Fund Management Board (1.24%) |
| | JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.17%) |
| | Bai Chian Co., Ltd. (1.09%) |

Note 1. Where a Director or Supervisor is the representative of a juristic person shareholder, the name of the juristic person shareholder shall be stated.

Note 2. Fill in the name of major shareholders (with shareholding ratio of top 10) of the juristic person shareholder and their shareholding ratio. Where a major shareholder is a juristic person, please proceed to fill in more details in Table 2 below.

Note 3. Where a juristic person shareholder is the organizer of the company, the name and shareholding ratio of the shareholders, the name of contributors or donors and their contribution or donation ratio shall be disclosed in proceeding table.

Table 2: The Major Shareholders in Table 1 that are Juridical Person Shareholders: April 17, 2020

| Name of Juridical Person (Note 1) | Major Shareholders of Juridical Person (Note 2) |
|---|---|
| Yude Investment Co., Ltd. | Trust Property Account in the Custody of Cathay United Bank (43.70%); Mike Ma (29.92%); Shao-Ling Ma (13.19%); Miriam Ma (13.19%) |
| Guanyi Investment Co., Ltd. | Kai-Chou Li (14.73%); Kai-Ting Li (14.71%), Yi-Mou Chen (9.53%); Fang Chen (8.88%); Kun-Chih Li (8.70%);<br>Mi-Mi Hung (7.63%); Chao-Feng Chen (0.001%) |
| Changlin International Co., Ltd. | Yue-Chang Cai (6.94%)、Yi-lin Li(2.66%)、Xiao-min Cai (0.2%)、Song-yan Cai (0.2%) |
| Jiequn Investment Co., Ltd. | Kedge Construction Co., Ltd (99.98%); Mei-Chu Liu (0.005%); Shao-Ling Ma (0.005%); Jung-Tai Chen (0.005%);Kun-Chih Li (0.005%) |
| Bai Chian Co., Ltd. | Mike Ma (50%)、Esther Liu (50%) |

Note 1. If the major shareholder in the above Table 1 is a juristic person, the name of such juristic person shall be filled in.

Note 2. Fill in the name of major shareholders (with shareholding ratio of top 10) of the juristic person and their shareholding ratio.

Note 3. Where a juristic person shareholder is the organizer of the company, the name and shareholding ratio of the shareholders, the name of contributors or donors and their contribution or donation ratio shall be disclosed in proceeding table.

(II) Professional Qualifications and Independence of the Directors and Supervisors: April 17, 2020

| Condition / Name (Note 1) | Has More than 5 Years of Work Experience and the Following Professional Qualifications: An Instructor or Higher 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 Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the company | Independent Status (Note 2): 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Number of Other Public Companies in which Concurrently Holding Position as Independent Director |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Kindom Development Co., Ltd.Representative: Miriam Ma | | | ✓ | | | | | | | | | | | ✓ | | None |
| Kindom Development Co., Ltd.Representative: Mei-Chu Liu | | | ✓ | | | | | | | | | ✓ | | ✓ | | None |
| Kindom Development Co., Ltd.Representative: Yi-Fang Huang | | | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | | None |
| Kindom Development Co., Ltd. Representative: Ai-Wei Yuan | | ✓ | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | | None |
| Kindom Development Co., Ltd. Representative: Shih-Hsuan Chou | | | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | | None |
| Kindom Development Co., Ltd. Representative: Ming-Tao Chen | ✓ | | ✓ | ✓ | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | 1 |
| Shen-Yu Kung | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 2 |
| Hung-Chin Huang | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 |
| Peng-Lung Hua | | | ✓ | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | None |

Note 1. The description is based on the actual number of people as of April 17, 2020.

Note 2. For any Director or Supervisor who fulfills the relevant condition(s) for two fiscal years before being elected to the office or during the term of office, please provide the [√] sign in the field next to the corresponding conditions.✓

(1) Neither an employee of the company nor its affiliates.

(2) Neither a Director nor Supervisor of the company's affiliates (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by the company or its parent or subsidiary).

(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 one percent or more of the total number of issued 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) Neither a Director, Supervisor, or employee of a juristic person shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a Director or Supervisor of the company under Article 27, paragraph 1 or 2 of the company Act (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local

country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(6) If a majority of the company's Director seats or voting shares and those of any other company are controlled by the same person, neither a Director, Supervisor, or employee of that other company (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(7) If the Chairperson, General Manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses, neither a Director (or governor), Supervisor, or employee of that other company or institution (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(8) Neither a Director, Supervisor, Managerial Officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company (not apply to a specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the company, and Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(9) Not a professional individual who, or an owner, partner, Director, Supervisor, or Managerial Officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the Remuneration Committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) Not a spouse or a relative within the second degree of kinship with any Director.

(11) No any of the circumstances in the subparagraphs of Article 30 of the company Act.

(12) No Director or Supervisor was elected in the capacity of the government, a juristic person, or a representative thereof, as provided in Article 27 of the company Act.

(III) Information on the company's General Manager, Assistant General Managers, Deputy Assistant General Managers and the Supervisors of all the company's Divisions and Branches Units:

April 17, 2020 (Unit: shares)

| Title | Nationality | Name | Gender | Date Elected (Assumed) | Shareholding | | Shares Held by Spouse and Minor Children | | Shares Held through Nominees | | Principal Work Experience and Academic Qualifications (Note 1) | Position(s) Held Concurrently in Any Other Company | Managers Having a Spousal Relationship or a Relationship within the Second Degree of Kinship with Another | | | Remarks (Note 2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| General Manager | Taiwan | Hui-Jen Huang | Male | 2005.01.07 | 24,000 | 0.02% | 17,000 | 0.02% | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | Director, Global Mall Co., Ltd. | - | - | - | - |
| Executive Assistant General Manager | Taiwan | Shih-Hsuan Chou | Male | 2009.11.01 | 73,789 | 0.07% | - | - | - | - | Construction Engineeringand Management, Department of Civil Engineering, National Taiwan University | - | - | - | - | - |
| Executive Assistant General Manager | Taiwan | Yi-Fang Huang | Male | 2009.05.01 | - | - | - | - | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | - | - | - | - | - |
| Assistant General Manager (Note 3) | Taiwan | Wei-Chi Li | Male | 2008.06.20 | 100,703 | 0.09% | 947 | - | - | - | Department of Architecture, Chinese Institute of Municipal Administration | - | - | - | - | - |
| Assistant General Manager | Taiwan | Chin-Hua Fan | Male | 2015.12.01 | 71,262 | 0.07% | 2,257 | - | - | - | Construction Engineeringand Management, Department of Civil Engineering, National Taiwan University | 1. Director, Guanqing Electromechanical Co., Ltd.<br>2. Director, Global Mall Co., Ltd.<br>3. Director, Kindom Yu San Education Foundation | - | - | - | - |
| Senior Assistant General Manager | Taiwan | Chun-Ming Chen | Male | 2006.03.01 | 690 | - | 19,000 | 0.02% | - | - | Department of Civil Engineering, National Chiao Tung University | Director, Jiequn Investment Co., Ltd. | - | - | - | - |
| Assistant General Manager | Taiwan | Chao-Ming Chen | Male | 2010.12.20 | - | - | - | - | - | - | Department of Civil Engineering, National Taiwan University | - | - | - | - | - |

| Title | Nationality | Name | Gender | Date Elected (Assumed) | Shareholding | | Shares Held by Spouse and Minor Children | | Shares Held through Nominees | | Principal Work Experience and Academic Qualifications (Note 1) | Position(s) Held Concurrently in Any Other Company | Managers Having a Spousal Relationship or a Relationship within the Second Degree of Kinship with Another | | | Remarks (Note 2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| Assistant General Manager | Taiwan | Wen-Hsiung Chou | Male | 2012.01.01 | - | - | - | - | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | Supervisor, Jiequn Investment Co., Ltd. | - | - | - | - |
| Assistant General Manager | Taiwan | Chih-Kuo Tseng | Male | 2012.12.27 | - | - | - | - | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | - | - | - | - | - |
| Assistant General Manager | Taiwan | Hsien-Chin Chiu | Male | 2012.01.01 | - | - | - | - | - | - | Department of Civil Engineering, Tamkang University | - | - | - | - | - |
| Assistant General Manager | Taiwan | Chung-Te Hsiao | Male | 2014.07.01 | - | - | 2,846 | - | - | - | Department of Civil Engineering, Nanya Industrial and Commercial College | - | - | - | - | - |
| Assistant General Manager | Taiwan | Nai-Cheng Yu | Male | 2015.12.01 | - | - | - | - | - | - | Institute of Agricultural Engineering, Tokyo University of Agriculture, Japan | - | - | - | - | - |
| Assistant General Manager | Taiwan | Wen-Yen Lin | Male | 2016.03.01 | - | - | - | - | - | - | Department of Civil Engineering, National Central University | Director, Jiequn Investment Co., Ltd. | - | - | - | - |
| Assistant General Manager | Taiwan | Wen-Chin Li | Male | 2013.09.01 | - | - | - | - | - | - | Department of Architecture, Hwa Hsia Industrial and Commercial College | - | - | - | - | - |
| Assistant General Manager and Financial Officer | Taiwan | Li-Ya Chen | Female | 2018.01.01 | - | - | - | - | - | - | Department of Business Administration, Chung Yuan Christian University | - | - | - | - | - |
| Assistant General Manager | Taiwan | Hsiao-Ching Ho | Female | 2018.01.01 | 2,000 | - | - | - | - | - | Department of Civil Engineering, National Chung Hsing University | - | - | - | - | - |
| Assistant General Manager | Taiwan | Ju-Ping Chang | Male | 2018.08.16 | - | - | - | - | - | - | Department of Resource Conservation Technology, National Pingtung Polytechnic Institute | - | - | - | - | - |

| Title | Nationality | Name | Gender | Date Elected (Assumed) | Shareholding | | Shares Held by Spouse and Minor Children | | Shares Held through Nominees | | Principal Work Experience and Academic Qualifications (Note 1) | Position(s) Held Concurrently in Any Other Company | Managers Having a Spousal Relationship or a Relationship within the Second Degree of Kinship with Another | | | Remarks (Note 2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | | | Title | Name | Relationship | |
| Acting Assistant General Manager | Taiwan | Wen-Yao Liu | Male | 2014.10.20 | - | - | - | - | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | - | - | - | - | - |
| Acting Assistant General Manager | Taiwan | Chun-Cheng Liang | Male | 2015.08.03 | - | - | - | - | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | - | - | - | - | - |
| Acting Assistant General Manager | Taiwan | Ming-Chung Lin | Male | 2016.10.01 | - | - | - | - | - | - | Department of Business Administration, Hsuan Chuang University | - | - | - | - | - |
| Acting Assistant General Manager | Taiwan | Chin-Chih Hsu | Male | 2016.12.01 | - | - | - | - | - | - | Department of Civil Engineering, National Central University | - | - | - | - | - |
| Acting Assistant General Manager | Taiwan | Hsu-Yuan She | Male | 2018.01.16 | - | - | - | - | - | - | Institute of Architecture, National Cheng Kung University | - | - | - | - | - |
| Acting Assistant General Manager (Note 4) | Taiwan | Li-Wei Kuo | Male | 2019.02.11 | - | - | - | - | - | - | Department of Civil and Construction Engineering, National Taiwan University of Science and Technology | - | - | - | - | - |
| Acting Assistant General Manager (Note 5) | Taiwan | Chia-Hsing Li | Male | 2019.07.08 | 17,748 | 0.02% | 1,096 | - | - | - | Construction Engineering and Management, Department of Civil Engineering, National Taiwan University | - | - | - | - | - |

Note 1. None of the above persons has worked for the company's certified public accountants firm or affiliated companies during the period mentioned above in connection with his/her current position.

Note 2. Where the Chairperson of the Board of Directors and the General Manager or person of an equivalent post (the highest level manager) of a company are the same person, spouses, or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof, and the measures adopted in response thereto:(for example, increase the number of Independent Directors, and there be a majority of the members of the Board of Directors who are not employees or Managerial Officers, etc.).

Note 3. Dismissed on April 20, 2020.

Note 4. Dismissed on November 29, 2019.

Note 5. Promoted on July 8, 2019.

## (IV) Remuneration Paid to Directors (Including Independent Director), General Manager and Assistant General Manager:

### 1. Remuneration Paid to General Directors and Independent Directors:

Unit: NT$ thousand

| Title | Name | Directors' Remuneration | | | | | | | | Ratio of Total Remuneration of A, B, C, D in Net Income after Tax in Net Income after Tax | | Compensations Paid to Concurrent Employees | | | | | | | | Ratio of Total Remuneration of A, B, C, D, E, F and G in Net Income after Tax | | Remuneration from an Invested Company Other than the company's Subsidiary or from the Parent Company (Note 5) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Remuneration (A) | | Retirement Allowance (B) | | Bonus to Directors (C)(Note 1) | | Allowances (D)(Note 2) | | | | Salary, Bonus and Allowances (E) | | Retirement Allowance (F)(Note 4) | | Employee Bonus(G)(Note 3) | | | | | | |
| | | 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 | 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 Amount | Stock Amount | Cash Amount | Stock Amount | | | |
| Director | Kindom Development Co., Ltd. Representative: Miriam Ma<br>(Kindom Development Co., Ltd.) Representative: Mei-Chu Liu<br>Kindom Development Co., Ltd. Representative: Yi-Fang Huang<br>Kindom Development Co., Ltd. Representative: Ai-Wei Yuan<br>Kindom Development Co., Ltd. Representative: Shih-Hsuan Chou<br>Kindom Development Co., Ltd. Representative: Ming-Tao Chen | - | - | - | - | 10,209 (Kindom Development Co., Ltd.) | 10,209 (Kindom Development Co., Ltd.) | 2,160 | 2,160 | 3.19% | 3.19% | 17,425 | 17,425 | - | - | 133 | - | 133 | - | 7.56% | 7.56% | 254 |
| Independent Director | Shen-Yu Kung<br>Hung-Chin Huang | - | - | - | - | - | - | 480 | 480 | 0.06% | 0.06% | - | - | - | - | - | - | - | - | 0.06% | 0.06% | 614 |

1. Please state the policies, systems, standards, and structure for the remuneration of the Independent Directors, and state the correlation to the remuneration according to the responsibilities, risks time commitment and other factors: In accordance with the Articles of Incorporation, the Independent Directors shall receive remuneration on a monthly basis and shall not participate in the annual distribution of Directors' remuneration.
2. Unless disclosed in the above table, remuneration received in the most recent fiscal year by the Directors for providing services (e.g. serving as a non-employee consultant) to the companies in the consolidated financial statements: None.

Table of Remuneration Ranges

| Ranges of Remuneration Paid to Each Director of the company | Name of Director | | | |
|---|---|---|---|---|
| | Total Remuneration for the First Four Items (A+B+C+D) | | Total Remuneration for the First Seven Items (A+B+C+D+E+F+G) | |
| | The Company | Companies in the Consolidated Financial Statements (H) | The Company | Companies in the Consolidated Financial Statements (I) |
| Less than NT$1,000,000 | Miriam Ma, Mei-Chu Liu, Yi-Fang Huang, Ai-Wei Yuan, Hui-Jen Huang, Shih-Hsuan Chou, Ming-Tao Chen, Shen-Yu Kung, Hung-Chin Huang | Miriam Ma, Mei-Chu Liu, Yi-Fang Huang, Ai-Wei Yuan, Hui-Jen Huang, Shih-Hsuan Chou, Ming-Tao Chen, Shen-Yu Kung, Hung-Chin Huang | Mei-Chu Liu, Ai-Wei Yuan, Ming-Tao Chen, Shen-Yu Kung, Hung-Chin Huang | Mei-Chu Liu, Ai-Wei Yuan, Ming-Tao Chen, Shen-Yu Kung, Hung-Chin Huang |
| NT$1,000,000 (inclusive) ~ NT$2,000,000 (exclusive) | - | - | - | - |
| NT$2,000,000 (inclusive) ~ NT$3,500,000 (exclusive) | - | - | - | - |
| NT$3,500,000 (inclusive) ~ NT$5,000,000 (exclusive) | - | - | Yi-Fang Huang, Shih-Hsuan Chou | Yi-Fang Huang, Shih-Hsuan Chou |
| NT$5,000,000 (inclusive) ~ NT$10,000,000 (exclusive) | - | - | Miriam Ma | Miriam Ma |
| NT$10,000,000 (inclusive) ~ NT$15,000,000 (exclusive) | Kindom Development Co., Ltd. | Kindom Development Co., Ltd. | Kindom Development Co., Ltd. | Kindom Development Co., Ltd. |
| NT$15,000,000 (inclusive) ~ NT$30,000,000 (exclusive) | - | - | - | - |
| NT$30,000,000 (inclusive) ~ NT$50,000,000 (exclusive) | - | - | - | - |
| NT$50,000,000 (inclusive) ~ NT$100,000,000 (exclusive) | - | - | - | - |
| More than NT$100,000,000 | - | - | - | - |
| Total | Juristic Person Shareholder: 1 Legal Representative: 6 Natural Person: 2 | Juristic Person Shareholder: 1 Legal Representative: 6 Natural Person: 2 | Juristic Person Shareholder: 1 Legal Representative: 6 Natural Person: 2 | Juristic Person Shareholder: 1 Legal Representative: 6 Natural Person: 2 |

Note 1. Directors' remuneration for 2019 adopted by the Board of Directors on March 23, 2020.

Note 2. Include the depreciation of vehicles and the fuel costs of the non-Independent Director who is also concurrently be a Manager.

Note 3. The amount of employees' remuneration for 2019 adopted by the Board of Directors on March 23, 2020 expected to be distributed to the Director concurrently serve as a Manager.

Note 4. It does not include the provision for retirement allowance as provided for in accordance with the law of NT$216,000.

＊ The content of remuneration disclosed in this table is derived based on a concept different from the concept of income stipulated in the Income Tax Act. Therefore, this table is for information disclosure purposes, instead of taxation.

2. Remuneration Paid to Supervisors:

Unit: NT$ thousand

| Title | Name | Supervisor's Remuneration | | | | | | Ratio of Total Remuneration of A, B and C in Net Income after Tax | | Remuneration from an Invested Company Other than the company's Subsidiary or from the Parent Company |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Base Remuneration (A) | | Remuneration (B) | | Allowances (C) | | | | |
| | | 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 | |
| Supervisor | Peng-Lung Hua | - | - | - | - | 240 | 240 | 0.06% | 0.06% | - |

Table of Remuneration Ranges

| Ranges of Remuneration Paid for Supervisors | Name of Supervisor | |
|---|---|---|
| | Total Remuneration for the First Three Items (A+B+C) | |
| | The Company | Companies in the Consolidated Financial Statements (D) |
| Less than NT$1,000,000 | Peng-Lung Hua | Peng-Lung Hua |
| NT$1,000,000 (inclusive) ~ NT$2,000,000 (exclusive) | - | - |
| NT$2,000,000 (inclusive) ~ NT$3,500,000 (exclusive) | | |
| NT$3,500,000 (inclusive) ~ NT$5,000,000 (exclusive) | | |
| NT$5,000,000 (inclusive) ~ NT$10,000,000 (exclusive) | - | - |
| NT$10,000,000 (inclusive) ~ NT$15,000,000 (exclusive) | - | - |
| NT$15,000,000 (inclusive) ~ NT$30,000,000 (exclusive) | - | - |
| NT$30,000,000 (inclusive) ~ NT$50,000,000 (exclusive) | - | - |
| NT$50,000,000 (inclusive) ~ NT$100,000,000 (exclusive) | - | - |
| More than NT$100,000,000 | - | - |
| Total | Juristic Person Shareholder: 0<br>Legal Representative: 0<br>Natural Person: 1 | Juristic Person Shareholder: 0<br>Legal Representative: 0<br>Natural Person: 1 |

＊ The content of remuneration disclosed in this table is derived based on a concept different from the concept of income stipulated in the Income Tax Act. Therefore, this table is for information disclosure purposes, instead of taxation.

3. Remuneration Paid to the General Manager and Assistant General Managers:

Unit: NT$ thousand

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="2">Pay (A)</th><th colspan="2">Retirement Allowance (B)</th><th colspan="2">Bonus and Allowances (C) (Note 1)</th><th colspan="4">Employee Bonus (D) (Note 2)</th><th colspan="2">Ratio of Total Remuneration of A, B, C and D in Net Income after Tax (%)</th><th rowspan="3">Remuneration from an Invested Company Other than the company's Subsidiary or from the Parent Company (Note 3)</th></tr>
<tr><th rowspan="2">The Company</th><th rowspan="2">Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">Companies in the Consolidated Financial Statements</th><th colspan="2">The Company</th><th colspan="2">All Companies in the Consolidated Financial Statements</th><th rowspan="2">The Company</th><th rowspan="2">Companies in the Consolidated Financial Statements</th></tr>
<tr><th>Cash Amount</th><th>Stock Amount</th><th>Cash Amount</th><th>Stock Amount</th></tr>
<tr><td>General Manager</td><td>Hui-Jen Huang</td><td rowspan="5">10,995</td><td rowspan="5">10,995</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="5">34,628</td><td rowspan="5">34,715</td><td rowspan="5">163</td><td rowspan="5">-</td><td rowspan="5">163</td><td rowspan="5">-</td><td rowspan="5">11.38%</td><td rowspan="5">11.40%</td><td rowspan="5">None</td></tr>
<tr><td>Executive Assistant General Manager</td><td>Yi-Fang Huang</td></tr>
<tr><td>Executive Assistant General Manager</td><td>Shih-Hsuan Chou</td></tr>
<tr><td>Assistant General Manager (Note 4)</td><td>Wei-Chi Li</td></tr>
<tr><td>Assistant General Manager</td><td>Chin-Hua Fan</td></tr>
</table>

∗ Regardless of title, any position equivalent to General Manager, Assistant General Manager (e.g., President, CEO, Director...) shall be disclosed.

Table of Remuneration Ranges

| Ranges of Remuneration paid to General Manager and Assistant General Manager of the company | Name of General Manager and Assistant General Managers | |
|---|---|---|
| | The Company | Companies in the Consolidated Financial Statements |
| Less than NT$1,000,000 | - | - |
| NT$1,000,000 (inclusive) ~ NT$2,000,000 (exclusive) | - | - |
| NT$2,000,000 (inclusive) ~ NT$3,500,000 (exclusive) | Wei-Chi Li | Wei-Chi Li |
| NT$3,500,000 (inclusive) ~ NT$5,000,000 (exclusive) | Shih-Hsuan Chou, Yi-Fang Huang | Shih-Hsuan Chou, Yi-Fang Huang |
| NT$5,000,000 (inclusive) ~ NT$10,000,000 (exclusive) | Chin-Hua Fan | Chin-Hua Fan |
| NT$10,000,000 (inclusive) ~ NT$15,000,000 (exclusive) | - | - |
| NT$15,000,000 (inclusive) ~ NT$30,000,000 (exclusive) | Hui-Jen Huang | Hui-Jen Huang |
| NT$30,000,000 (inclusive) ~ NT$50,000,000 (exclusive) | - | - |
| NT$50,000,000 (inclusive) ~ NT$100,000,000 (exclusive) | - | - |
| More than NT$100,000,000 | - | - |
| Total | 5 people | 5 people |

Note 1. Include the depreciation of vehicles and the fuel costs.

Note 2. The amount of employees' remuneration for 2019 adopted by the Board of Directors on March 23, 2020 expected to be distributed to the Director concurrently serve as a Manager.

Note 3. Remuneration refers to compensation, reward (including remuneration for employees, Directors and Supervisors), allowances and other related remuneration received by the company's General Manager and Assistant General Manager for being a Director, Supervisor, or Managerial Officer of investment companies other than subsidiaries of the company or the parent company.

Note 4. Dismissed on April 20, 2020.

＊ The content of remuneration disclosed in this table is derived based on a concept different from the concept of income stipulated in the Income Tax Act. Therefore, this table is for information disclosure purposes, instead of taxation.

4. The Name of Managerial Officers to whom the Employee Bonus is Paid and the Distribution Status:

April 17, 2020; Unit: NT$ thousand

| | Title | Name | Stock Amount | Cash Amount | Total | Total Amount as A Percentage in Net Income After Tax (%) |
|---|---|---|---|---|---|---|
| Manager | Chairman of the Board | Miriam Ma | - | 523 | 523 | 0.13% |
| | General Manager | Hui-Jen Huang | | | | |
| | Executive Assistant General Manager | Shih-Hsuan Chou | | | | |
| | Executive Assistant General Manager | Yi-Fang Huang | | | | |
| | Assistant General Manager | Chin-Hua Fan | | | | |
| | Senior Assistant General Manager | Chun-Ming Chen | | | | |
| | Assistant General Manager | Chao-Ming Chen | | | | |
| | Assistant General Manager | Wen-Hsiung Chou | | | | |
| | Assistant General Manager | Chih-Kuo Tseng | | | | |
| | Assistant General Manager | Hsien-Chin Chiu | | | | |
| | Assistant General Manager | Chung-Te Hsiao | | | | |
| | Assistant General Manager | Nai-Cheng Yu | | | | |
| | Assistant General Manager | Wen-Yen Lin | | | | |
| | Assistant General Manager | Wen-Chin Li | | | | |
| | Assistant General Manager and Financial Officer | Li-Ya Chen | | | | |
| | Assistant General Manager | Hsiao-Ching Ho | | | | |
| | Assistant General Manager | Ju-Ping Chang | | | | |
| | Acting Assistant General Manager | Wen-Yao Liu | | | | |
| | Acting Assistant General Manager | Chun-Cheng Liang | | | | |
| | Acting Assistant General Manager | Ming-Chung Lin | | | | |
| | Acting Assistant General Manager | Chin-Chih Hsu | | | | |
| | Acting Assistant General Manager | Hsu-Yuan She | | | | |
| | Acting Assistant General Manager | Chia-Hsing Li | | | | |

Note 1. The amount of employees' remuneration for 2019 adopted by the Board of Directors on March 23, 2020 expected to be distributed to the Managers.

Note 2. This table disclosed the names of Managers who are eligible for receiving employee bonus and the distribution status. The actual distribution objects and payment amount shall be subject to the Manager who is still in-service at the time of payment.

5. Separately compare and describe total remuneration, as a percentage of net income stated in the parent company only financial reports or individual financial reports, as paid by the company and by each other company included in the consolidated financial statements during the past 2 fiscal years to Directors,Supervisors, General Managers, and Assistant General Managers, and analyze and describe remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure:

| Title | Total Remuneration as A Percentage of Net Income After Tax | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | The Company | Companies Included in the Consolidated Financial Statements | The Company | Companies Included in the Consolidated Financial Statements |
| Director | 7.56% | 7.56% | 7.17% | 7.17% |
| Supervisor | 0.06% | 0.06% | 0.06% | 0.06% |
| General Manager and Assistant General Manager | 11.38% | 11.40% | 7.67% | 7.69% |

(1) For the remuneration paid to Directors, Supervisors, General Manager and Assistant General Manager in 2019 by the company and companies in the consolidated financial statements, affected by the fact that the payment of total remuneration was deferred to 2019 due to the increase of annual profit in 2018 compared with the previous period, the proportion of total remuneration in net profit after tax increased from 14.9% in 2018 to 19%, which is considered reasonable.

(2) For the remuneration paid to Directors, Supervisors, General Manager and Assistant General Managers, in accordance with Article 18 of the Articles of Incorporation, the company authorizes the Board of Directors to determine the remuneration to Directors and Supervisors according to the degree of participation in the operation of the company and the value of their contribution, with reference to the industry standards, and authorizes the Chairman of the Board to approve the remuneration to General Manager and Assistant General Managers according to the employee compensation ranking table and measures on business performance bonus. From the above, the policies, standards, and packages of the total remuneration as paid by the company and by each other company included in the consolidated financial statements in 2019 to Directors, Supervisors, General Manager, and Assistant General Managers, and the procedure for determining remuneration, are comparable to that in 2018.

(3) The linkage to operating performance and future risk exposure: None.

## III. The State of the Company's Implementation of Corporate Governance:

(I) The State of Operations of the Board of Directors:

A total of 8 meetings (A) of the Board of Directors have been held in the most fiscal year, with the Directors' attendance shown as follows:

| Title | Name (Note 1) | Times of Actual Attendance (or of Attendance as a Non-voting Participant) (B) | Times of Proxy Attendance | Rate of Actual Attendance (or of Attendance as a Non-voting Participant) (%) [B/A] (Note 2) | Remarks |
|---|---|---|---|---|---|
| Chairman of the Board | Kindom Development Co., Ltd. Representative: Miriam Ma | 6 | 0 | 75.00% | Resigned on April 24, 2020 |
| Director | Kindom Development Co., Ltd. Representative: Mei-Chu Liu | 1 | 7 | 12.50% | |
| Director | Kindom Development Co., Ltd. Representative: Yi-Fang Huang | 8 | 0 | 100.00% | |
| Director | Kindom Development Co., Ltd. Representative: Ai-Wei Yuan | 8 | 0 | 100.00% | Elected as the Chairman of the Board on April 24, 2020 |
| Director | Kindom Development Co., Ltd. Representative: Shih-Hsuan Chou | 8 | 0 | 100.00% | |
| Director | Kindom Development Co., Ltd. Representative: Ming-Tao Chen | 7 | 1 | 87.50% | |
| Independent Director | Shen-Yu Kung | 6 | 2 | 75.00% | |
| Independent Director | Hung-Chin Huang | 8 | 0 | 100.00% | |

Other matters that shall be reported:

I. Where one of the following circumstances apply for the operations of the Board of Director meetings, the date, session, proposal contents, opinions of all Independent Directors, and the company's actions in response to the opinions of the Independent Directors shall be stated:
   (I) Matters listed in Article 14-3 of the Securities and Exchange Act: None.
   (II) Except for the aforementioned matters, any other resolutions from the Board of Directors where an Independent Director has a dissenting or qualified opinion that is on record or stated in a written statement: None

II. Where a Director recuse himself or herself from a proposal in which he/she has a personal interest, the name of the Director, the content of proposal, the reason for recusal and the results of the voting should be stated:

(I) On December 20, 2019, the 18th meeting of the 10th Session of the Board of Directors discussed the proposal on the payment of the Managerial Officers' year-end and special performance bonuses approved by the Remuneration Committee in accordance with the company's Evaluation Methods. Chairman Miriam Ma, Director Yi-Fang Huang and Director Shih-Hsuan Chou are interested parties, and Director Mei-Chu Liu is a relative within the first degree of kinship of Chairman Miriam Ma, therefore, they recused themselves from the discussion and the voting on the proposal. Director Shen-Yu Kung was appointed by the Chairman to preside over the meeting temporarily, and the proposal was adopted with consent of the other Directors present.

(II) On December 20, 2019, the 18th meeting of the 10th Session of the Board of Directors discussed the proposal of the donation to Kindom Yu San Education Foundation. Chairman Miriam Ma concurrently serves as the Chief Executive Officer of the Foundation, and Director Mei-Chu Liu is a relative within the first degree of kinship of Chairman Miriam Ma, Director Ming-Tao Chen concurrently serves as a Director of the Foundation, therefore, they recused themselves from the discussion and the voting on the proposal. Director Shen-Yu Kung was appointed by the Chairman to preside over the meeting temporarily, and the proposal was adopted with consent of the other Directors present.

III. The State of Implementation of the Board Performance Evaluation:

| Evaluation Cycle | Evaluation Period | Evaluation Scope | Evaluation Method | Evaluation Content |
|---|---|---|---|---|
| The company's board performance evaluation shall be conducted once a year, shall be completed before the end of the first quarter of the following year and submitted to the Board of Directors for review and improvement. | 1/1/2019 ~12/31/2019 | Including the performance evaluation of the board as a whole, individual Directors and functional committees. | Including internal evaluation of the board, self-evaluation by the board members of themselves and internal self-evaluation of functional committees. | The evaluation was carried out in accordance with Article 7 of the Measures on Board Performance Evaluation amended by the company on March 20, 2019. |

IV. An Evaluation of Targets (e.g. the Establishment of an Audit Committee and the Improvement of Information Transparency, etc.) for Strengthening of the Functions of the Board of Directors during the Current and Immediately Preceding Fiscal Years, and Measures Taken Toward Achievement thereof:

(I) Carried out the following targets for strengthening of the functions of the Board of Directors: The Board of Directors shall notify the Directors and Supervisors of the contents of the proposal prior to the meeting, and shall take into full consideration the opinions of the Directors when discussing the proposal. The proceedings shall be distributed to the Directors and Supervisors within five days after the meeting. Good results have been achieved.

(13) At the end of each year, according to the Measures on Board Performance Evaluation amended on March 20, 2019, the evaluation shall be conducted at least once for the overall operation state of the Board of Directors, the performance of individual Directors and the performance evaluation of the functional committees. The 2019 annual board performance evaluation results are good, please find more details on the company's website. In addition, the company is expected to set up an audit committee when reelecting the eleventh board of Directors in shareholders' meeting in 2020.

Note 1. Where a Director or Supervisor is a juristic person, the name of the juristic person shareholder and the name of its representative shall be disclosed.

Note 2. (1) Where Directors or Supervisors resign before the end of the year, the date of resignation shall be indicatec in the Remarks column. Rate of actual attendance (or of attendance as a non-voting participant)(%) shall be calculated by the number of board meetings convened and times of actual attendance (or of attendance as a non-voting participant) during the term of service.

(2) If any Director or Supervisor is reelected before the end of the year, the new or former Directors and Supervisors shall be listed. Indicate in the Remarks column that whether the Director or Supervisor is former, new or reappointed and the date of re-election. Rate of actual attendance (or of attendance as a non-voting participant) (%) shall be calculated by the number of board meetings convened and times of actual attendance (or of attendance as a non-voting participant) during the term of service

(II) The State of Operations of the Audit Committee or the State of Participation in Board Meetings by the Supervisors:

1. The state of operations of the audit committee: The Company has not established an audit committee, which is expected to be established after the 2020 shareholders' meeting.
2. The state of participation in board meetings by the Supervisors:
   A total of 8 meetings (A) of the Board of Directors have been held in the most fiscal year, with the attendance shown as follows:

<table>
<tr><th>Title</th><th>Name</th><th>Times of Actual Attendance (B)</th><th>Rate of Actual Attendance (%)(B/A) （Note)</th><th>Remarks</th></tr>
<tr><td>Supervisor</td><td>Peng-Lung Hua</td><td>8</td><td>100.00%</td><td></td></tr>
<tr><td colspan="5">Other matters that shall be reported:<br>I. Composition and Duties of the Supervisors:<br>(I) Communications between Supervisors and employees/shareholders (e.g. channel and method of communication):<br>Supervisors communicate with employees and shareholders on the company's annual review meeting and shareholders' meeting, as well as by telephone or E-mail.<br>(II) Communication between Supervisors, internal audit officer and CPAs (e.g. matters, methods and results of communications regarding the company's financial and business status, etc.):<br>1. The audit officer attended the Board meeting as a non-voting member to report on the audit affairs, and delivered the internal audit report to the Supervisors for approval without any dissent.<br>2. he Supervisors communicate with the CPAs in person or by telephone or E-mail on a quarterly or irregular basis.<br>II. If a Supervisor present at the board meeting stated any opinion, the date, session, proposal contents and resolutions of the Board of Directors, and the company's actions in response to the opinions of the Supervisor shall be stated: None.</td></tr>
</table>

Note: (1) Where Supervisors resign before the end of the year, the date of resignation shall b indicated in the Remarks column. Rate of actual attendance (or of attendance as a non voting participant)(%) shall be calculated by the times of actual attendance (or o attendance as a non-voting participant) during the term of service.

(2) Where any Supervisor is reelected before the end of the year, the new or forme Supervisors shall be listed. Indicate in the Remarks column that whether the Superviso is former, new or reappointed and the date of re-election. Rate of actual attendance (o of attendance as a non-voting participant) (%) shall be calculated by the number o board meetings convened and times of actual attendance (or of attendance as a non voting participant) during the term of service.

(III) The State of the company's Implementation of Corporate Governance, Any Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance:

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| I. Does the company formulate and disclose its Corporate Governance Practice Principles according to the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies? | ✓ | | The company and its subsidiaries (hereinafter also referred to as "merged company") formulated their Corporate Social Responsibility Best Practice Principles based on the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and disclosed them on the company's website and the Market Observation Post System (MOPS).<br>The merged company shall, at all times, pay attention to the development of corporate social responsibility system and the change of business environment at home and abroad, so as to improve the corporate social responsibility system, review the implementation of corporate social responsibility, and enhance the efficiency of the implementation of the corporate social responsibility policy. | No variance |
| II. Ownership Structure and Shareholders' Equity | | | | |
| (I) Has the company formulated internal operating procedures to handle shareholder proposals, inquiries, disputes and litigation matters, and does it implement these in accordance with its procedures? | ✓ | | (I) The merged company has designated a management unit of shareholder services in the Finance Division and a special section for shareholders on the company's website to accept proposals and inquiries from shareholders, and handle disputes. There is no litigation matter with shareholders. | No variance |
| (II) Does the company retain a register of major shareholders who have controlling power over the company, | ✓ | | (II) The merged company keeps close relation with its major shareholders, and master at all times the shareholding status of major shareholders and of the | No variance |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| and of the persons with ultimate control over those major shareholders? | | | persons with ultimate control over those major shareholders, through the register of shareholders provided by the stock agent. | |
| (III) Does the company establish and implement risk control and a firewall system between it and its affiliated enterprises? | ✓ | | (III) The merged company is operationally and financially independent of its affiliated enterprises, and has formulated the Management Procedures for Related Party Transactions, Management Procedures for Supervision of Subsidiaries, Operational Procedures for Loaning Funds to Others, Operational Procedures for Endorsements and Guarantees, Handling Procedures for Acquisition or Disposal of Real Estate, Equipment or Their Right to Use Assets and other procedures, and established the risk control and firewall system between it and its affiliated enterprises. | No variance |
| (IV) Has the company adopted internal rules prohibiting company insiders from trading securities using information not disclosed to the market? | ✓ | | (IV) The merged company specified in the Procedures for Handling Material Inside Information that insiders are prohibited from trading securities using information not disclosed to the market, and regularly carries out education and promotion for insiders and reminds insiders of the procedures regularly. | No variance |
| III. Composition and Duties of the Board of Directors<br>(I) Does the board formulate and implement a policy on diversity based on the composition of board members? | ✓ | | (I) It is stipulated in Article 20 of the Corporate Governance Practice Principles of the merged company that the composition of the Board of Directors shall be determined by taking diversity into consideration. The current board of Directors of the | No variance |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | company consists of 8 Directors, including 6 Directors and 2 Independent Directors, who have rich experience and education in the fields of finance and accounting, business and management. In addition, the company also focuses on gender equality in the composition of the Board of Directors, with a target of more than 25% of female Directors. Currently, among the 8 Directors, there are 2 female Directors, which has met the target. Please refer to Note 1 for details of the implementation of the policy on diversity of board members. | |
| (II) In addition to the Remuneration Committee and Audit Committee established according to law, is the company willing to set up other functional committees? | ✓ | | (II) The merged company currently only sets up a Remuneration Committee in accordance with the law. It is expected that an audit committee will be established at the 2020 general shareholders' meeting, and other functional committees will be successively evaluated to establish in accordance with operational development needs and regulations. | No variance |
| (III) Does the company formulate rules and procedures for performance evaluation of the Board of Directors, conduct regularly scheduled performance evaluation each year, submit the results of performance evaluation to the Board of Directors and use them as reference in determining compensation for individual Directors, their nomination and additional office term? | ✓ | | (III) The merged company has resolved the amendment to the Measures on Board Performance Evaluation amended at the board meeting on March 20, 2019. The evaluation indicators are based on the operation and requirements. The evaluation shall be conducted at least once for the overall operation state of the Board of Directors, the performance of individual Directors and the performance evaluation of the functional committees, and the results of performance evaluation shall be reported to the Board of Directors. The 2019 | No variance |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | annual performance evaluation of the Board of Directors has been reported at the board meeting on March 23, 2020. The operation of the Board of Directors of the merged company is in good condition. Please refer to Note 2 for details of the relevant evaluation results. | |
| (IV) Does the company regularly evaluate the independence of its CPAs? | ✓ | | (IV) In order to implement corporate governance, the Finance Division of the company regularly evaluates the independence and suitability of the CPAs based on the Independence and Suitability Evaluation Form for the Financial Reports' CPAs and prepares a written record, summarizes the evaluation results and submits to the Board of Directors upon the approval by the responsible officer every year. The Company has reported on the independence and suitability evaluation form of CPAs at the board meeting on March 23, 2020. Please refer to Note 3 for details of the results of the annual independence evaluation for 2020.<br>Upon evaluation, the CPAs appointed by the company meet the evaluation standard, including :(1) do not have any direct or indirect financial interest or kinship relationship with the company or its Directors; (2) comply with the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No.10 on independence. The quality and timeliness of services from the CPAs such as auditing | No variance |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | and taxation are in line with the standards, and they are of substantial independence and suitability, thus are qualified as CPAs of the company. | |
| IV. Does the TWSE/TPEx listed company have a dedicated an eligible and appropriate number of personnel for corporate governance and appointed an officer in charge of the company' corporate governance affairs (including but not limited to providing information required for Director/Supervisor's operations, assisting Directors and Supervisors to comply with laws and regulations, convening board/shareholder's meetings in compliance with the law, and producing meeting minutes of board/shareholder's meetings)? | ✓ | | The merged company's Finance Division and its subordinate unit for shareholder services management are responsible for the corporate governance related matters including: providing information required for Director/Independent Director's operations, convening board/shareholder's meetings in compliance with the law, producing meeting minutes of board/shareholder's meetings, and disclosing relevant information on corporate governance, stakeholders and corporate social responsibility on the company websites. Please refer details of the operation and implementation of corporate governance on the company's website: http://www.kedge.com.tw/ | No variance |
| V. Has the company established communication channels and dedicated section for stakeholders (including but not limited to shareholders, employees, customers and suppliers) on its website, and responded appropriately to interested parties concerning important corporate social responsibility issues? | ✓ | | The merged company has spokespersons and unit for shareholder services management which are responsible for communication, and established dedicated sections for corporate social responsibility and stakeholders on the company's website to appropriately respond to interested parties concerning important corporate social responsibility issues. | No variance |
| VI. Has the company engaged a professional shareholder services agent to handle shareholders meeting matters? | ✓ | | The company engages the CTBC Bank Transfer Agency to handle the related matters of the shareholders' meeting and implements according to law. | No variance |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| VII. Information Disclosure<br>(I) Does the company set up a website to disclose information on the financial operations and corporate governance? | ✓ | | (I) The merged company has set up a website in accordance with the regulations to disclose information on financial, business and corporate governance, and regularly updated and maintained it. | No variance |
| (II) Has the company adopted other measures(such as English website, a designated person responsible for the collection and disclosure of information, implementation of the spokesperson system, the investor conferences uploaded to website, etc.)to disclose information? | ✓ | | (II) The merged company discloses the company information on the Market Observation Post System in accordance with the regulations, appoints a dedicated person to be responsible for the collection and disclosure of the company information, and implements the spokesperson system to make a prompt statement to the public. | No variance |
| (III) Does the company publish and report its annual financial reports within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline? | ✓ | | (III) The merged company publish and report its financial reports for the year and for the first, second and third quarters as well as its operating status for each month before the specified deadline | No variance |
| VIII. Does the company have any other important information for better understanding the company's corporate governance system (including but not limited to interests and rights of employees, care for employees, relation with investors, relation with | ✓ | | (I) Interests and rights of employees, care for employees, relation with suppliers, rights and interests of stakeholders: Please refer to the description of Disbursements for Environmental Protection, Labor Relations and Supplier Information in Chapter V. Operations Overview of the annual report. | No variance |

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>suppliers, rights and interests of stakeholders, continuing education of Directors and Supervisors, implementation of risk management policies and risk measurement standards, implementation of customer policies, taking out liability insurance for the company's Directors and Supervisors)?</td><td></td><td></td><td>(II) Relation with investors: The merged company has set up a website in accordance with the regulations to disclose information on financial, business and corporate governance and regularly update it for investors' reference.<br>(III) Continuing education of Directors and Supervisors: The merged company has regularly disclosed the information on continuing education of Directors and Supervisors and their attendance on the Board of Directors meetings on the Market Observation Post System.<br>(IV) Implementation of risk management policies and risk measurement standards: Please refer to the description of Chapter VII. Review, Analysis, and Risks of Financial Conditions and Performance of the annual report.<br>(V) Implementation of customer policies: The Operations Planning Division of the merged company has set a Sales and Service Group to serve customers and maintain with a stable and good relationship.<br><br>(VI) The company takes out liability insurance for its Directors and Supervisors: The merged company has taken out the liability insurance for its Directors, Supervisors and Managers on June 10, 2019, and has reported the insured amount, coverage, premium rate, and other major contents of the liability insurance at</td><td></td></tr>
</table>

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | the Board of Directors on June 17, 2019.<br>(VII) Linkage between performance evaluation and remuneration of Directors: The company shall, in accordance with the Articles of Incorporation, set not more than 3% of the annual profits of the current year as the remunerate to Directors and Supervisors, and shall provide a reasonable level of remuneration to the Directors and Supervisors according to the degree of participation in the operation of the company and the value of their contribution, with reference to the industry standards. The Board of Directors shall authorize the chairman to approve the remuneration to General Manager and Assistant General Managers according to the employee remuneration ranges table and business performance. The reasonableness of relevant performance evaluation and remuneration has been audited by the Remuneration Committee and the Board of Directors, and the remuneration system is reviewed from time to time according to the actual operating conditions and relevant laws and regulations, so as to seek a balance between the company's sustainable operation and risk control. | |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |

IX. Please specify the measures adopted by the company to improve the items listed in the corporate governance review result from Taiwan Stock Exchange's Corporate Governance Center and the improvement plans for items yet to be improved:

| Item No. | Evaluation Indicator | Whether has been improved | Description |
|---|---|---|---|
| 1.9 | Does the company upload the notice of meeting in English concurrently 30 days before the regular shareholders' meeting? | No | The Company plans to implement in 2020. |
| 1.10 | Does the company upload the agendas and supplementary information of shareholders meetings in English 30 days before the regular shareholders' meeting? | No | The Company plans to implement in 2020. |
| 1.11 | Does the company upload the annual financial statements in English 7 days before the regular shareholders' meeting? | No | The Company plans to implement in 2020. |
| 2.10 | Has the company established an Audit Committee that complies with the regulations? | No | Proposed to be established in 2020. |
| 2.15 | Does the company disclose the communication between the Supervisors, internal audit officer and CPAs (e.g. methods, matters and results of communications regarding the company's financial reports, financial and business status, etc.) on the company's website? | Yes | The company has disclosed the communication between Independent Directors, internal audit officer and CPAs on the company's website. |
| 2.25 | Have the Independent Directors of the company completed the continuing education hours in accordance with the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies? | Yes | All Directors of the company have completed the required continuing education hours in 2019. |
| 3.2 | Does the company report material information in English concurrently? | No | The Company plans to implement in 2020. |
| 3.5 | Does the company upload the annual financial statements in English 7 days before the regular shareholders' meeting on the Market Observation Post System? | No | The Company plans to implement in 2020. |
| 3.6 | Are the mid-term financial statements disclosed on Company's website or Market Observation Post System in English? | No | The Company plans to implement in 2020. |

| Evaluation Item | Implementation Status | | | Variance from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |

| Item No. | Evaluation Indicator | Whether has been improved | Description |
|---|---|---|---|
| 3.14 | Does the company disclose in its annual report the link between performance evaluation and remuneration? | Yes | The Company has disclosed in the annual report. |
| 3.15 | Does the company disclose its annual report voluntarily the amount and nature of non-audit fees paid to CPAs and the affiliates of their affiliated accounting firms? | Yes | The Company has disclosed the amount and nature of non-audit fees in the annual report. |
| 3.18 | Does the company set up a website in English containing the information regarding the company's finances, operations, and corporate governance? | No | The Company plans to implement in 2020. |
| 3.20 | Has the company been invited (voluntarily) to hold at least two investor conferences at an interval of more than three months between the first and last two investor conferences of the evaluation year? | No | It is under planning by the company. |
| 4.2 | Does the company set up a dedicated (part-time) unit that promotes corporate social responsibility and ethical corporate management, and describe the operation and implementation of the unit in the annual report and the company's website, and regularly report to the Board of Directors? | No | The company has disclosed the promotion plan and implementation achievements of corporate social responsibility in the annual report, and set up a CSR section on the company's website to describe the operation and implementation of corporate social responsibility, and plans to report to the Board of Directors on a regular basis. |
| 4.15 | Does the company disclose its ethical corporate management policies on its website or annual report, specify specific practices, and prevention plans for unethical conducts? | No | The Company has disclosed the Ethical Corporate Management Best Practice Principles on its website, and actively promotes the entire ethical corporate management policies to the employees and partners. |

Note 1. Please refer to the following table for the diversify of composition of the Board of Directors.

| Core Projects of Diversify / Name of Director | Basic Requirements | | | | | | | | | Professional Competence | | | | | Background | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Nationality | Gender | Concurrently Serve As an Employee of the (Parent) Company | Age | | | Term Seniority of Independent Director | | | Operational Judgments | Operation Management | Knowledge of the Industry | Finance and Accounting | Decision-making and Leadership | Business Management | Business | Accounting | Engineering Management | Operation Management |
| | | | | 51 to 60 | 61 to 70 | 70 above | 3 years below | 3 to years | 9 years above | | | | | | | | | | |
| Miriam Ma | Taiwan | Female | | 4 persons | 3 persons | 1 person | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | |
| Mei-Chu Liu | Taiwan | Female | | | | | | | | ✓ | ✓ | | ✓ | ✓ | | ✓ | | | |
| Ming-Tao Chen | Taiwan | Male | | | | | | | | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | |
| Yi-Fang Huang | Taiwan | Male | ✓ | | | | | | | ✓ | ✓ | ✓ | | ✓ | | | | ✓ | |
| Ai-Wei Yuan | Taiwan | Male | ✓ | | | | | | | ✓ | ✓ | ✓ | | ✓ | | | | ✓ | |
| Shih-Hsuan Chou | Taiwan | Male | ✓ | | | | | | | ✓ | ✓ | ✓ | | ✓ | | | | ✓ | |
| Shen-Yu Kung | Taiwan | Male | | | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | ✓ |
| Hung-Chin Huang | Taiwan | Male | | | | | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ | | |

Note 2. Please refer to the following table for the board performance evaluation results in 2019.

I. Overall Internal Performance Evaluation Results of the Board of Directors:

| Item No. | Evaluation Item | Rate of Achievement % |
|---|---|---|
| 1 | Participation in the operation of the company | 95 |
| 2 | Improvement of the quality of the Board of Directors' decision making | 98 |
| 3 | Composition and structure of the Board of Directors | 100 |
| 4 | Election and continuing education of the Directors | 97 |
| 5 | Internal control | 96 |

II. Self-evaluation by Board Members:

| Item No. | Evaluation Item | Rate of Achievement % |
|---|---|---|
| 1 | Alignment of the goals and mission of the company | 100 |
| 2 | Awareness of the duties of a Director | 100 |
| 3 | Participation in the operation of the company | 93 |
| 4 | Management and communication of internal relationship | 93 |
| 5 | The Director's professionalism and continuing education | 96 |
| 6 | Internal control | 93 |

III. Self-evaluation by Internal Remuneration Committee:

| Item No. | Evaluation Item | Rate of Achievement % |
|---|---|---|
| 1 | Participation in the operation of the company | 100 |
| 2 | Awareness of the duties of the functional committee | 100 |
| 3 | Improvement of quality of decisions made by the functional committee | 100 |
| 4 | Makeup of the functional committee and election of its members | 100 |
| 5 | Internal control | Not applicable |

Note 3. Please refer to the following table for the independence and suitability evaluation results of CPAs in 2020.

| Evaluation Item | Evaluation Results | Whether it Meets |
|---|---|---|
| 1. Do the CPAs have close business and potential employment relationships with the company or its affiliates? | No | Yes |
| 2. Do the CPAs hold or broker any stock or other securities issued by the company or its affiliates? | No | Yes |
| 3. Do the CPAs act as the defender of the company or its affiliates or on behalf of the company to coordinate conflicts with other third parties? | No | Yes |
| 4. Do the CPAs have kinship with any of the company's Directors, managers, or other individuals in positions to exert material impact over the subject matter of the engagement? | No | Yes |
| 5. Does the former partner within one year of disassociating from the joint accounting firm to which the CPA is affiliated join the company as a Director, officer or is in a key position to exert material impact over the subject matter of the engagement? | No | Yes |
| 6. Have the CPAs provided audit services to the company for 7 consecutive years? | No | Yes |
| 7. Have the CPAs complied with the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No.10 on independence? | Yes | Yes |
| 8. Do the CPAs and audit services team make appropriate recommendations and keep records on the audit of the company's management system and internal control system? | Yes | Yes |
| 9. Do the CPAs and audit services team take the initiative to provide the company with updates on laws and regulations, amendment information and courses? | Yes | Yes |

## (IV) Composition, Duties and Implementation Status of the Remuneration Committee:

### 1. Information on Members of the Remuneration Committee:

| Title (Note 1) | Conditions / Name | Has More than 5 Years of Work Experience and the Following Professional Qualifications | | | Independent Status (Note 2) | | | | | | | | | | Number of Other Public Companies in which Concurrently Holding Position as Independent Director | Remarks Full Text |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | An Instructor or Higher 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 Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | |
| Independent Director | Hung-Chin Huang | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |
| Independent Director | Shen-Yu Kung (Note 3) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |
| Other | Ting-Ya Hsieh | ✓ | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |
| Other | Hui-Ming Pao (Note 4) | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 | |

Note 1. Please indicate in the "Title" field Director, Independent Director or otherwise.

Note 2. For any members who fulfills the relevant condition(s) for two fiscal years before being elected to the office or during the term of office, please provide the [√] sign in the field next to the corresponding conditions.✓

(1) Neither an employee of the company nor its affiliates.

(2) Neither a Director nor Supervisor of the company or any of its affiliates. Not applicable in cases where an Independent Director of the company has served as an Independent Director of the company or any of its affiliates, or of a specified company or institution that has a financial or business relationship with the company.

(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 one percent or more of the total number of issued 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) Neither a Director, Supervisor, or employee of a juristic person shareholder that directly holds five percent or more of the total number of issued shares of the company, or that ranks among the top five in shareholdings, or that designates its representative to serve as a Director or Supervisor of the company under Article 27, paragraph 1 or 2 of the company Act (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(6) If a majority of the company's Director seats or voting shares and those of any other company are controlled by the same person, neither a Director, Supervisor, or employee of that other company (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(7) If the Chairperson, General Manager, or person holding an equivalent position of the company and a person in any of those positions at another company or institution are the same person or are spouses, neither a Director (or governor),

Supervisor, or employee of that other company or institution (not apply to Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(8) Neither a Director, Supervisor, Managerial Officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company (not apply to a specified company or institution holds 20 percent or more and no more than 50 percent of the total number of issued shares of the company, and Independent Directors appointed in accordance with the Securities and Exchange Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).

(9) Not a professional individual who, or an owner, partner, Director, Supervisor, or Managerial Officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the Remuneration Committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.

(10) No any of the circumstances in the subparagraphs of Article 30 of the company Act.

Note 3. Assumed office on June 17, 2019.

Note 4. Released of duty on June 17, 2019.

2. Information on Implementation Status of the Remuneration Committee:
   (1) There are 3 members on the Remuneration Committee of the company.
   (2) Term of office of the current committee member: From June 19, 2017 to the date of re-election of the company's Directors and Supervisors in 2020. Total 3 meetings (A) of the remuneration committee have been held in most recent fiscal year. The qualifications and attendance of members are as follows:

| Title | Name | Times of Actual Attendance (B) | Times of Proxy Attendance | Rate of Actual Presence (%) (B/A) (Note) | Remarks |
|---|---|---|---|---|---|
| Convener | Hung-Chin Huang | 3 | 0 | 100% | |
| Member | Shen-Yu Kung | 2 | 0 | 100% | Assumed office on June 17, 2019 |
| Member | Ting-Ya Hsieh | 3 | 0 | 100% | |
| Member | Hui-Ming Pao | 1 | 0 | 100% | Released of duty on June 17, 2019 |

Other matters that shall be reported:

I. If the Board of Directors does not adopt or amend recommendations proposed by the Remuneration Committee, the date, session, proposal contents and resolutions of the Board of Directors, and the company's actions in response to the opinions of the Remuneration Committee shall be stated (also, where the remuneration approved by the Board of Directors is superior to that recommended by the Remuneration Committee, the differences and reasons shall be stated): None.

II. Where resolutions of the Remuneration Committee include dissenting or qualified opinion which is on record or stated in a written statement, the date, session, proposal contents, opinions from every member, and actions in response to the opinions of the members shall be stated: None.

III. The Implementation Status of the Remuneration Committee in the Most Recent Fiscal Year:

| Remuneration Committee | Content of Motion and Follow-up Actions | Results of Resolution | The Company's Actions in Response to the Remuneration Committee's Opinions |
|---|---|---|---|
| March 6, 2019 The 3rd Session The 4th Meeting | 1. The proposal of the amendment to the company's Measures on Board Performance Evaluation.<br>2. The proposal of the company's allocation and distribution plan for employee bonus and the remuneration of Directors and Supervisors for 2018.<br>3. The Company's compensation plan for Managerial Officers engaged. | Approved by all members present in the meeting | Submitted to the Board of Directors and approved by all the Directors present |
| December 9, 2019 The 3rd Session The 5th Meeting | 1. The proposal on the payment of the Managerial Officers' year-end and special performance bonuses.<br>2. The Company's compensation plan for promoted Managerial Officers. | Approved by all members present in the meeting | Submitted to the Board of Directors and approved by all the Directors present |
| March 23, 2020 The 3rd Session The 6th Meeting | 1. The proposal of the company's allocation and distribution plan for employee bonus and the remuneration of Directors and Supervisors for 2019.<br>2. The proposal of the adjustment on the company's Table of Compensation Structure for Each Position and Level.<br>3. The Company's compensation plan for promoted Managerial Officers. | Approved by all members present in the meeting | Submitted to the Board of Directors and approved by all the Directors present |

Note:(1) Where members of the Remuneration Committee resign before the end of the year, the date of resignation sha be indicated in the Remarks column. Rate of actual attendance (%) shall be calculated by the number of Remuneration Committee meetings convened and times of actual presence during the term of service.

(2) Where any member of the Remuneration Committee is reelected before the end of the year, the new or forme members shall be listed. Indicate in the Remarks column that whether the member is former, new or reappointed and the date of re-election. Actual presence rate (%) shall be calculated by the number of Remuneration Committee meetings convened and times of actual presence during the term of service.

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(V) The state of Performance of Social Responsibilities:

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| I. Does the company conduct risk evaluation on environmental, social and corporate governance issues related to the company's operations in accordance with the principle of materiality, and formulate relevant risk management policies or strategies? | ✓ | | Based on the experience in conducting business, the merged company lists issues of concern to different stakeholders, views the major considerations of the benchmarking industry at home and abroad as well as international trends, social events and current events as sources of major issues. A total of 28 related issues have been summarized. The evaluation was conducted on the basis of two aspects: the degree of impact of the company on the economy, environment and society and the degree of impact on the evaluation and decision-making of stakeholders. The Company continued to collect opinions from important stakeholders through external questionnaires. A total of 328 internal and external questionnaires were collected in 2019. By statistics and quantitative analysis to identify the impact and degree of each issue, a matrix of major issues is generated, based on which the department in charge of each issue conducts the risk evaluation, management and supervision, implements and reports on the risk management according to the risk policy, and makes reports on a monthly basis, to ensure that each risk issue is managed promptly and comprehensively by the highest management level. | No variance |
| II. Does the company set up exclusively (or concurrently) dedicated units to promote corporate social responsibility, and does the | ✓ | | The Company has established a Corporate Social Responsibility Committee to be responsible for planning of actions on corporate social responsibility. | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| Board of Directors appoint senior executives to handle and report the status to the Board of Directors? | | | The chairman of the board is the top person in charge of the committee, the General Manager acts as the chairman, the Assistant General Manager of the Business and Purchasing Division acts as the Secretary-General, and the first-level Officer of each unit acts as the committee member. The members are acting concurrently, and a promotion team is set up to promote the work of corporate social responsibility under the authorization of the top responsible person. Under the Execution Center, there are three executive units: Environmental Sustainability Group, Operation Management Group, Employee Care / Social Participation Group. Meetings are held every year to discuss the implementation of corporate social responsibility, and the handling situation is reported to the chairman. | |
| III. Environmental Matters<br>(I) Does the company establish proper environment management systems based on the characteristics of their industries?<br><br>(II) Does the company endeavor to utilize all resources more efficiently and uses | ✓<br><br>✓ | | (I) The merged company is non-manufacturing industry, so it is not applicable to environmental management system certification such as ISO14001. Nevertheless, it strives to promote garbage classification and recycling activities to reduce the amount of garbage, strengthen the management of construction sites to reduce noise and air pollution, and to carry out greening to work area.<br>(II) The merged company makes every effort to improve the utilization efficiency of various | No variance<br><br>No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| renewable materials which have a low impact on the environment? | | | resources and energy conservation and carbon reduction. The Carbon Footprint Verification Statement has been obtained for the Tai 9-C1 Section Project in July 2019. The carbon emission of materials and transportation was effectively reduced by replacing the cement in concrete with the recycled fly ash furnace powder and by other methods, which is about 19,936 ton CO2e. The total amount of carbon reduction by this project is verified to be 23,173 ton CO2e, which is equivalent to planting 2.1 million trees, making a great contribution to reducing the impact of environmental load. The BS 8001 Circular Economy Verification Certificate was obtained in December, and various resource reuse projects were implemented at various construction sites. In terms of professional engineering, the merged company constantly pursues the development and application of new technologies, conducts local green procurement, and uses energy-saving products to reduce energy consumption and prevent and control pollution. In daily affairs, the merged company constantly advocates energy conservation, carries out e-document operation, and actively promotes the full use of recycled paper and the replacement of power-hungry lamps, so as to improve the | |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | utilization efficiency of various resources. | |
| (III) Does the company evaluate the present and future potential risks and opportunities of climate change to the company, and taken measures to respond to climate-related issues? | ✓ | | (III) The merged company is actively facing the impact of global climate change on its operations, integrates climate change into material environmental issues for risk and opportunity assessment, and adds buffer time, raises flood control standards, recruits younger staffs and provides more personal weather-resistant equipment when making the project plan, so as to avoid disasters or construction delays caused by climate change. | No variance |
| (IV) Does the company calculate greenhouse gas emissions, water consumption and total weight of waste over the past two years, and formulate policies for energy conservation and carbon emissions reduction, greenhouse gas emissions reduction, water consumption reduction or other waste management? | ✓ | | (IV) The merged company makes statistics on water and electricity consumption and total weight of waste for more than 2 years, discloses them in the corporate social responsibility report, implement energy policies on a daily basis, as well as makes energy-saving plans and relevant management measures to reduce the energy consumption during the construction process and daily works. The merged company is committed to promoting energy conservation and carbon reduction, and was the first to introduce ISO 14064-1 greenhouse gas inventory and verification in project 031B. The head office regularly announces the use of photocopy paper and water and electricity to promote the concept of energy conservation and | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | formulate a reduction plan. At present, the electronic mode has been adopted on asking for leave, working overtime, traveling on business and attendance, which have reduced the waste of paper and effectively achieved the target of energy saving and carbon reduction. Taking public transportation is promoted to reduce greenhouse gas emissions. Garbage classification and reducing volume and activity using disposable products have been conducted. Energy saving measures have been implemented on power-hungry lighting and air conditioning projects in public space. The annual per capita water consumption and the carbon emission from electricity use were both reduced by more than 5% compared with the base year, and the target of 1% per capita emission reduction was achieved. | |
| IV. Social Matters<br>(I) Does the company establish proper management methods and procedures in accordance with the relevant laws and regulations, and the International Bill of Human Rights? | ✓ | | (I) The merged company supports and respects the spirit of the International Declaration of Human Rights and the Constitution, has formulated the basic code of conduct such as the Code of Ethical Conduct and the Corporate Social Responsibility Best Practice Principles, as well as complied with the Labor Standards Act and related regulations. No violation of personal freedom, no forced labor, no discrimination, no | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | use of child labor. And the merged company has formulated the Prevention Measures, Complaints and Disciplinary Measures for Sexual Harassment, and established a committee to investigate sexual harassment complaints and prevent inappropriate sexual harassment caused by the execution of official duties. | |
| (II) Does the company establish and implement reasonable employee benefits measures (including remuneration, leave and other benefits, etc.) and appropriately reflect the corporate business performance or achievements in the employee remuneration? | ✓ | | (II) The merged company attaches great importance to the welfare and care of employees, analyzes and investigates the market salary, welfare situation and employment environment with a professional team, formulates a reasonable salary and remuneration policy and sets up a remuneration committee to regularly review the performance and remuneration standards of Directors and all senior executives, and carries on the compensation structure design for employees according to the evaluation of their functions and positions. Evaluation Methods for Kedge Construction and Employee Reward and Punishment Method have been formulated to regulate the daily operation of employees that employee should abide by the work ethics and environmental safety regulations. Employee ethics, department performance and job performance are all included in the promotion evaluation, of which the results will have impact | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | on the proportion of year-end bonus payment, level promotion and salary adjustment. Where employees of the company have obtained bidding projects which are special or have material contributions, colleagues who participated in the bidding will be rewarded for their credits in the bid in the current year. At the time of completion, the bonus budget will be appropriated from the profit to the project personnel and staff who are in charge of the site and have good performance.<br>The merged company also provides a vacation system, employee benefits (birthday gift certificates, three-festival gift certificates, wedding gifts, birth certificates, occasional happy event gifts, employee house purchase discount, injury condolence subsidy, emergency assistance fund, annual health check, funeral subsidy, irregular staff dinners, year-end party) in accordance with laws and regulations, and an insurance system (labor insurance, national health insurance, provision for labor pension, group insurance) etc. | |
| (III) Does the company provide a safe and healthy working environment for its employees and organize training on safety and health on a regular basis? | ✓ | | (III) In accordance with the Occupational Safety and Health Act, the Occupational Safety and Health Office of the merged company regularly organizes safety and health education and training, and some special occupational safety | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | and security professional training is entrusted to the external professional institutions, enabling employees or suppliers to acquire the knowledge and skills necessary to perform their jobs, promoting the industrial safety and security concept of employees or partner manufacturers by continuous training. In addition, in order to provide a safe, healthy and comfortable working environment, the merged company arranges health checks for employees every year. To create a friendly working environment, it also sets up a nursing room in the head office to encourage employees to settle down and have children, so as to maintain the right of postpartum female employees to breast-feed (group). | |
| (IV) Has the company established an effective competency development career training program for employees? | ✓ | | (IV) The Human Resources Department develops the coming annual education and training plan according to the business needs every year. Specific training is arranged for promoted officers, position changes and new colleagues. According to the business needs, each unit will put forward the training needs every year, and the Human Resources Department will coordinate the training, and engages colleagues in the field or outside the field to provide courses, thus all colleagues can exchange professional skills. Through continuous | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| (V) Is the company in compliance with relevant laws and regulations as well as international standards when it comes to customer health and safety, customer privacy, marketing and labeling of products and services, and make relevant policies and appeal procedures on the protection of consumer rights and interests? | ✓ | | training, the merged company is able to promote the quality and professional work skills of manpower, to enhance the competitiveness of all colleagues, shaping a working environment of unlimited career and endless development.<br>(V) The merged company guards the health and safety of customers, does not use any hazardous substance in the construction process, and has obtained relevant inspection certificates provided by suppliers for the raw materials used, such as non-radioactive pollution certificate of steel bars, chloride content inspection certificate of concrete and no use of marine sand, etc., so as to guarantee the quality. And the CRM customer relationship management system was introduced for customer privacy, including software security management, peripheral device security management and file directory monitoring and management, so as to ensure that customer privacy and confidential information are not disclosed.<br>The merged company has obtained the international standard certification of ISO 9001:2015, ISO 45001 and CSR, and established the quality management system and set up the quality management standard in each link of project management. The Company contracts projects by bidding or bargaining | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | system, and most customers entrust professional supervision companies to monitor the construction on behalf, therefore, it will not mislead customers into buying products or services that do not meet their needs with unfair, incomplete or inaccurate marketing and information.<br>What's more, the Purchasing Department and Customer Service Department also set up a complaint and customer service window. Purchasing Department is responsible for responding to any problems raised by suppliers, while dedicated person of Customer Service Department is managing systematically for any customer feedback about quality problems, responding within 24 hours, providing immediate after-sales service. There was not any violations of health and safety regulations or complaints of suspected personal information disclosure in 2019. | |
| (VI) Does the company have established a supplier management policy that requires suppliers to comply with the relevant standards on issues such as environmental protection, occupational safety and health, or labor and human rights? And the implementation status. | ✓ | | (VI) The merged company attaches great importance to environmental and social protection and is committed to ensuring the safety of working environment, occupational safety and health of workers or labor human rights in the industrial supply chain. Therefore, it has formulated the Supplier Code of Conduct and management strategy, requiring the supplier to implement in | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| | | | accordance with the content of the code and comply with the laws and regulations of the country where the supplier is located. Moreover, the appraisal and evaluation system were carried out before the quotation and after the winning of the bid of suppliers, and the relevant evaluation system was also adopted for the completion and acceptance inspection, which shall conform to the aspects of labor human rights and environmental protection measures, so as to serve as the basis for the subsequent contract awarding. The contracts signed by the merged company and the suppliers have clauses about corporate social responsibility, and the Ethical Agreement Statement shall be signed separately, so as to achieve the purpose of promoting corporate social responsibility jointly by the merged company and the suppliers. In case that the supplier is involved in violating the company's corporate social responsibility policy or has significant impact on the environment and society, the contract may be terminated or dissolved at any time. The implementation rate of contracts signed with suppliers in 2019 is 100%. | |
| V. Does the company adopt internationally widely recognized standards or guidelines when producing corporate social responsibility report | ✓ | | The merged company prepares the corporate social responsibility report with reference to the Global Reporting Initiative (GRI) Standards, the Sustainable | No variance |

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance</th></tr>
<tr><th>Yes</th><th>No</th><th>Description</th></tr>
<tr><td>and other reports that disclose non-financial information of the company? Whether assurance or verification opinions have been obtained for the aforementioned reports by a third party certification unit?</td><td></td><td></td><td>Development Goals (SDGs) of United Nations, and the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies promulgated by the Taiwan Stock Exchange/Taipei Exchange (TWSE/TPEx), and obtains the Assurance Statement from external unit BSI Taiwan in accordance with requirements of the international standard AA 1000 AS(2008).</td><td></td></tr>
<tr><td colspan="5">VI. Where the company has formulated its own corporate social responsibilities principles according to the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, please state the variances between its implementation and the principles formulated:<br>The Company has formulated its Corporate Social Responsibility Best Practice Principles in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, stipulating that Directors shall undertake the primary obligation of urging the company to carry out its social responsibility and shall keep the implementation effectiveness under review and make continuous improvement at any time, and the company shall actively practice corporate social responsibility (CSR) to ensure the implementation of CSR policies on "corporate governance, sustainable environment and social welfare" through corporate citizenship's undertaking of responsibilities.</td></tr>
<tr><td colspan="5">VII. Other key information useful for understanding of the implementation status of corporate social responsibility practices:<br>1. <u>Environmental protection:</u><br>(1) Following the green design, the merged company adopts the engineering methods that can reduce damage to the environment to reduce the disturbance to the natural environment, adopts dust facilities with strict requirements for all projects to reduce the impact of dust on the surrounding neighborhood, and strictly regulates the construction manufacturers. To maintain the peace of the surrounding community, all construction machinery shall be suspended from 9pm to 8am on the following day.<br>(2) In view of the impact of the project on the natural environment, the merged company specially hires ecological consultants to carry out pre-construction investigation, planning, protection, inspection and monitoring and abnormal countermeasures At present, regular monitoring projects include protection of rare and important plants, environmental protection of construction access roads and inter-waterway streams, monitoring of frogs at night and protection of roadkill animals.</td></tr>
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| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |

2. Community involvement:

The merged company maintains good interaction with the local community in the construction area, actively participates in local agency activities, subsidizes the operation funds for local organizations, donates materials to local vulnerable organizations, co-hosts special end-day celebrations with the local community, visits local neighbors from time to time, and maintains good interaction with local residents. Examples of activities in 2019:

| Name of Activity | Number of Beneficiaries |
|---|---|
| Donated 40 sets of books of Celebrity Study to Taiwu Junior High School in Taitung County and Taipei Municipal Minzu Elementary School | About 1040 persons |
| Donated to the fundraising dream project of Baseball Team of Anshuo Elementary School in Tadren Township, Taitung County | About 20 persons |
| Donated to the living resources of the vulnerable families of the Paiwan Nantian Tribe in Taitung, and formed a professional volunteer team composed of Kedge's engineers to assist in the replacement of lighting and sanitation equipment and house repairs | About 40 persons |
| Donated the fire fighting and publicity equipment to Fengshan Yixiao Team, and assisted in the repair of the office and meeting space | About 40 persons |
| Donated nutritional foods to Andrea Food Bank / New Taipei City Private Catherine Kindergarten | About 50 persons |
| Cooperated with the Minzu Elementary School to curate the city art gallery project, fully sponsored the event cost and provided scholarships | About 32 persons |
| In the case of abundance of agricultural products leading to price collapse, Kedge Construction directly purchased 250 kilograms of red quinoa from Taitung Pacavalj Tribe, the place of origin, and granted to employees to support local agricultural industry | About 532 persons |

3. Community service:

The merged company values the culture of harmonious construction, understands the local culture and residents' habits, and identifies the surrounding environment of the case before the construction of each project, so as to formulate a good neighborhood policy;

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |

Dredges the surrounding environment and community gully irregularly, and voluntarily clean and be responsible for the road around the site every week to keep the surrounding community clean and tidy.

4. Social contribution:
   (1) Provide construction and education cooperation awards to outstanding students, and winter and summer internship camp: To reward outstanding students, the merged company strengthens exchanges with academic units, reserves talents for the future development of the company and fulfill its corporate social responsibility. Outstanding college students and postgraduates recommended by professors and department (department heads) of universities and colleges each year, who meet the requirements of granting, will be eligible for tuition and miscellaneous fees/living expenses or work/study opportunities. In addition, an internship camp is held every winter and summer vacation to provide interns to participate in the business operation of the company and to provide internship subsidies. Meanwhile, an officer is arranged to act as a mentor and personally provide the most professional knowledge and thematic guidance. And the Human Resources Department also provides internship care during the internship period to understand the students' adaptation and learning situation in the practical project and arranges relevant exchange activities and site visits, so as to shorten the gap between students' learning and practicing and achieve the effect of employment upon graduation. A total of 31 interns were employed in 2019, with the subsidy and expenditure of NT$1.8 million approximately, and the actual subsidy per intern of NT$25,000 per month on average, providing student living allowance.
   (2) Response to local government policies: In response to the Technical vocational education rooted program organized by the New Taipei City Government, the merged company provides practical courses/site visits, scholarships and 2 opportunities for work/study in summer or winter, summer or semester, enabling the technical vocational students to obtain more resources, achieve full learning, to solve the problems of gap between learning and practicing, and actively cooperate with the New Taipei City Government to implement preferential employment policy for students of excellent performance recommended.
   (3) In case of job vacancy, the merged company will give priority to local residents who meet the qualification requirements.
   (4) Assisted to hold the "2019 Marathon for the Celebration of the Full Opening of the South Link Highway of Provincial Highway No. 9 from Taitung City to Fenggang" to promote the importance of sports and physical fitness. About 5,100 members of the public participated in the event.

5. Social welfare:
   (1) Cooperated with the Taitung Forest Management Office of the Forestry Bureau to hold a tree planting program with theme of

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |

"Afforestation · Building a Beautiful Home", carried out afforestation activities in Taiwu Township, Taitung County, and invited neighboring communities to plant trees together for a three-year 1.32-hectare afforestation project, so that precious forest resources can keeps growing and multiplying. Leverage the corporate influence, protect the earth with actions, and slow down global warming and the greenhouse effect.

(2) Initiated two large-scale beach cleaning activities, calling on the public, NPO organizations and employees to clean the beach together. About 527 people participated in the activities to clear away 2,660.6 kg of marine debris, and continued to carry out the daily plastic reduction activities in the company. Subsequently, the company also donated NT$100,000 to Taiwan Corporation Re-think Environmental Education Association to implement the environmental protection plan.

(3) Donated NT$4 million to Kindom Yu San Education Foundation, sponsored for the promotion and holding of various educational activities, cultivates outstanding talents, deepens the exchange between industry and university, encourages forward-looking thinking, improves the atmosphere of reading and promotes social progress. Several public welfare activities have been organized and sponsored in 2019, the details are as follows:

| Name of Activity | Description | Number of Participants/Beneficiaries |
|---|---|---|
| Celebrity Study Reading Program Project | 1. Inspire the audience to improve the reading atmosphere through sharing concept of reading stories by celebrities.<br>2. Broadcast on Global News, DaAi TV, Yahoo TV, iQiyi and Celebrity Study Youtube Channel. | 70 people/over 1 million click rate on the Internet |
| Publishing of the online journal and annual journal of Kindom's Living Magazine | 1. Continue to issue publications for life, architecture, design, taste and other aspects.<br>2. Set up an online blog to share the imagination, pursuit and details of the trend of life with the public.<br>3. Organized two workshops on aesthetic life to convey the foundation's original intention through interaction with readers. | 30 persons |
| Better Life Reading Program | Organize themed book fairs regularly on the first floor of the company building, organize lectures, workshops, etc. matching theme of each fair, which are opened up to the general public, community residents and enterprise colleagues, enabling them to acquire knowledge in different fields and enriching their own learning and keeping growth through the interaction of practical activities. | 100 persons above |

| Evaluation Item | Implementation Status | | | Any Variance from the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |

| | | |
|---|---|---|
| The one-to-one sponsored program for the after-school teachers of "Grass Book House" | Construct a complete community support system for vulnerable children aged from 6 to 18, enabling every child to grow up and build his/her dream under a stable learning environment. | 100 persons above |
| Grass Life Skills Academy Carpentry Class Cooperation Program | By nurturing the skills of teenagers, Grass Life Skills Academy establishes and promotes the Academy Carpentry Class, conducts production of plaques and wood carving under the leadership of the master carpenters, to encourage students, open their vision, see much more possibilities of themselves, to continue the sustainable cooperation between the academy and children. | 100 persons above |
| Art Zero Distance - National Theater & Concert Hall Dreaming Plan | Provide opportunities for students from rural areas, the elderly and disadvantaged groups to enjoy the performances on the National Theater & Concert Hall and learn relevant knowledge through guidance, so as to narrow the gap between urban and rural areas and enhance aesthetic education. We hope that the participants will inspire more creative and beautiful possibilities for their future through professional guidance and performance. | 100 persons above |
| Donate books | Donated 2,000 good books to 30 community libraries of Kindom Enterprises, Grass Book House / Grass Life Skills Academy, House of Dream Education Foundation, Renewal Foundation, Songshan Family Business Library, Christian Good 119 Center, the New Taipei City Private Tatung Nursery School, Taitung County Taiwu Junior High School in Taitung County, Taipei Minzu Elementary School and other units, and upholds the spirit of promoting reading. | 800 persons above |

VIII. A clear statement shall be made if the corporate social responsibilities report of the company passed the inspection of relevant certification agencies:

(I) The 2015 CSR report was compiled in accordance with the guidelines of GRI G4 and verified by BSI on the AA1000AS TYPE I guarantee standard.

(II) The 2016 CSR report was compiled in accordance with the guidelines of GRI G4 and verified by BSI on the AA1000AS TYPE I guarantee standard.

(III) The 2017 CSR report was compiled in accordance with the guidelines of GRI Standards (2016) and verified by BSI on the AA1000AS TYPE I guarantee standard.

(VI) Implementation Status of Ethical Corporate Management:

| Evaluation Item | Implementation Status | | | Any Variance from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| I. Adopt ethical corporate management policy and programs | | | | |
| (I) Has the company formulated its ethical management policy approved by the Board of Directors, clarified it in its regulations and external documents and the commitment of board of Directors and senior Managers to active implementation? | ✓ | | (I) In order to establish a corporate culture of ethical management and a reference framework for good business operation, the company has formulated the Corporate Governance Practice Guidelines and Ethical Corporate Management Best Practice Principles to regulate the company and its Directors, Supervisors, managers, employees, appointees and substantial controllers, as well as the ethical standards and codes of conduct in the performance of duties. | No variance |
| (II) Does the company establish a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and establish prevention programs accordingly, which shall at least include preventive measures against the behaviors as stipulated in paragraph 2, Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies? | ✓ | | (II) To ensure the implementation of ethical management, the merged company has established effective accounting and internal control systems, and its internal auditors regularly audit the compliance of the preceding systems. Select suitable candidates when selecting cooperative manufacturers, and state in the statement "do not exercise gifts, hospitality or give improper benefits". | No variance |
| (III) Has the company in the prevention programs for unethical conduct clearly prescribed the | ✓ | | (III) In addition to that the Staff Working Rules and other personnel policies have stipulate that employees shall | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| operational procedures, conduct guidelines and disciplinary and appeal system for violations of the ethical corporate management rules and implemented them, and conducted review and amendment on the aforementioned programs on a regular basis? | | | not involve in unethical conduct, the merged company includes the prevention operational procedures in the training courses for new employees or other personnel education and training. | |
| II. Implementation of Ethical Corporate Management | | | | |
| (I) Does the company evaluate the ethical record of its business partners and set ethical conduct policies in the terms and conditions of its contracts with the counterparties? | ✓ | | (I) When selecting cooperative manufacturers, the merged company selects suitable candidates by means of credit investigation, and stipulates in the statement "do not exercise gifts, hospitality or give improper benefits". | No variance |
| (II) Has the company set up a dedicated unit under the Board of Directors to promote ethical corporate management and regularly (at least once every year) report to the Board of Directors the implementation of the ethical corporate management policies and prevention programs against unethical conduct? | ✓ | | (II) The Human Resources Department of the merged company is responsible for the formulation and promotion of business policies and rules, and the audit unit shall carry out the compliance audit and report to the Board of Directors. | No variance |
| (III) Does the company adopt policies for preventing conflicts of interest and provide proper statement channels and implement? | ✓ | | (III) The Human Resources Department and audit unit of the merged company are jointly responsible for formulating policies for preventing conflicts of interest and accepting statements. | No variance |
| (IV) Has the company established an effective accounting system, internal control system to put ethical corporate management into | ✓ | | (IV) The audit unit of the merged company conducts regular or irregular audits on various operating activities to ensure the effective implementation of | No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| practice? The internal audit unit shall draw up the relevant audit plan to audit the compliance of the prevention programs for unethical conduct according to the risk valuation results of the unethical conduct, or audited by CPAs<br>(V) Does the company organize internal or external trainings of the ethical corporate management regularly? | <br><br><br><br><br>✓ | | various systems.<br><br><br><br><br>(V) The merged company adheres to the business philosophy of ethical management and strengthen the publicity and guidance in the business meeting and implements. | <br><br><br><br><br>No variance |
| III. Operation of the company's Whistle-blowing System<br>(I) Does the company adopt a concrete whistle-blowing and reward system to facilitate the whistle-blowing channel and appoint appropriate dedicated personnel to handle the whistle-blowing matters according to the whistle-blowee?<br>(II) Has the company formulated the standard operating procedures for accepting the investigation, follow-up measures to be taken upon completion of the investigation and the relevant confidentiality mechanism?<br>(III) Does the company adopt measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing? | <br>✓<br><br><br><br><br><br>✓<br><br><br><br><br>✓ | | <br>(I) The merged company has established a mailbox and hotline for whistle-blowing and complaints. The Human Resources Department is responsible for handling relevant affairs and handling complaints and penalties according to the company's prescribed operating procedures.<br>(II) The Human Resources Department of the merged company shall be responsible for keeping confidential the information of the parties concerned when handling the whistle-blowing matters.<br>(III) The merged company has adopted a confidentiality system for the whistle-blowing process, thus the whistle-blower will not be punished for the whistle-blowing. | <br>No variance<br><br><br><br><br><br>No variance<br><br><br><br><br>No variance |

| Evaluation Item | Implementation Status | | | Any Variance from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| IV. Strengthening of Information Disclosure<br>(I) Does the company disclose the status of implementation and effectiveness of promotion of ethical corporate management on its website and the Market Observation Post System (MOPS)? | ✓ | | (I) The Company has set up a website with a "CSR Section", which clearly reveals that "ethic" is the most fundamental business philosophy, and promotes the company spirit as "emphasis on integrity, quality insistence, sincere service, innovation and progress, sustainable operation". | No variance |
| V. Where the company has formulated its own ethical corporate management best practices according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please state the variances between its implementation and the principles formulated:<br>(VII) In order to practice corporate social responsibility and promote the balance of economy, society and environment and sustainable development,The Board of Directors of the company adopted the Ethical Corporate Management Best Practice Principles on March 24, 2016, and regularly reviewed the implementation status in accordance with the principles and made improvements accordingly. There is no variance since its implementation.<br>(VIII)The Company attaches great importance to ethical corporate management, and has organized educational and training courses related to ethical corporate management (such as new employee education and training with corporate culture and ethical management as theme, Money Laundering Control Act, etc.) in 2019, with 96 person-times and a total of 688 hours. | | | | |
| VI. Other important information for better understanding of the ethical corporate management: (such as review and amendment of the principles of ethical corporate management):<br>(I) The Company complies with the company Act, Securities and Exchange Act, Business Entity Accounting Act, TWSE/TPEx listing rules, or other laws or regulations regarding commercial activities, as the underlying basic premise to facilitate ethical corporate management.<br>(II) The merged company has specified the article of recusal system for Directors in the Rules of Procedure for Board of Directors Meetings that if a Director or a juristic person that the Director represents is an interested party in relation to an agenda item, and the relationship is likely to prejudice the interest of the company, the Director shall state opinions and answer inquiries, may not participate in and shall recuse himself or herself from the discussion or the voting on the agenda item, and may not exercise voting rights as proxy for another Director.<br>(III) The merged company has formulated the Procedures for Handling Material Inside Information, specifying that no Director, Supervisor, | | | | |

| Evaluation Item | Implementation Status | | | Any Variance from the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, and the Reason for Any Such Variance |
|---|---|---|---|---|
| | Yes | No | Description | |
| Managerial Officer, or employee with knowledge of material inside information of the company may divulge the information to others, nor may inquire about or collect any non-public material inside information of the company not related to their individual duties from a person with knowledge of such information, or nor may they disclose to others any non-public material inside information of the company of which they become aware for reasons other than the performance of their duties. | | | | |

(VII) If the company has adopted corporate governance best-practice principles or related bylaws, disclose how these are to be searched: The merged company has formulated the Corporate Governance Practice Principles and disclosed it on the MOPS and the company website.

(VIII) Other significant information that will provide a better understanding of the state of the company's implementation of corporate governance may also be disclosed: Note.

(IX) Implementation State of the Internal Control System:

1. Statement of Internal Control System:

# Kedge Construction Co., Ltd.
# Statement of Internal Control System

Date: March 23, 2020

According to the self-evaluation results of internal control system by the company in 2019, we hereby states as follows:

I. The company's Board of Directors and Managerial Officers understand their responsibilities of developing, implementing and maintaining the company's internal control system, and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following objectives: (a) The effectiveness and efficiency of business operation (including earnings, operation performance and the safeguard of company assets); (b) the reliability, timeliness, transparency of report; and (c) Achieve compliance objectives according to the relevant laws and regulations in order to provide reasonable assurances.

II. The internal control system has its inherent limitations. It can only provide reasonable assurance for the achievement of the aforementioned three objectives regardless of the improvement of the design. The effectiveness of the internal control system is also subject to changes in the environment and situation. Since the company's internal control system is provided with a self-monitoring mechanism, the company will take corrective actions once defects are identified.

III. The company makes judgments on whether the design and implementation of the internal control system are effective in accordance with the judgments items of effectiveness of internal control system specified in the Regulations Governing Establishment of Internal Control Systems by Public Companies (hereinafter referred to as "the Regulations"). The Regulations are made to examine the following five factors during the management and control process: (1) control environment, (2) risk assessment and response, (3) control activities, (4) information and communication, and (5) supervision. Each factor also includes several items. For the aforementioned items, please refer to the provisions of the Regulations.

IV. The Company has already adopted the aforementioned the internal control system judgments items to evaluate the effectiveness of the design and implementation of the system.

V. The evaluation results indicated that the company's internal control system (including supervision and management of subsidiaries) dated December 31, 2019 has effectively assured that the following objectives have been reasonably achieved during the assessing period: (a) The degree that effectiveness and efficiency of business operation; (b) The reliability of the financial and related reports; (c) The compliance of the relevant laws/regulations and company policies.

VI. This statement will be the main content of the company's annual report and prospectuses and shall be open to the public. If any of the above disclosed contents contains false information or omits any material content, the company will involve legal liability under Article 20, Article 32, Article 171 and Article 174 set forth in the Security and Exchange Act.

VII. The Company hereby declares that this statement had been approved by the Board of Directors on March 23, 2020. Among the 7 attending Directors, no one raised any objection and all consented to the content expressed in this statement.

Kedge Construction Co., Ltd.

Chairman (Signature): Miriam Ma

General Manager (Signature): Hui-Jen Huang

2. A CPA is entrusted to carry out a special audit of the internal control system: None.

(X) Any legal penalty against the company or its internal personnel, or any disciplinary penalty by the company against its internal personnel for violation of the internal control system, during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report, the main shortcomings, and condition of improvement: None.

(XI) Material resolutions of a shareholders meeting or a Board of Directors meeting during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report:

1. Material resolutions of the Regular Shareholders' Meeting:

| Meeting Time | Major Resolutions | | Implementation State |
|---|---|---|---|
| 2019.06.17 | Discussions | Adoption on the Earnings Distribution Proposal for 2018 of the company. | A cash dividend of NT$3 per share was distributed on August 1, 2019. |
| | | Adoption on the amendment to the Articles of Incorporation of the company. | Proceed with the resolution results. |
| | | Recognition on the final accounting books and statements for 2018 of the company. | Proceed with the resolution results. |
| | | Adoption on the amendments to the Rules of Procedure for Shareholders Meetings, Election Procedures of Directors and Supervisors, Operational Procedures for Acquisition and Disposal of Assets, Operational Procedures for Endorsements and Guarantees and Operational Procedures for Loaning Funds to Others. | Proceed with the resolution results. |

2. Major Resolutions of the Board Meetings:

| Meeting Date | Session | Major Resolutions |
|---|---|---|
| 2019.03.20 | The 10th Session The 13th Meeting | 1. The Remuneration Committee approved the amendment to the company's Measures on Board Performance Evaluation.<br>2. The Remuneration Committee approved the proposal of the company's allocation and distribution plan for employee bonus and the remuneration of Directors and Supervisors for 2018.<br>3. The Remuneration Committee ratified and adopted the compensation proposal for the newly appointed Managerial Officer Li-Wei Kuo, Acting Assistant General Manager.<br>4. Proposed to prepare the company's Business Report and Financial Statements for 2018.<br>5. Proposed to prepare the company's Earnings Distribution Proposal for 2018.<br>6. Proposed to prepare the Statement on Internal Control System for the Year 2018.<br>7. Proposed to amend the company's Articles of Incorporation, and partial articles of the Rules of Procedure for Shareholders Meetings and the Election Procedures of Directors and Supervisors.<br>8. Proposed to amend partial articles of the company's Operational Procedures for Acquisition and Disposal of Assets, Operational Procedures for Endorsements and Guarantees and Operational Procedures for Loaning Funds to Others.<br>9. Drew up the agenda of the company's 2019 regular shareholders' meeting and other relevant matters. |
| 2019.05.10 | The 10th Session | 1. Proposed to amend partial articles of the company's Corporate Governance Practice Principles. |

| Meeting Date | Session | Major Resolutions |
|---|---|---|
| | The 14th Meeting | 2. Formulated the company's Standard Operating Procedures for the Handling of Directors' Requests.<br>3. The Company has signed with the Economic Development Department of New Taipei City Government the project procurement contract of "Turnkey Project of Baogao Smart Industrial Park in Xindian District, New Taipei City". |
| 2019.06.17 | The 10th Session The 15th Meeting | 1. Set the base date of the company's cash dividend allocation for 2018.<br>2. Proposed to engage the Independent Director, Shen-Yu Kung, as the Remuneration Committee member.<br>3. Proposed to amend partial articles of the procedures of the company's internal control system including Operational Procedures for Loaning Funds to Others, Operational Procedures for Endorsements and Guarantees, Operational Procedures to Engage in the Derivatives Transactions, Handling Procedures for Acquisition or Disposal of Real Estate, Equipment or Their Right to Use Assets and Management Procedures for Operation of Board Meetings.<br>4. The Company proposes to sign two project contracts with the Taipei City Government in the near future, namely, Reconstruction Turnkey Project of South Gate Building and Market and the New Construction Project of Nanhu Elementary School Activity Center in Neihu District, Taipei City.<br>5. Proposal on the amendment to the company's Organization Chart. |
| 2019.11.08 | The 10th Session The 17th Meeting | 1. Proposal on the amendment to the company's Organization Chart.<br>2. Amendment and abolishment of the system handbook and part of the procedures of the company's Internal Control System.<br>3. The Company has obtained the New Construction Bidding of TSMC Nanko F18P3 CUP from Taiwan Semiconductor Manufacturing Company.<br>4. The Company has obtained the Undergrounding Project Bidding of the Tainan Station of the C212 Section from Railway Bureau, MOTC. |
| 2019.12.20 | The 10th Session The 18th Meeting | 1. Drew up the 2020 Annual Operational Plan.<br>2. Drew up the 2020 Annual Audit Plan.<br>3. The Remuneration Committee ratified and adopted the proposal on the promotion of Managerial Officers: Li-Ya Chen, Assistant General Manager; Hsiao-Ching Ho, Assistant General Manager;Chia-Hsing Li, Acting Assistant General Manager.<br>4. The Remuneration Committee adopted the proposal on the payment of Managerial Officers' year-end and special performance bonuses according to the company's Evaluation Methods.<br>5. Proposal on the amendment to the company's Organization Chart.<br>6. The Company proposes to donate NT$5.5 million to Kindom Yu San Education Foundation in the coming year (2020).<br>7. Evaluated the independence and suitability of CPAs appointed by the company.<br>8. The Company has obtained the Turnkey Bidding Project of Taoyuan Convention and Exhibition Center from Office of Public Construction, Taoyuan City. |
| 2020.03.23 | The 10th Session The 19th Meeting | 1. Proposal on the election of acting chairman of the board meeting.<br>2. Proposal on the allocation and distribution plan for employee bonus and the remuneration of Directors and Supervisors for 2019.<br>3. Proposal on the adjustment on the company's Table of Compensation Structure for Each Position and Level.<br>4. The company's compensation plan for promoted Managerial Officers.<br>5. 2019 Business Reports and Financial Statements. |

| Meeting Date | Session | Major Resolutions |
|---|---|---|
| | | 6. 2019 Earnings Distribution Plan.<br>7. A Statement on Internal Control System for the Year 2019.<br>8. Proposed to amend partial articles of the Operational Procedures for Acquisition and Disposal of Assets, Operational Procedures for Endorsements and Guarantees and Operational Procedures for Loaning Funds to Others.<br>9. Proposed to amend partial articles of the Rules of Procedure for Board of Directors Meetings, Ethical Corporate Management Best Practice Principles and Corporate Social Responsibility Best Practice Principles.<br>10. Proposed to formulated the Audit Committee Charter and amend partial articles of the Corporate Governance Practice Principles of the company.<br>11.<br>12. Election of the eleventh Session of the company's Directors (including Independent Directors).<br>13. The agenda of the company's 2020 regular shareholders' meeting and other relevant matters.<br>14. Cooperating with the internal adjustment of KPMG Taiwan, the CPAs of the company's financial statements will be changed to Yi-Lien Han, Ti-Nuan Chien from the first quarter of 2020.<br>15. Evaluated the independence and suitability of CPAs appointed by the company.<br>16. F18P5 and F18P6 Excavation of Soil Retaining Piles from Taiwan Semiconductor Manufacturing Company. |
| 2020.04.24 | The 10th Session The 20th Meeting | 1. Proposal on the election of acting chairman of the board meeting.<br>2. Proposed to approve the roster of Director candidates and review the qualifications of the nominees of Independent Directors.<br>3. Proposal on the lifting of the non-competition restrictions on new Directors.<br>4. Proposed to add matters in "Other Proposals" for the 2019 General Shareholders' Meeting.<br>5. Extraordinary motions: A by-election of the chairman of the company. |

(XII) Where, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, a Director or Supervisor has expressed a dissenting opinion with respect to a material resolution passed by the Board of Directors, and said dissenting opinion has been recorded or prepared as a written declaration, the main content: None.

(XIII) A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, of the company's Chairman, General Manager, Heads of Accounting, Finance, Internal Audit, Corporate Governance and R&D:

| Title | Name | Date of Assumption | Date on Which Current Position was Resigned | Reasons for Resignation or Dismissal |
|---|---|---|---|---|
| Chairman of the Board | Miriam Ma | June 19, 2017 | April 24, 2020 | Personal reasons |

## IV. Information on CPA Professional Fees:

(I) Range Table of CPA Professional Fees:

| Name of Accounting Firm | Name of the CPA | Audit Fee (NT$ thousand) | Non-audit Fee (NT $thousand) | | | | | Audit Period | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | | | System Design | Commercial Registration | Human Resources | Others | Subtotal | | |
| KPMG Taiwan | Ti-Nuan Chien<br>Shu-Ying Chang | 2,900 | 0 | 0 | 30 | 0 | 30 | 2019.01.01 ~ 2019.12.31 | The non-audit fee is the review fee for the Compensation Information Checklist for Full-time Employees who are not in Officer Positions. |

(II) When non-audit fees paid to the CPA, to the accounting firm of the CPA, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto: None.

(III) When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year: None.

(IV) Whether the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more: None.

## V. Information on Replacement of CPA:

(I) Regarding the Former CPA: None.

(II) Regarding the Successor CPA: None.

(III) The former CPA's respond to matters as described in subparagraph 1 and item 3 of subparagraph 2, paragraph 5 of Article 10 of these Regulations: Not applicable.

## VI. Whether the company's chairman, General Manager, or any Managerial Officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its CPA or at an affiliated enterprise of such accounting firm: None.

## VII. Any Transfer of Equity Interests And/Or Pledge of or Change in Equity Interests (During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report) by a Director, Supervisor, Managerial Officer, or Shareholder With a Stake of More than 10 Percent During the Most Recent Fiscal Year or During The Current Fiscal Year up to the Date of Publication of the Annual Report:

(I) The Status of any Change in Equity Interests by a Director, Supervisor, Managerial Officer, or Shareholder With a Stake of More than 10 Percent:

| Title | Name | 2019 | | The Current Fiscal Year (2020) up to April 17, 2020 | |
|---|---|---|---|---|---|
| | | Increase (Decrease) of Shareholding | Increase (Decrease) of Pledged Shares | Increase (Decrease) of Shareholding | Increase (Decrease) of Pledged Shares |
| Chairman of the Board (Note 1) | Kindom Development Co., Ltd. Representative: Miriam Ma | - | - | - | - |
| Director | Kindom Development Co., Ltd. Representative: Mei-Chu Liu | - | - | - | - |
| Director | Kindom Development Co., Ltd. Representative: Yi-Fang Huang | - | - | - | - |
| Director (Note 2) | Kindom Development Co., Ltd. Representative: Ai-Wei Yuan | - | - | - | - |
| Director | Kindom Development Co., Ltd. Representative: Shih-Hsuan Chou | - | - | - | - |
| Director | Kindom Development Co., Ltd. Representative: Ming-Tao Chen | - | - | - | - |
| Independent Director | Shen-Yu Kung | - | - | - | - |
| Independent Director | Hung-Chin Huang | - | - | - | - |
| Supervisor | Peng-Lung Hua | - | - | - | - |
| General Manager | Hui-Jen Huang | - | - | - | - |
| Executive Assistant General Manager | Shih-Hsuan Chou | - | - | - | - |
| Executive Assistant General Manager | Yi-Fang Huang | - | - | - | - |
| Assistant General Manager (Note 3) | Wei-Chi Li | - | - | - | - |
| Assistant General Manager | Chin-Hua Fan | - | - | - | - |
| Senior Assistant General Manager | Chun-Ming Chen | - | - | - | - |
| Assistant General Manager | Chao-Ming Chen | - | - | - | - |
| Assistant General Manager | Wen-Hsiung Chou | - | - | - | - |
| Assistant General Manager | Chih-Kuo Tseng | - | - | - | - |
| Assistant General Manager | Hsien-Chin Chiu | - | - | - | - |
| Assistant General Manager | Chung-Te Hsiao | - | - | - | - |
| Assistant General Manager | Nai-Cheng Yu | - | - | - | - |
| Assistant General Manager | Wen-Yen Lin | - | - | - | - |
| Assistant General Manager | Wen-Chin Li | - | - | - | - |
| Assistant General Manager and Financial Officer | Li-Ya Chen | - | - | - | - |
| Assistant General Manager | Hsiao-Ching Ho | - | - | - | - |
| Assistant General Manager | Ju-Ping Chang | - | - | - | - |
| Acting Assistant General Manager | Wen-Yao Liu | - | - | - | - |
| Acting Assistant General Manager | Chun-Cheng Liang | - | - | - | - |
| Acting Assistant General Manager | Ming-Chung Lin | - | - | - | - |

| Title | Name | 2019 | | The Current Fiscal Year (2020) up to April 17, 2020 | |
|---|---|---|---|---|---|
| | | Increase (Decrease) of Shareholding | Increase (Decrease) of Pledged Shares | Increase (Decrease) of Shareholding | Increase (Decrease) of Pledged Shares |
| Acting Assistant General Manager | Chin-Chih Hsu | - | - | - | - |
| Acting Assistant General Manager | Hsu-Yuan She | - | - | - | - |
| Acting Assistant General Manager (Note 4) | Li-Wei Kuo | - | - | - | - |
| Acting Assistant General Manager (Note 5) | Chia-Hsing Li | - | - | - | - |

Note 1. The former Chairman of the Board resigned as representative on April 24, 2020.

Note 2. The Director was elected by the Board of Directors as Chairman on April 24, 2020.

Note 3. Dismissed on April 20, 2020.

Note 4. Dismissed on November 29, 2019.

Note 5. Promoted on July 8, 2019.

(II) Information on Transfer of Equity: None.

(III) Information on Pledge of Equity: None.

## VIII. Information on the top 10 shareholders of the company's identified as related parties, spouse or relative within second-degree of kinship:

Information on relationship among the company's top 10 shareholders

April 17, 2020 (Unit: shares)

| Name | Shares Held by Director | | Shares Held by Spouse and Minor Children | | Total Shareholding through Nominees | | Title or Name and Relationships of the Top 10 Shareholders Where They are Related Parties, Spouses, or Relatives within the Second Degree of Kinship | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Title (or Name) | Relationship | |
| Kindom Development Co., Ltd. Representative: Mike Ma | 36,247,768 | 34.18% | - | - | - | - | Yude Investment Co., Ltd. | This company's chairman is a relative within the first degree of kinship of the chairman of Yude Investment Co., Ltd. | |
| | | | | | | | Mike Ma | The chairman of this company | |
| | | | | | | | Mei-Chu Liu | A relative within the first degree of kinship of the chairman of this company | |
| | | | | | | | Miriam Ma | A relative within the second degree of kinship of the chairman of this company | |
| | | | | | | | Shao-Ling Ma | A relative within the second degree of kinship of the chairman of this company | |
| Yude Investment Co., Ltd. Representative: Mei-Chu Liu | 8,785,536 | 8.29% | - | - | - | - | Kindom Development Co., Ltd. | This company's chairman is a relative within the first degree of kinship of the chairman of Kindom Development Co., Ltd. | |
| | | | | | | | Mike Ma | A relative within the first degree of kinship of the chairman of this company | |
| | | | | | | | Mei-Chu Liu | The chairman of this company | |
| | | | | | | | Miriam Ma | A relative within the first degree of kinship of the chairman of this company | |
| | | | | | | | Shao-Ling Ma | A relative within the first degree of kinship of the chairman of this company | |
| Mei-Chu Liu | 2,824,973 | 2.66% | - | - | - | - | Kindom Development Co., Ltd. | Has a relative within the first degree of kinship of the chairman of Kindom Development Co., Ltd. | |
| | | | | | | | Yude Investment Co., Ltd. | The chairman of this company | |
| | | | | | | | Mike Ma | First degree of kinship | |
| | | | | | | | Miriam Ma | First degree of kinship | |
| | | | | | | | Shao-Ling Ma | First degree of kinship | |
| Miriam Ma | 1,919,153 | 1.81% | - | - | - | - | Kindom Development Co., Ltd. | Has a relative within the second degree of kinship of the chairman of Kindom Development Co., Ltd. | |
| | | | | | | | Yude Investment Co., Ltd. | Has a relative within the first degree of kinship of the chairman of Yude Investment Co., Ltd. | |
| | | | | | | | Mike Ma | Second degree of kinship | |
| | | | | | | | Mei-Chu Liu | First degree of kinship | |
| | | | | | | | Shao-Ling Ma | Second degree of kinship | |

Information on relationship among the company's top 10 shareholders (continued)

April 17, 2020 (Unit: shares)

| Name | Shares Held by Director | | Shares Held by Spouse and Minor Children | | Total Shareholding through Nominees | | Title or Name and Relationships of the Top 10 Shareholders Where They are Related Parties, Spouses, or Relatives within the Second Degree of Kinship | | Remarks |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Title (or Name) | Relationship | |
| Mike Ma | 1,830,951 | 1.73% | - | - | - | - | Kindom Development Co., Ltd | The chairman of this company | |
| | | | | | | | Yude Investment Co., Ltd. | Has a relative within the first degree of kinship of the chairman of Kindom Development Co., Ltd. | |
| | | | | | | | Mei-Chu Liu | First degree of kinship | |
| | | | | | | | Shao-Ling Ma | Second degree of kinship | |
| | | | | | | | Miriam Ma | Second degree of kinship | |
| Mei-Chin Wu | 1,751,232 | 1.65% | - | - | - | - | - | - | |
| Po-Wen Chang | 1,645,000 | 1.55% | - | - | - | - | - | - | |
| Shipu Investment Co., Ltd. Representative: Shih-Feng Chen | 1,388,000 | 1.31% | - | - | - | - | - | - | |
| Shao-Ling Ma | 1,315,069 | 1.24% | 286,652 | 0.27% | - | - | Kindom Development Co., Ltd. | Has a relative within the second degree of kinship of the chairman of Kindom Development Co., Ltd. | |
| | | | | | | | Yude Investment Co., Ltd. | Has a relative within the first degree of kinship of the chairman of Yude Investment Co., Ltd. | |
| | | | | | | | Mike Ma | Second degree of kinship | |
| | | | | | | | Mei-Chu Liu | First degree of kinship | |
| | | | | | | | Miriam Ma | Second degree of kinship | |
| Su-Yueh Chuang | 1,084,000 | 1.02% | - | - | - | - | - | - | |

Note: The above information is based on the shareholders register as of April 17, 2020.

## IX. The Number of Shares Held by the company, by the Directors, Supervisors and Managerial Officers of the company, and by any Entities either Directly or Indirectly Controlled by the company in the Same Investee Enterprise, and the Calculation of the Consolidated Shareholding Ratio of the above Categories:

Consolidated Shareholding Ratio

Unit: Share; %

| Investments in Other Enterprises (Note) | Investment by the company | | Investment by Directors, Supervisors, Managerial Officers, and Entities either Directly or Indirectly Controlled by the company | | Consolidated Investment | |
|---|---|---|---|---|---|---|
| | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio | Number of Shares | Shareholding Ratio |
| Guanqing Electromechanical Co., Ltd. | 7,747,000 | 99.96% | - | - | 7,747,000 | 99.96% |
| Jiequn Investment Co., Ltd. | 16,396,352 | 99.98% | - | - | 16,396,352 | 99.98% |

Note: Investments by the company accounted for using equity method.

# Chapter 4. Capital Overview

## I. Capital and Shares:

### (I) Source of Capital Stock:

April 17, 2020; Unit: NT$; Shares

| Month/Year | Issue Price | Authorized Capital | | Paid-in Capital | | Remarks | | |
|---|---|---|---|---|---|---|---|---|
| | | Number of Shares | Amount | Number of Shares | Amount | Sources of Capital | Offset against Share Payments by Property Other than Cash | Other |
| 1982.04 | - | 300,000 | 3,000,000 | 300,000 | 3,000,000 | Incorporation | - | - |
| 1987.10 | - | 750,000 | 7,500,000 | 750,000 | 7,500,000 | Capital increase by cash: 4,500,000 | - | - |
| 1990.02 | - | 2,250,000 | 22,500,000 | 2,250,000 | 22,500,000 | Capital increase by cash: 15,000,000 | - | - |
| 1994.08 | 10 | 2,250,000 | 22,500,000 | 2,250,000 | 22,500,000 | - | - | Note 1 |
| 1994.12 | 10 | 19,000,000 | 190,000,000 | 19,000,000 | 190,000,000 | Capital increase by cash: 167,500,000 | - | - |
| 1996.09 | 10 | 90,000,000 | 900,000,000 | 36,850,000 | 368,500,000 | Capital increase from transfer of surplus: 28,500,000 Capital increase by cash: 150,000,000 | - | Note 2 |
| 1997.06 | 10 | 90,000,000 | 900,000,000 | 46,117,500 | 461,175,000 | Capital increase from transfer of surplus: 55,275,000 Capital increase by cash: 37,400,000 | - | Note 3 |
| 1998.08 | 10 | 90,000,000 | 900,000,000 | 53,035,125 | 530,351,250 | Capital increase from transfer of surplus: 69,176,250 | - | Note 4 |
| 1999.06 | 10 | 90,000,000 | 900,000,000 | 60,990,393 | 609,903,930 | Capital increase from transfer of surplus: 79,552,680 | - | Note 5 |
| 2000.06 | 10 | 90,000,000 | 900,000,000 | 67,699,336 | 676,993,360 | Capital increase from transfer of surplus: 67,089,430 | - | - |
| 2001.05 | 10 | 90,000,000 | 900,000,000 | 67,106,336 | 671,063,360 | Capital reduction: 5,930,000 | - | - |
| 2001.10 | 10 | 90,000,000 | 900,000,000 | 66,106,336 | 661,063,360 | Capital reduction: 10,000,000 | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2009.11~2010.07 | 10 | 90,000,000 | 900,000,000 | 67,847,858 | 678,478,580 | Conversion of corporate bonds: 17,415,220 | - | Note 6 |
| 2010.10 | 10 | 120,000,000 | 1,200,000,000 | 95,047,858 | 950,478,580 | Capital increase by cash: 272,000,000 | - | Note 7 |
| 2010.10~2011.07 | 10 | 120,000,000 | 1,200,000,000 | 107,949,660 | 1,079,496,600 | Conversion of corporate bonds: 129,018,020 | - | Note 6 |
| 2012.11 | 10 | 120,000,000 | 1,200,000,000 | 106,035,660 | 1,060,356,600 | Cancellation of treasury shares: 19,140,000 | - | Note 8 |

Note 1. Changed from limited company into a limited liability company.
Note 2. Public offering approved by the Ministry of Finance Securities & Futures Commission Letter No. (1996) Taiwan-Finance-Securities-(1)-41457 issued on July 4, 1996.
Note 3. Public offering approved by the Ministry of Finance Securities & Futures Commission Letter No. (1997) Taiwan-Finance-Securities-(1)-37370 issued on May 10, 1997.
Note 4. Public offering approved by the Ministry of Finance Securities & Futures Commission Letter No. (1998) Taiwan-Finance-Securities-(1)-45573 issued on May 22, 1998.
Note 5. Public offering approved by the Ministry of Finance Securities & Futures Commission Letter No. (1999) Taiwan-Finance-Securities-(1)-38317 issued on April 30, 1999.
Note 6. Approved by the Financial Supervisory Commission Order No. Financial-Supervisory-Securities-Corporate-0980031018.
Note 7. Public offering approved by the Financial Supervisory Commission Order No. Financial-Supervisory-Securities-Corporate-0990041384.
Note 8. Approved by the Financial Supervisory Commission Order No. Financial-Supervisory-Securities-Corporate-0980060602.

April 17, 2020; Unit: Shares

| Share Class | Authorized Capital | | | Remarks |
|---|---|---|---|---|
| | Outstanding Shares | Unissued Shares | Total | |
| Ordinary Share | 106,035,660 | 13,964,340 | 120,000,000 | Listed shares |

(II) Shareholder Structure:

April 17, 2020

| Shareholder Structure / Quantity | Government Agencies | Financial Institutions | Other Legal Persons | Individuals | Foreign Institutions and Persons | Total |
|---|---|---|---|---|---|---|
| Number of Individuals | - | 1 | 173 | 20,554 | 69 | 20,797 |
| Number of Shares Held | - | 204,000 | 47,874,204 | 54,615,468 | 3,341,988 | 106,035,660 |
| Shareholding Ratio | - | 0.19% | 45.15% | 51.51% | 3.15% | 100.00% |

## (III) Diffusion of Equity Ownership:

April 17, 2020

| Shareholding Range | Number of Shareholders | Number of Shares Held | Shareholding Ratio |
|---|---|---|---|
| 1-999 | 16,215 | 153,193 | 0.14% |
| 1,000-5,000 | 3,348 | 6,844,810 | 6.45% |
| 5,001-10,000 | 577 | 4,635,517 | 4.37% |
| 10,001-15,000 | 163 | 2,086,237 | 1.97% |
| 15,001-20,000 | 127 | 2,391,884 | 2.26% |
| 20,001-30,000 | 98 | 2,531,811 | 2.39% |
| 30,001-40,000 | 56 | 1,993,237 | 1.88% |
| 40,001-50,000 | 42 | 1,925,392 | 1.82% |
| 50,001-100,000 | 85 | 6,184,862 | 5.83% |
| 100,001-200,000 | 45 | 6,421,865 | 6.06% |
| 200,001-400,000 | 21 | 5,973,494 | 5.63% |
| 400,001-600,000 | 7 | 3,197,365 | 3.02% |
| 600,001-800,000 | - | - | - |
| 800,001-1,000,000 | 2 | 1,842,311 | 1.74% |
| More than 1,000,001 shares | 11 | 59,853,682 | 56.44% |
| Total | 20,797 | 106,035,660 | 100.00% |

Note: No preferred stocks are issued by the company.

## (IV) List of Major Shareholders:

April 17, 2020

| Share / Name of Major Shareholders | Number of Shares Held | Shareholding Ratio |
|---|---|---|
| Kindom Development Co., Ltd. | 36,247,768 | 34.18% |
| Yude Investment Co., Ltd. | 8,785,536 | 8.29% |
| Mei-Chu Liu | 2,824,973 | 2.66% |
| Miriam Ma | 1,919,153 | 1.81% |
| Mike Ma | 1,830,951 | 1.73% |
| Mei-Chin Wu | 1,751,232 | 1.65% |
| Po-Wen Chang | 1,645,000 | 1.55% |
| Shipu Investment Co., Ltd. | 1,388,000 | 1.31% |
| Shao-Ling Ma | 1,315,069 | 1.24% |
| Su-Yueh Chuang | 1,084,000 | 1.02% |

(V) Market Prices, Net Worth Per Share, Earnings Per Share, Dividends Per Share and Related Information in the Most Recent 2 Fiscal Years:

Unit: NT$

| Item / Year | | | 2018 | 2019 | The Current Fiscal Year (2020) up to March 31, 202 (Note 5) |
|---|---|---|---|---|---|
| Market Price Per Share (Note 1) | Highest | | 27.40 | 39.50 | 39.35 |
| | Lowest | | 20.90 | 27.30 | 30.50 |
| | Average | | 24.22 | 34.58 | 36.32 |
| Net Worth Per Share | Before Distribution | | 23.89 | 25.85 | 25.74 |
| | After Distribution | | 20.89 | (Note 6) | - |
| Earnings Per Share | Weighted Average Shares | | 106,035,660 | 106,035,660 | 106,035,660 |
| | Earnings Per Share | | 3.84 | 3.79 | 0.82 |
| Dividends Per Share | Cash Dividend | | 3.00 | 3.00 (Note 6) | - |
| | Stock Dividends | Stock Dividends from Retained Earnings | - | - | - |
| | | Stock Dividends from Capital Reserve | - | - | - |
| | Accumulated Undistributed Dividends | | - | - | - |
| Investment Return Analysis | Price-to-Dividends Ratio (Note 2) | | 6.36 | 9.02 | - |
| | Price-to-Earnings Ratio (Note 3) | | 8.15 | 11.39 (Note 6) | - |
| | Yield on Cash Dividends (Note 4) | | 12.27% | 8.78% (Note 6) | - |

Note 1. List the highest and lowest market price of common shares for each fiscal year and calculate the average market price for each fiscal year based on trading value and volume in each fiscal year.

Note 2. Price/earnings ratio = Average closing price per share for the current fiscal year/earnings per share.

Note 3. Price/dividend ratio = Average closing price per share for the current fiscal year/cash dividend per share.

Note 4. Cash dividend yield = Cash dividend per share/average closing price per share for the current fiscal year.

Note 5. For net worth per share and earnings per share, data from the most recent quarter that has been reviewed by CPAs as of the publication date of this annual report should be filled. For other fields in this column, data from the current fiscal year as of the publication date of this annual report should be filled.

Note 6. Subject to the resolution of the shareholders' meeting.

(VI) Company's Dividend Policy and Implementation thereof:

1. Dividend policy adopted in the company's Articles of Incorporation:
2. The company will develop toward undertaking large-scale projects and strive for growth and innovation, continue to expand the appropriate amount of capital to meet the needs of the business and the shareholders' demand for cash. The articles of Incorporation of the company stipulate that the future cash dividend ratio shall be 20% or more of the total cash and stock dividends paid in the current year. In recent years, the dividend distribution ratio has exceeded 70% of the distributable earnings of the current year. In the future, the most appropriate distribution ratio will be determined depending on the operating conditions of the current year and the capital budget planning of the following year.

   The dividend distributions proposed at current shareholders' meeting:

The company has drawn up the distribution of cash dividends for 2019 of NT$3.00 per share at the board meeting on March 23, 2020, which will be handled in accordance with the relevant provisions after the resolution of the regular shareholders' meeting on June 15, 2020.

3. Any expected material changes in the dividend policy: None.

(VII) Effects upon the company’s business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent Shareholders' Meeting: None.

(VIII) Remuneration to Employees, Directors and Supervisors:

1. The percentages or ranges with respect to the remuneration of the employee, Directors and Supervisors, as set forth in the company's Articles of Incorporation:
   In accordance with article 22 of the Articles of Incorporation of the company, if the company has gained profits within the year, certain profits shall be reserved as: (1) employee compensation: 0.5% to 1.0% of profits; (2) remuneration to Directors and Supervisors: no more than 2%. However, in case of the accumulated losses, certain profits shall first be reserved to cover them.
2. The basis for estimating the amount of employee, Director, and Supervisor remuneration, for calculating the number of shares to be distributed as employee remuneration, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:
   In 2019, in accordance with the company's Articles of Incorporation, 1% of the profits was set aside for employee remuneration and 2% of the profits was set aside for remuneration of Directors and Supervisors, which are estimated to recognize as expenses in 2019. If the actual distributed amount resolved by the shareholders' meeting is different from the estimated amount, it shall be regarded as the change of accounting estimate and shall be classified as the profit and loss for the year the distribution is made.
3. Information on the proposed employees compensation approved by the Board of Directors:

| | Resolutions of the board meeting March 13, 2020 |
|---|---|
| Employee Compensation (Cash) | 5,104,567 |
| Remuneration to Directors and Supervisors (Cash) | 10,209,135 |
| Total | 15,313,702 |

4. The actual distribution remuneration of employees, Directors, and Supervisors for the previous fiscal year (including the distributed number, amount and shares price), and where is any discrepancy between the actual distribution and the recognized remunerations for employees, Directors and Supervisors, the discrepancy, cause, and how it is treated shall be stated:

Unit: NT$

| | On June 17, 2019 Reported on the shareholders' meeting | Actual Amount Distributed |
|---|---|---|
| Employee Compensation (Cash) | 5,271,778 | 5,271,778 |
| Remuneration to Directors and Supervisors (Cash) | 10,543,556 | 10,543,556 |
| Total | 15,815,334 | 15,815,334 |

(IX) Status of the company Repurchasing its Own Shares: None.

## II. Issuance of Corporate Bonds: None.

## III. Issuance of Preferred Shares: None.

## IV. Issuance of Global Depository Receipts: None

## V. The State of Handling Employee Share Subscription Warrants and New Restricted Employee Shares: None

## VI. Status of Issuance of New Share in Connection with Mergers or Acquisitions or with Acquisitions of Shares of Other Companies: None.

## VII. The State of Implementation of the company's Capital Allocation Plans:

(I) Content of the plan:
For the period as of the quarter preceding the date of publication of the annual report, with respect to each uncompleted public issue or private placement of securities, and to such issues and placements that were completed in the most recent 3 years but have not yet fully yielded the planned benefits: None.

(II) Status of Implementation:
With respect to funds usage under the plans referred to in the preceding subparagraph, the annual report shall (for the period as of the quarter preceding the date of publication of the annual report) analyze the status of implementation and compare actual benefits with expected benefits: None.

# Chapter 5. Operational Highlights

The core business of the merged company is the integrated construction industry, and the operations of the merged company are summarized as follows:

I. Description of Business:

(I) Scope of Business:

1. Major Lines of Business:
   (1) Residential engineering: congregate residential buildings and urban renewal projects.
   (2) Civil engineering: government transportation construction, roads, bridges, stations, etc.
   (3) Other engineering: government public works, government index construction projects, high-tech and civilian factories, corporate headquarters office buildings, foundation pile site works, etc.
2. Relative Weight of Each Business:
   The relative weight of operating income of the merged company in 2019 is as follows:

| Engineering | Relative Weight of Business |
|---|---|
| Residential Engineering | 49.43% |
| Civil Engineering | 14.67% |
| Other Engineering | 35.90% |

3. Current Products (Services), and New Products (Services) Planned for Development:
   The purpose of the project contracted by the merged company is as follows. In the future, except for the projects of residential buildings, factory buildings and commercial office buildings, the company will actively participate in the bidding of public construction to select the most favorable bidding, turnkey projects and other projects with high technology and high added value according to the nature of the projects.
   (1) Residential engineering: civil construction and development to meet the needs of housing.
   (2) Civil engineering: government transport construction to provide convenient transportation for people.
   (3) Other engineering: government public works, factory buildings, office buildings and other constructional engineering.

(II) Industrial Overview:

1. The Current Status and Development of the Industry:
   For the recent international economic situation, although the signing of the first phase of a trade agreement between the United States and China helped ease the wait-and-see mood in the market, leading economic indicators in major countries remained weak, indicating that global economic demand has yet to recover significantly. Major international economic forecasters, including the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), pointed out that global economic growth this year is likely to be the weakest since the financial crisis, but still while growth remains weak, it is not yet in recession. However, uncertainty risks such as trade disputes, the US presidential election, the Brexit impasse and the geopolitical conflict in the Middle East still exist, and financial markets may continue to be affected, resulting in increased volatility.
   In terms of Taiwan, despite the international trade disputes, benefiting from the business order conversion, Taiwan business reinvestment program and domestic demand growth, as well as the emerging application boom of 5G communication caused by the Sino-US trade disputes, manufacturers continue to expand factories

and increase production capacity in Taiwan. At present, manufacturers still maintain a certain degree of optimism attitude towards the prosperity. Traditional industries have benefited from the easing of US-China trade, and the recovery in international oil and steel prices help ease the wait-and-see mood in the market. The construction industry benefited from the completion and acceptance of the public works bidding projects at the end of the year, which resulted in the centralized recognition of projects for booking. Combined with the injection of funds from the housing boom in various regions, the data on the number of transfer from building transactions in the six cities were all better than originally expected. For the construction industry in the coming year, views on business conditions were mostly flat.

Looking forward to the future, based on recent updates from international forecasters such as the IMF, the Economist (EIU), the World Bank (WB) and IHS Markit, although most forecasters revised down the performance of global growth in 2020, the downward revisions were limited, and , along with the recent cooling of trade tensions between the United States and China, trade and manufacturing activities are expected to bottom out and pick up. In addition, emerging market and developing economies are expected to perform better than they did in 2019 as countries combine fiscal policy with monetary easing to stimulate their economies, offsetting the risk of a sustained downturn in the United States and China.

Although the COVID-19 epidemic is spreading all over the world at the present stage, the Taiwan government has not taken strict measures such as lockdown and shutdown. Therefore, for the construction industry in Taiwan, not all construction manufacturers are affected by the epidemic, but a few. However, the short-term price fluctuation of raw materials caused by the lockdown and shutdown in China will be gradually improved due to the ease of the epidemic. As the current epidemic situation is unlikely to have a long-term impact, the impact on the construction industry is still slight based on the comprehensive analysis.

A. Residential Engineering

Since the contribution of residential investment to domestic capital formation is maintained between 5% and 9%, the industrial correlation effect derived from development and use of building is considerable, and the real estate is always the most important creditor's right collateral in the financial market, the construction industry has always played a decisive role in the economic system of Taiwan. In 2019, the real estate market in Taiwan has warmed up, with the number housing transfer from sales increased to 300,275, an increase of 8.03% compared with that in 2018, marking the third consecutive year of growth. The number of buildings transferred in Taipei, New Taipei and Taoyuan are 27,743, 60,035 and 40,384 respectively, with annual growth rates of 3.40%, 5.97% and 16.78% respectively.

According to the statistics of transfer from building sales of the Ministry of the Interior, the total transfer volume of the real estate market in Taiwan last year exceeded 300,000 buildings, with an annual growth rate of 8.03%. Judging from the number of transactions in the six cities, the real estate industry market formally has bottomed out, developed toward a stable recovery of the growth period. However, the whole Taiwan housing market volume exceeded one trillion, reaching NT$1.2 trillion mark, the market estimates that there may be more than 3 to 4 percent of the house is still to be digested. If the volume of this year's push more than 1 trillion, then the selling pressure in this year will be greater than that in last year. With the return of Taiwanese businessmen to expand their factories to buy land, the area around the industrial park, which is driven by employment opportunities and demographic dividend, will benefit from rigid demand support. It is expected that the boom in the real estate market will continue to push up in 2020, and the overall situation of "continuous increase in quantity and slight increase in price" will be presented.

B. Public Construction

According to the report of the economic survey of the construction industry by the Construction and Planning Agency Ministry of the Interior, 38.1% of the value of construction projects in the whole year of 2018 was accounted for by government departments and government-operated enterprises. It can be seen that the expenditure on construction projects by government departments and government-operated enterprise had a significant impact on the boom and bust of the construction industry.

According to the data released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan) (DGBAS), the total budget for the 2020 includes NT$164.6 billion for public construction projects, a slight increase of NT$4.2 billion or about 2.6% over the same basis in the previous year, which is mainly budget for the addition of sewage and sewer installation plan and the overall purchase and replacement of vehicles of Taiwan Railways. A total of NT$100.5 billion was allocated in the special budget for the forward-looking infrastructure development plan, mainly for the development of science and technology, education and training, and the development of long-term care service institutions. In summary, the size of the public budget for public construction plan for 2020 will reach NT$265.1 billion, an increase of NT$9.3 billion or about 3.7% over the same basis in the previous year.

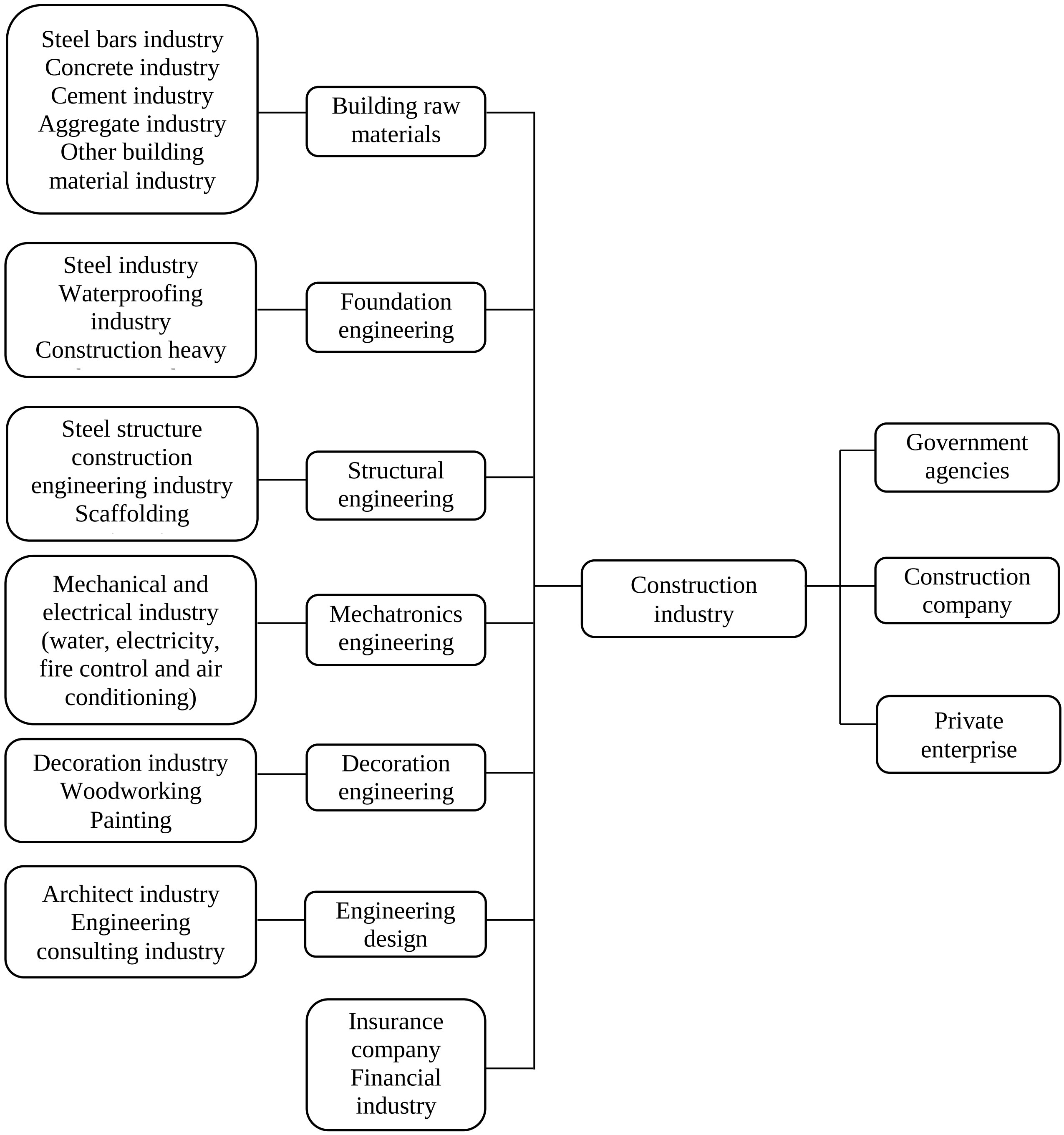
Together with the operating and non-operating special funds of NT$201.9 billion, the total investment in the public construction plan in 2020 is estimated to be NT$467 billion, an increase of NT$81.8 billion or 21.3% over the same basis in the previous year. From the general budgets for public works compiled by the government, the continued expansion of domestic demand, accelerated investment in public works and improvement of the country's infrastructure will drive the prosperity and development of related industries in 2020.

C. Commercial Offices and Factories

In 2019, both commercial real estate and land market turnover exceeded market expectations. According to the statistics of large real estate appraisers, the total transaction value of large-scale commercial real estate has reached NT$142.8 billion, with an annual increase of more than 35%, which is 10% higher than that of the previous period when high-end 100-year life insurers insanely buy buildings. The land market is even more frenzied, with the annual transaction of large land and supertitles reaching NT$253.6 billion, an annual increase of 62%. And the industrial real estate transactions also remain hot. Due to the demand for self-use brought by Taiwanese businessmen who reinvest and set up factories in Taiwan, the annual total transactions of factory buildings, factory offices and industrial land reached NT$81.5 billion, indicating that the investment and self-use demand in the real estate market of domestic commercial offices and factory buildings have increased significantly.

Looking ahead to 2020, in contrast to the uncertainties of global economic development and the slowdown in the economic growth of the United States and China, Taiwan's economy is growing steadily and there is still NT$400 billion of return capital from Taiwan businessman to be invested. The self-use demand for commercial real estate will remain hot, heavyweight manufacturers will build factories and expand production, and the additive effect of upstream and downstream manufacturers will drive the transactions on commercial offices and plant real estate, and the commercial real estate turnover is expected to remain above the level.

2. The Links between the Upstream, Midstream, and Downstream Segments of the Industry Supply Chain:
The construction is one of the links of construction industry. The links between the upstream, midstream and downstream segments of the industry supply chain are shown below.




(1) Links with the upstream industries: The fluctuation of the price of building materials, the increase of the cost of professional contractors, the increase of the labor cost resulting from the labor shortage, the increase of the machine and tools cost due to the price fluctuation are all related to the construction cost of the

construction industry. And the development and prosperity of the upstream industries are deeply affected by the boom of the construction industry. Therefore, the construction industry is closely related to the upstream industries.

(2) Links with the downstream industries: According to business source, the downstream includes the government units, public and private institutions, private construction companies and other owners, who obtain business mainly through public bidding or price comparison and bargaining, in which the main business sources are public works subject to public bidding by government agencies and construction commissioned by private construction companies. Therefore, the industry boom mainly depends on the government's promotion of public works policies and the impact of the prosperity of construction industry.

3. Development Trends and Competition for the company's Products:

As the construction industry continues to move towards large scale, sophisticated design and high technical standards, large construction plants will be more competitive in terms of their bidding qualifications and conditions. According to the statistics of the Construction and Planning Agency Ministry of the Interior, the total capital of construction industry in Taiwan was about NT$852.3 billion in the 2019, an increase of about NT$25.8 billion over 2018. The annual average capital of each manufacturer is NT$45.56 million.

The Company's capital has reached NT$1.06 billion. Since its establishment, the company has accumulated various engineering achievements in the industry, including residential commercial offices, civil bridges, public buildings, medical buildings and science and technology factories, etc., which have been highly recognized by the owners in terms of quality and schedule control. With sound financial health, and profitability above the average level of the industry, the company retains a strong competitive advantage.

(III) Overview of Technology and Research and Development:

1. Overview

The merged company is a comprehensive construction industry, and the research and development content is mainly aimed at research and improvement of the construction technology, the working process of information hardware and software, and the working method of innovative technology, to achieve "improve quality, enhance efficiency, reduce costs, promote image" and other targets.

The Technical Research and Development Division and Information Division as the leader, cooperate with the construction department and related staff units to independently research and develop or cooperate with the manufacturers to introduce technology.

In recent years, in addition to the research and improvement of construction technology, ERP system has been built for the management and integration of the company's core business processes and resources. The construction management system was introduced to improve the efficiency of project site works management. The above information engineering to enhance the competitiveness of the company has been introduced to various departments and sites and started to be cloud-based.

The Company has been committed to the development of BIM(International Building Information Modeling) and the promotion of CIM(Civil Information Modeling). In the process of BIM development, in order to provide information to the BIM model or extract information from the BIM model for application, all kinds of software and hardware will be attached to BIM and provide various possibilities and solutions, such as AR, VR, Drone, image processing, IoT... Etc. BIM provides a platform where participants can create many possibilities. In the following years, the company will continue to use the BIM platform to integrate these innovative ideas and derivative software and hardware to create better benefits.

2. Research and Development Plans as well as Technologies and/or Products Successfully Developed during the Most Recent Fiscal Year:

| Item No. | Research Project in 2018 | Research Project in 2019 | Implementation Results and Description |
|---|---|---|---|
| 1 | ERP system innovation plan-1 | ERP system innovation plan-1 | 1. Upgrade of administrative expense request system<br>2. Upgrade of human resource management system<br>3. Upgrade of administration management system |
| 2 | | ERP system innovation plan-2 | 1. Team cloud collaborative system - communication platform (MS TEAMS)<br>2. Team cloud collaborative system - operating platform (MS OFFICE 365) |
| 3 | Mobilization of construction management system APP | Mobilization of construction management system APP | 1. Quality self-inspection<br>2. Quality control audit system<br>3. Occupational safety and health system |
| 4 | | Occupational safety and health auxiliary system | Development of the IoT control APP system for construction personnel positioning. |
| Item No. | Research Project in 2018 | Research Project in 2019 | Implementation Results and Description |
| 5 | Research on the quantitative output of BIM auxiliary engineering - tekla software system | Application of the quantitative output of BIM auxiliary engineering - tekla software system | Use structural software Tekla to quickly check the settlement amount of steel structure proposed by the manufacturer. |
| 6 | Research and development of the quantitative output of BIM auxiliary engineering - revit software system | Research and development of the quantitative output of BIM auxiliary engineering - revit software system | Self-developed BIM structure quantity calculation APP, which can capture the amount of formwork concrete in the model. |
| 7 | Graphing output of construction drawing of BIM general modeling software Revit | Graphing output of construction drawing of BIM general modeling software Revit | Continued to develop and promote the key function of graphing of BIM construction drawings - automatic labeling. |
| 8 | Research on the introduction of UAV aerial photography image converted into numerical terrain data into BIM drawing information | Research on the introduction of UAV aerial photography image converted into numerical terrain data into BIM drawing information | The 3D image of UAV Drone is transformed into the CIM software by the image post-processing software, which can generate 3D topographic map quickly, to carry out construction planning and calculate the quantity of earthwork. |

| | | | |
|---|---|---|---|
| 9 | Research and introduction of FIM maintenance platform | Research and introduction of FIM maintenance platform | 1. Export parameters conforming to international maintenance standards (COBie), which can be used by back-end maintenance management platform.<br>2. Continuously import the execution of project site. |
| 10 | Introduction of BIM collaborative operation platform | Introduction of BIM collaborative operation platform | 1. BIM 360 collaborative platform for 2D/3D image management of projects.<br>2. Continuously import the execution of project site. |
| 11 | BIM projects comply with the certification of international standard BSI-BIM | BIM projects comply with the certification of international standard BSI-BIM | Enter the verification phase of the project in 2019 |
| 12 | | Introduction of CIM (Civil Information Modeling) | 1. Conduct the initial introduction of civil engineering modeling based on BIM.<br>2. Introduction of geographic map browsing system. |
| 13 | Research on the pre-assembling technique of structural construction mould moment | Research on the pre-assembling technique of structural construction mould moment | 1. Column steel cage pre-assembly and on-time stirrup technology.<br>2. Construction method of the pre-assembling for structural column moment of lightweight system formwork.<br>3. Continue research on other construction pre-assembling. |
| 14 | Arch control for long span BCM construction | Arch control for long span BCM construction | By structural analysis of the arch and the arch difference value of construction monitoring, evaluating the arch closure difference by linear regression method, the actual implementation of the finished line is good. |
| 15 | Double span asymmetric support advanced work vehicle planning | Double span asymmetric support advanced work vehicle planning | Space demand for the translation operation vehicle is designed on the sea level to reduce the space conflict of the mountain side, and change to a double-span work vehicle at the same time, to achieve the purpose of shortening the construction period. |
| 16 | | Research on construction technology of biased shallow-covered tunnel excavation | Ensure the feasibility and safety of tunnel construction support design, and the tunnel deformation meets the tolerance design permitted by design units. |

(IV) Long-term and Short-term Business Development Plans:

1. Short-term Plans:
   (1) Cooperate with domestic excellent construction owners to build high-quality exquisite houses and establish the corporate image of excellent construction manufacturers.
   (2) Actively participate in the government's most favorable bidding projects and turnkey projects, get rid of the low-price bidding mode, to obtain the best profit.
   (3) Strive for targeted public works, construction engineering to maintain competitive advantage, road and bridge engineering to continue business growth, rail engineering to expand the business field, hidden shield and tunnel engineering to create emerging performance.
   (4) Combine with the Japanese construction team to enhance the construction strength.
   (5) Participate in the competition of special targeted projects.
   (6) Actively strive for urban renewal projects.
   (7) Actively participate in green energy construction projects.
2. Long-term Plans:
   (1) Integrate architectural design, mechanical and electrical planning, raw material production and supply, engineering consulting and other relevant industries to form a strong bidding team.
   (2) Cooperate with foreign well-known manufacturers on technology to enhance technical capabilities and move toward internationalization.
   (3) Long-term investment in research and development.
   (4) Cultivate design talents, combine with domestic famous design team to provide overall customer service.
   (5) Actively strive for large and most favorable bidding projects, turnkey projects and other policy plans to improve the technical capacity of construction engineering.
   (6) Participate in land development and create company performance growth.
   (7) To become one of the top ten construction factories in China.
   (8) Tap into the overseas market.
   (9) Establish brand image.

II. Overview of Market and Production and Marketing:

(I) Market Analysis:

1. Geographic Areas where the main Products and Services are Provided and Supplied:
   (1) The main business of the merged company is contracting for residential construction projects, civil bridge projects and hospital plant projects in Taiwan.
   (2) Future planned services:

| Item | Short-term Objective | Long-term Objective |
|---|---|---|
| Business Scope | 1. Domestic large-scale construction engineering business<br>2. Domestic civil engineering business | 1. Large-scale construction engineering business at home and abroad<br>2. Civil engineering business at home and abroad |

| Item | Short-term Objective | Long-term Objective |
|---|---|---|
| Business Scope | 3. Domestic large-scale factory construction engineering business<br>4. Domestic turnkey engineering business | 3. Factory construction engineering business at home and abroad<br>4. Turnkey engineering business at home and abroad<br>5. Participating in domestic land development |

2. Market Share:

Unit: NT$one hundred million

| Year | Turnover of the Merged Company | Turnover of Construction Industry | Market Share |
|---|---|---|---|
| 2015 | 59 | 22,293 | 0.26% |
| 2016 | 83 | 21,517 | 0.39% |
| 2017 | 84 | 21,465 | 0.39% |
| 2018 | 114 | 23,301 | 0.49% |
| 2019 | 115 | 24,806 | 0.46% |

Data source: monthly financial statistics report Department of Statistics of the Ministry of Finance.

3. Demand and Supply Conditions for the Market in the Future, and the Market's Growth Potential:
   (1) Supply Conditions:
   According to the statistics of the Construction and Planning Agency Ministry of the Interior, there are now 18,706 construction enterprises at all levels in Taiwan, of which 2,845 are class-A construction enterprises. According to the statistical results, the number of construction enterprises at all levels in Taiwan increased by 306 over 2018, and the number of class-A comprehensive construction enterprises increased by 80.
   (2) Demand Conditions:
   The estimated government investment in public works in 2020 is NT$467 billion, an increase of 21.3% over the previous year. In order to build and improve infrastructure, maintain the momentum of economic growth and expand domestic demand, the government will continue to implement the "forward-looking infrastructure plan" and other important policies. In addition, new construction projects such as factories in industrial parks, urban renewal facilities and long-term care service facilities will also continue to be promoted, which will enhance business opportunities in the construction projects.

4. Competitive Niche:
   (1) The Company has won numerous awards from government units over the years and has a competitive advantage in the selection process of the most advantageous public works.
   (2) Sound financial structure, sufficient working capital and good corporate image are of great benefit to business contracting.
   (3) The Company has obtained ISO 9001 certification, improved the quality management system to a perfect level, and obtained the construction industry's first ISO 45001 certification in 2019.

(4) The Company publishes CSR report every year, carries out the first type medium guarantee grade verification according to AA1000 standard, and become the first listed construction company in Taiwan that passed the certification by a third party (BSI Taiwan) and meet sustainability reporting GRI Standards, and continuously win the TCSA sustainability award.
(5) The Company is the first enterprise in Taiwan to pass the certification of the international BIM standard (PAS 1192-2:2013) in 2018, and the first enterprise in Taiwan to obtain the certification of ISO 19655:2018 of the international BIM standard in 2019.
(6) The Company is the first construction plant in Taiwan to pass the highest level certificate of circular economy standard verified by British Standard Institution (BSI) in 2019.
(7) The Company has professional managers with rich experience and neat quality and equipped with complete consulting team (land, structure, materials, productivity, legal consultants); and employees are of younger tendency and specialization, in which 24.81% is master degree or above, and 73.45% is junior college degree or above in 2019, with an average age of 38.85 years old and average seniority of 5.03 years. There are total more than 234 people with the licenses of architect, structure technician, civil engineer, site Director, quality control, safety and health and so on. The Company is able to enhance its industrial competitiveness.
(8) With the continuous accumulation of project performance including sports centers, hospitals and other targeted turnkey projects, the company is able to effectively integrate internal and external professional teams to create the maximum benefits of the project.

5. Positive and Negative Factors for Future Development, and the company's Response to Such Factors:
(1) Positive Factors:
a. Contract various kinds of domestic projects for many years, constantly won the owner's praise, have rich engineering experience and good corporate image.
b. With a complete construction supply chain system, the company is able to timely grasp the price fluctuation of building materials and create profits.
c. Outstanding professional and technical personnel in engineering, finance, legal and management.
d. Construct information system network, improve work efficiency, promote e-construction, strengthen interface integration and reduce management cost.
e. Introduce the concept of circular economy into projects, change the traditional linear thinking, and become the first construction company in Taiwan to obtain BS 8001 certification, which is conducive to enhancing the competitiveness of the company.
f. Standardized (ISO) operations and comprehensive e-ization, institutionalized project management, cooperative vendor management and bulk material procurement, significantly reduce construction mobilization costs, effectively control the impact of price fluctuations, and being the first

construction plant in Taiwan to obtain the BIM international standard certification, which is of great help to competitiveness.

g. Has introduced and obtained the ISO 45001 Certification of Taiwan Occupational Safety and Health Management System Standard, to reduce occupational safety management risks, and establish a quality health and safety working environment.

h. Implement the construction management system (Q.C.D.S.E), and aim at high quality, low cost, fast construction and zero disaster.

i. Promote total quality management (TQM) activities, participate in all aspects, and make continuous improvement and innovation breakthroughs.

j. The government implements the most advantageous bidding, turnkey projects and BOT projects which has driven the economic recovery, and continuously improves the performance benefit of projects, in which the large-scale construction plants with scale and actual achievements will have a higher competitive advantage.

k. The government's efforts to promote innovative industrial models and technologies for green energy and carbon reduction will facilitate the implementation and application of public construction projects such as smart green buildings.

(2) Negative Factors:

a. The situation of cut-price bidding still exists.

b. The price of steel bar, ready-mixed concrete, aggregate and metal building materials are vulnerable to the international raw material market and transportation costs, profits are easy to be compressed.

c. With the joining of international construction factories in the domestic market, the construction market is more competitive.

d. Due to severe climate, the construction period is difficult to grasp, which increases the difficulty of contract performance and the risk of labor's life safety.

1. c. The serious shortage of human resources arising from an aging population poses a cost risk.

e. The lack of aggregate materials brings the risk of instability of concrete supply, cost and uncontrollability of construction period. In addition, the impact of COVID-19 makes the aggregate shortage more extensive and the price more difficult to control.

f. The trade war between China and the United States and the fluctuation of the decision made by the leaders of the United States cause confusion in the market, which affects the business strategy and increases the uncertainty of the bidding risk.

(3) Response Strategies:

a. Strengthen the long-term cooperative relationship with domestic excellent construction companies.

b. Actively cultivate talents and improve the management ability of the most favorable bidding projects and turnkey projects, get rid of the low-price bidding mode, to obtain the best profit.

c. Build up excellent cooperative team, strengthen supply chain relationship and management.
d. Master the fluctuation trend of bulk materials and formulate countermeasures for risk control.
e. Learn the advantages of international construction plants and strengthen the company's international outlook.

(II) Usage and Manufacturing Processes for Main Products:

1. Usage for Main Products:

(1) Construction engineering:

In view of the development of domestic buildings towards refinement and traffic characteristics, the company integrates various types of professional contractors and technicians, properly plan and prepare various types of building materials, and construct various types of building structures and decoration works for residential and office buildings by the construction management methods on time, cost and quality. At present, the construction contracted by the company includes Kindom Tachi, Kindom Taijing, Kindom Tianqing, Kindom Roosevelt, Kindom Xinyi, Kindom Wenhua, Kindom Innovation Hall / City Hall, Kindom Dunbei Project, Kindom Sanchong F, Kindom Sanchong Erchong Pu, Kindom Bei'an Section Public Office Urban Renewal, Kindom Rui'an Section Public Office Urban Renewal, Kindom Wanda Line LG08 and other projects, all of which showing the responsibility of Kedge Construction to the society.

(2) Public Construction:

The Company coordinates with the government's major construction and private investment development plans to properly plan the overall implementation of projects, giving priority to the public interest, and effectively integrating professional contractors and various types of technicians through construction management to complete various major public construction with professional skills.

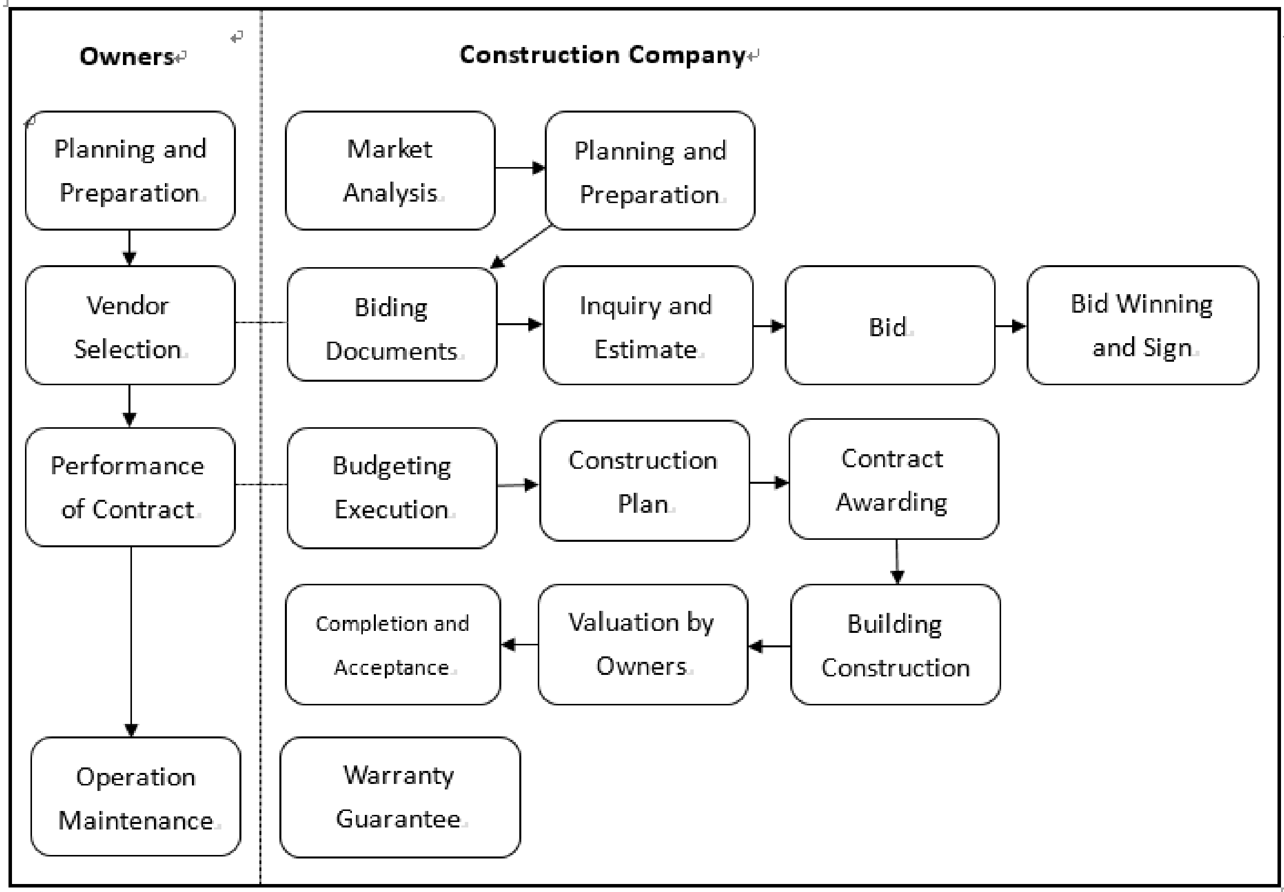
The main representative projects contracted include the turnkey project of Taoyuan Convention and Exhibition Center, the reconstruction turnkey project of South Gate Building and Market, the new construction project of Nanhu Elementary School Sports Center, and the turnkey project of Baogao Smart Industrial Park in Xindian District, New Taipei City.

Other major constructions in progress include the new construction project of Hsin-Chu Biomedical Park Branch of National Taiwan University Hospital, the turnkey project of the new medical building of Taipei Veterans General Hospital, Phase I of the BOT project of Fengshan Hospital in Kaohsiung, the construction project of the public works and first building of the Southern Area of the Academia Sinica, which contribute to promoting the development of medical care and biotechnology, optimizing cancer treatment and shaping quality medical services, and enhancing the innovative energy of research and development in the agricultural and human environment in the southern region and Taiwan as a whole.

In view of civil engineering, the projects contracted include the undergrounding project of the Tainan Station of the C212 Section, C4 new construction project of Anshuo-Caopu Section of South Link Highway of Provincial Highway No. 9 from Taitung City to Fenggang, civil engineering and general mechanical and electrical engineering of the Pu'an-Jinlun Section of the C712A Section, and other civil engineering projects.

(3) Factory construction project:
In line with the development trend of science and technology, and the domestic demand of 5G and IOT for high-tech plant construction and the trend of Taiwanese businessmen returning to Taiwan, the company integrates professional contractors and material suppliers to build professional plants within the most efficient construction period. Suppliers and contractors can also boost the domestic economy by investing in various industries. The engineering projects contracted include the excavation project of F18 N3 hypothetical foundation pile earthwork of TSMC, new construction project of P3 CUB factory building of TSMC 18th Plant, new construction project of Nanko F6E structure and foundation pile earthwork, assumption project of N3 foundation pile earthwork of TSMC 18th Plant, new construction project of LB3 building of TSMC 15th Plant phase VI, new construction project of CUP facility building of TSMC 15th plant phase VII, and new construction project of Micron Taoyuan CUB-1B.

2. Manufacturing Processes for Main Products:




3. Supply Situation for the company's Major Raw Materials:
The main raw materials required by the merged company include steel bar, cement, premixed concrete, tile, aluminum window, steel structure, etc., which are purchased

by the merged company itself except those supplied by the owner as stipulated in the contract. According to the actual material requirements of each construction project, the company signs contracts with each supplier to clarify the engineering requirements and responsibilities before the commencement of construction, so as to master the source of goods; When purchasing steel bars, steel plate and other key materials, the company will firstly compare the price with that of domestic market, and purchase in large quantities at an appropriate time; otherwise, purchase in small quantities. When awarding contract, one of the measures adopted for the fluctuation of raw materials is to get the price by quantity to ensure the excellent quality and reasonable price of raw materials. The purchase of other raw materials are all based on the international economic trends and fluctuations, and the bulk materials and manpower market forecast in the second half of the year is put forward every six months as the reference for new project bidding and cost control. The current situation is as follows:

| Name of Raw Material | Main Suppliers | Supply Status |
|---|---|---|
| Steel Bars | Tung Ho, Feng Hsin, Hai Kwang, Chi Hi | Good |
| Concrete | Goldsun, Taiwan Cement, Ya Tung, UCC | Good |
| Steel Plate | Hksteel, CGSP | Good |
| Steel Structure | Evergreen, CSSC | Good |
| Mechanical and Electrical | Nien, Ming Horng, Pai Chung, Wen Yen, Yu Chao | Good |

In order to achieve excellent engineering quality, the merged company carefully selects material suppliers and construction partner manufacturers, and attaches importance to their engineering experience and professional quality. Before the materials and tools enter the site, the company always plans and fully communicates with the relevant cooperation partners in advance to cultivate a good cooperative relationship and take ethical management as the principle, regularly evaluates and manages suppliers according to ISO procedures, and guides and replaces suppliers according to the scoring results. The merged company has effectively established a complete, high quality and stable supply chain to facilitate construction period and cost control through a good supplier management and evaluation system and the organization of supplier conferences.

(IV) A List of Any Suppliers and Clients Accounting for 10 Percent or More of the Total Amount of Goods Purchased (Sold) in Either of the Most Recent Two Years and the Amount and Proportion of the Goods Purchased (Sold), and State the Reasons for the Increase or Decrease:

1. List of Major Suppliers: Unit: NT$thousand; %

| | 2018 | | | | 2019 | | | | First Quarter of 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name (Note) | Amount | As A Percentage of Annual Net Purchases (%) | Relationship with the Issuer | Name (Note) | Amount | As A Percentage of Annual Net Purchases (%) | Relationship with the Issuer | Name (Note) | Amount | As A Percentage of Annual Net Purchases (%) | Relationship with the Issuer |
| 1 | Others | 10,700,319 | 100.00 | None | Others | 10,744,281 | 100.00 | None | Others | 2,585,000 | 100.00 | None |
| | Net Purchases | 10,700,319 | 100.00 | | Net Purchases | 10,744,281 | 100.00 | | Net Purchases | 2,585,000 | 100.00 | |

Note: There is no single supplier with more than 10% of the total purchase amount in each period.

2. List of Major Clients: Unit: NT$thousand; %

| | 2018 | | | | 2019 | | | | First Quarter of 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Item | Name (Note) | Amount | As A Percentage of Annual Net Sales (%) | Relationship with the Issuer | Name (Note) | Amount | As A Percentage of Annual Net Sales (%) | Relationship with the Issuer | Name | Amount | As A Percentage of Annual Net Sales (%) | Relationship with the Issuer |
| 1 | (Kindom Development Co., Ltd.) | 5,882,829 | 51.47 | An investment company evaluates the company by the equity method | (Kindom Development Co., Ltd.) | 5,629,172 | 49.11 | An investment company evaluates the company by the equity method | (Kindom Development Co., Ltd.) | 946,849 | 34.16 | An investment company evaluates the company by the equity method |
| 2 | Railway Bureau, MOTC Eastern Engineering Office | 2,079,864 | 18.20 | None | Railway Bureau, MOTC Eastern Engineering Office | 1,587,015 | 13.85 | None | Taiwan Semiconductor Manufacturing Co., Ltd. | 670,566 | 24.19 | None |
| 3 | Taiwan Semiconductor Manufacturing Co., Ltd. | 1,328,891 | 11.63 | None | Others | 4,246,255 | 37.04 | None | New Taipei City Government Economic Development Department | 427,347 | 15.42 | None |
| 4 | Others | 2,137,608 | 18.70 | None | - | - | - | - | Others | 727,442 | 26.23 | None |
| | Net Sales | 11,429,192 | 100.00 | | Net Sales | 11,462,442 | 100.00 | | Net Sales | 2,772,204 | 100.00 | |

Description of increase or decrease:
Due to the large amount of money involved in the contracted works and the construction period of 1 to 3 years, the construction industry is characterized by the fact that the construction will be concentrated on certain customers during a certain period when the total contract amount of some projects is large and the completion ratio is used to calculate the sales volume. However, all the projects of the merged company are obtained through bidding or negotiation, and the major customers change with the construction and completion of the project. Therefore, in the medium to long term, the merged company shall be free from the risk of concentrated sales in the general manufacturing industry.

(V) Table of Production Volume for the Most Recent Two Fiscal Years:

Unit: NT$thousand; %

| Year / Item | 2018 | | 2019 | |
|---|---|---|---|---|
| | Output Value | % | Output Value | % |
| Residential Engineering | 5,625,341 | 56.00 | 5,353,674 | 49.83 |
| Civil Engineering | 2,180,039 | 15.33 | 1,581,994 | 14.72 |
| Other Engineering | 2,894,939 | 28.67 | 3,808,613 | 35.45 |
| Total | 10,700,319 | 100.00 | 10,744,281 | 100.00 |

Note: Yield is not applicable to the construction industry for its characteristics.

(VI) Table of Sales Volume for the Most Recent Two Fiscal Years:

Unit: NT$thousand; %

| Year / Item | 2018 | | 2019 | |
|---|---|---|---|---|
| | Sales Value | % | Sales Value | % |
| Residential Engineering | 5,882,829 | 51.47 | 5,665,807 | 49.43 |
| Civil Engineering | 2,471,175 | 21.62 | 1,681,281 | 14.67 |
| Other Engineering | 3,075,188 | 26.91 | 4,115,354 | 35.90 |
| Total | 11,429,192 | 100.00 | 11,462,442 | 100.00 |

Note: Sales volume is not applicable to the construction industry for its characteristics.

## III. Employee Information for The Most Recent Two Fiscal Years and up to The Date of Publication of the Annual Report:

| Year | | 2018 | 2019 | The Current Fiscal Year (2020) up to March 31, 2020 |
|---|---|---|---|---|
| Numbers of Employees | Engineering Personnel | 420 | 398 | 427 |
| | Administrative Personnel | 106 | 118 | 124 |
| | Total | 526 | 516 | 551 |
| Average Age | | 38.69 | 38.85 | 39.02 |
| Average Length of Service | | 4.91 | 5.03 | 5.12 |
| Educational Distribution Ratio | Doctor | 0.00% | 0.00% | 0.00% |
| | Master | 22.81% | 24.81% | 24.32% |
| | College | 74.91% | 73.45% | 74.23% |
| | Senior High School | 2.28% | 1.74% | 1.45% |
| | Below Senior High School | - | - | - |

IV. Disbursements for Environmental Protection:

(I) According to laws and regulations if it is required to apply for a permit for installing anti-pollution facilities, or permit of pollution drainage, or to pay anti-pollution fees, or to organize and set up an exclusively responsible unit/office for environmental issues, the description of the status of such applications, payment or establishment shall be made:

1. The merged company has set up an Occupational Safety and Health Office (Sanitation Team), which is responsible for supervision matters relating to the environmental protection of construction projects, and appoints environmental protection personnel to be responsible for each construction project according to the provisions of the law, who shall be a person that has participated in the periodic/irregular environmental publicity or educational training organized by the local government environmental protection authority under the jurisdiction of the construction project. During process of the construction project, the project bulletin board set up in accordance with the law shall specify the collection control number of the air pollution control fees for the construction project, the name and telephone number of the person in charge of the construction site and the telephone number of the local environmental protection authority for public nuisance whistle-blowing. The owner shall bear the air pollution control fees, and no additional expenses shall be incurred by the company.
2. The investment of the merged company in major anti-pollution facilities for construction project, the use purpose of such facilities, and the key points of anti-pollution that may produced possible effects:
   (1) Handle according to the provisions of each county and city construction management and environmental protection authority or unit.
   (2) Select low-pollution construction method, low-noise machines and tools in the planning stage.
   (3) Adopt anti-pollution facilities during construction.

   As each construction project is subcontracted by a professional contractor recognized by the owner, the anti-pollution facilities such as site fence (2.4 m high for primary site, 1.8 m high for secondary site), spill-proof base, dust-proof net, renting the road cleaning water wheel, car wash, high-pressure car washing machine, intercepting ditch, water-collecting well, sedimentation tank, temporary toilet, high-rise waste pipe, waste dumps and other facilities are also handled by each subcontractor on its own. The Occupational Safety and Health Office (Sanitation Team) of the merged company conducts regular or irregular inspections on various construction projects. In case of any defects, immediate improvement will be requested. Therefore, there is no need to install or purchase special facilities for anti-pollution.
3. With the rising awareness of environmental protection, the merged company also realizes the importance of anti-pollution, does its utmost to improve anti-pollution. Although the transient pollution caused by construction projects is a stationary pollution source, but it is not an emission source for specific industries, and will disappear with the completion of construction, to maintain the living quality of the residents and clean environment around the construction site, the merged company provides environmental protection improvement measures and preventive measures according to the construction characteristics of various projects as follows:
   (1) Disposal of wastes (including waste soil):
      a. The Purchasing Department shall entrust a professional contractor recognized by the owner and sign the contract for excavation, sludge disposal and backfilling works, which shall be transported to the legally established waste disposal site or the earthwork resource storeyard according to the provisions of the construction management unit.

b. If vehicles are carrying loose particulate pollutants, closed containers shall be used or the containers shall be covered tightly. If the dust cloth or dust-proof net is used for the cover, it shall be firmly tied and the edge shall be extended to cover at least 15cm below the upper edge of the container to avoid scattering and polluting the site area and the surrounding environment.
c. For each construction project, car washing equipment (e.g. car wash, high pressure washing machine, intercepting ditch) is provided at the vehicle access control gate. The body and wheels of all vehicles (machines) driving out of the site should be cleaned. In case of any road pollution, the rented road cleaning water wheel will be used to clean the road at any time.
d. Set up collecting well and sedimentation tank to collect the mud and sand produced by washing and clean it regularly to make full use of them.

(2) Noise control:

a. In accordance with the Technical Guidelines for Noise Control at Construction Sites of Environmental Protection Administration, continue to handle noise reduction at construction sites, and adopt management measures and control facilities for construction planning, manage and control the construction personnel, construction period, construction method, construction machinery and tools and construction facilities.
b. According to the construction stage of land preparation, excavation, transportation, foundation, construction and decoration, the noise control measures have been formulated: electric power generation instead of diesel, electrification of engine, use construction methods such as hydraulic crane, full casing, reverse circulation and other cast-in-place pile or pre-cast pile, use hydraulic or cutting demolition method, and try to avoid high-noise machinery work at the same time.
c. Noise control and regular maintenance of machines and tools: the exhaust outlet of the construction machine is equipped with a muffler, and the muffler is equipped with sound absorbing materials of fire rating; the noise-prone parts (e.g. engines) is equipped with a soundproof enclosure, and the soundproof enclosure can be equipped with sound absorbing materials of fire rating; install a vibration cushion or a spring (such as a rubber cushion) at the bottom of the base of the construction machines and tools which is liable to produce vibration and noise.
d. Carry out the construction in accordance with the time stipulated in the statutory noise control area, reduce night construction and shorten operation time.

(3) Air pollution control:

a. Set up fences of appropriate height around the construction site according to law, install a dust-proof net to reduce dust dispersal during land preparation, excavation, transportation, foundation, construction and decoration.
b. Spray water regularly/ irregularly on the exposed surface of the site, cover with dust-proof net or pave with concrete and gravel to reduce dust raising.
c. Lay steel plates, or concrete, or asphalt concrete, or coarse gradation, or other particles of the same function on the vehicle path within the site, so as to effectively control dust dispersal.
d. Personal protective equipment such as goggles, masks and gloves are provided to protect workers from health hazards caused by pollution.
e. It is stipulated that the speed of movement of vehicles in and out of the site shall be lower than 20 km/h. Clean the body and wheels of the machine and tool vehicles away from the site. If vehicles are carrying loose particulate pollutants, closed containers shall be used or the containers shall be covered

tightly. If the dust cloth or dust-proof net is used for the cover, it shall be firmly tied and the edge shall be extended to cover at least 15cm below the upper edge of the container.

(4) Water pollution and soil pollution control:

a. Enter into a contract with a professional environmental protection testing company recognized by the Environmental Protection Administration to carry out tests on domestic waste water, construction waste water, vehicle cleaning waste water, waste mud liquid, waste stabilizing solution and chemical grouting on specific sites.

b. The washing water of concrete work and the mud water stabilizing solution of foundation excavation work shall be filtered by sedimentation tank before being discharged into the sewer or river.

c. The construction liaison road is provided with suitable covering and drainage facilities to avoid erosion.

d. When working in the vicinity of a river course, the water and soil conservation shall be carried out according to the law, the owners and other authorities, and the low-pollution construction methods shall be selected and the relatively adequate water pollution control facilities shall be equipped to reduce the pollution to the river.

e. Maintain the construction vehicles and tools regularly to avoid oil leakage. It is forbidden to replace oil, lubricating oil and other liquid oil in the site area. All the maintenance and repair shall be carried out in the vehicle warranty center outside the site area.

f. Select low sulfur oils for fuel oil machinery of construction and cooperate with environmental inspection and testing.

(5) Supervision, improvement and training of environmental protection:

a. The merged company has set up an Occupational Safety and Health Office (Sanitation Team), which is responsible for supervision matters relating to the environmental protection of construction projects, and appoints environmental protection personnel to be responsible for each construction project according to the provisions of the law, who shall participate in the periodic/irregular environmental publicity or educational training organized by the local government environmental protection authority under the jurisdiction of the construction project.

b. All environmental protection processes, including equipment and measures, are subject to environmental regulations (e.g., Waste Disposal Act, Water Pollution Control Act, Air Pollution Control Act) and the owner's special provisions. In case of any defects, immediate improvement will be requested.

c. Organize environmental protection training and workshops for various construction projects from time to time, and regularly send staff to participate in environmental protection workshops organized by government units to enhance the environmental awareness of employees and workers of vendors and implement the environmental protection work.

d. Actively invite and arrange nearby residents and government inspection units to participate in the briefing of the project, so as to conduct good neighborliness, coordination and communication.

4. Protection Measures for Work Environment and Employees' Personal Safety:

The merged company has set up an Occupational Safety and Health Office (Sanitation Team), and dedicated primary management unit directly affiliated to the employer in accordance with Article 2-1 of the Occupational Safety and Health Act. The Occupational Safety and Health Office is equipped with 1 business executive for class A construction business, 3 safety managers and 1 health manager, which conforms to the maximum number set in Article 86 of the Measures for the Administration of Occupational Safety and Health. An exclusive occupational safety and health management team is established for each construction project according to law, including 1 business executive for class A construction business and at least 1 occupational safety and health management personnel (grade B professional engineer or above), who are responsible for the occupational safety and health management of construction projects.

The merged company passed the certification of ISO45001 Occupational Safety and Health Management System in 2018, and continued to go through the system tracking and verification every year, and all are qualified.

(1) Self-management:

a. Occupational safety and health management plans are formulated for each construction project, and the personnel of the occupational safety and health management team are responsible for the formulation, planning, supervision and promotion of various occupational safety and health standards and activities.

b. Implement the approach control (personnel, machinery and materials): all personnel entering the site shall sign the labor safety and health discipline commitment letter, get the specific hazard notification and receive at least one hour of safety and health education and training for the labor approach. Apply for dangerous machinery (such as mobile crane) to be entering the site. Check license of operator, commander or hanging personnel, and the vehicle qualification certificate when entering the site, which shall be in accordance with the regulations and enter the site within the period of validity.

c. All construction operations, machinery and equipment shall be automatically inspected according to the regulations and frequency, and the inspection records shall be kept in the site for future reference.

d. The formwork support, scaffold and heavy duty support frame shall be properly designed and signed by professional technicians.

e. A qualified construction executive shall be assigned by the cooperative contractor of each project to supervise and direct the operation on site.

f. If subdivisional work includes soil retaining support operation, formwork support operation, scaffold assembly operation, steel structure assembly operation, open-air excavation work, roof works, and tunnel mining operation, tunnel lining operation, operations of organic solvents or lead, specific chemicals or dust, anoxic operations or high pressure indoor operation, the affiliated legal operation executive shall be present to direct and supervise the operation.

g. The operation executive shall handle the following (at least) matters on site according to law: decide on operation methods and direct labor operations; conduct inspection, check materials, tools, appliances, etc., and replace defective products; monitor the use of personal protective equipment; verify the effectiveness of safety and sanitation equipment and measures and other equipment and measures necessary to maintain the safety and sanitation of workers in operation.

h. The construction projects shall be provided with qualified and adequate first aid personnel (at least one person per shift, and one additional person for each additional 50 workers) in accordance with Article 15 of the Occupational Safety and Health Education and Training Rules. When handling the injured who suffer from accidental injury or sudden illness according to law, immediate rescue shall be given before the emergency medical personnel arrive at the scene or before sending to the hospital for treatment.

i. In the occupational safety and health plan of each construction project, the medical rescue units around the construction site shall be investigated and the emergency response plan shall be prepared, including at least the notification process and route map to hospital.

(2) Noise operation:

a. If personnel need to work in a construction area of more than 90dBA, earplugs or earmuffs will be provided for workers.

b. For vibratory hand tools used, purchase anti-vibration gloves for workers, and control the working schedule to avoid the occurrence of occupational injuries (such as white hand disease).

(3) High-altitude operation:

a. Workers conduct high-altitude operation (conform to the construction height of more than 2 meters) are required to wear hard hats and safety belts conforming to CSN14253-1 personal escapement system at all times. Provide hooks of safety ropes for workers.

b. The construction and dismantling of the suspended scaffold, cantilever scaffold and scaffolds with a height of more than 5 meters shall be properly designed in accordance with the principles of structural mechanics. The construction drawing, the strength calculation and construction drawings which are signed and confirmed by the engaged dedicated engineer shall be prepared. And the inspection mechanism shall be established according to the construction drawing.

c. In addition to the installation of crossing bars on the inside and outside of the scaffold with a height of more than 2 meters, a guardrail shall be installed on the lower link and the two ends of the scaffold as well as on the corner. A proper guardrail shall be installed on the top of the crossing bar of the upper and lower equipment.

d. For a scaffold with a height of more than 2 meters, the working table shall be covered with tightly jointed pedals, and the gap between the working sheet materials between the pedals shall not be more than 3 cm, to avoid the risk of dropping or falling down.

e. When the width of the opening between the working table of a scaffold with a height of more than 2 meters and the structure is more than 20 cm, before the removal of the inside crossing bar and the lower link, the supporting pedals can be installed between the scaffold and the structure at every interval of one layer (with the height difference of no more than 2 meters as the principle) of the position to be removed, or a long anti-falling net can be installed between each layer of scaffold to be dismantled and the structure, so that the width reserved between the scaffold and the structure will be less than 20 cm based on the need of operation. However, the dismantled crossing bar and the lower link shall be restored when the operation is completed.

f. The use of high-altitude work vehicles for high-altitude operation of more than 2 meters shall comply with Articles 128-1 to 128-8 of the Rules for Occupational Safety and Health Facilities.

g. If a crane cage is used for high-altitude operation of more than 2 meters, it shall comply with Articles 97 to 105 of the Lifting Rules for Lifting Equipment.

(4) Electric welding and gas welding during fire operation: provide workers with personal protective equipment, such as protective masks, reinforced glass lenses,

rigid plastic lenses and safety face shield, which conform to the regulations of CNS 7175Z2032, CNS 7176Z2033, CNS 7177Z2034 and CNS 3504Z2019.

(5) Dust operation

a. Priority should be given to the planning of appropriate local ventilation facilities. Calculate adequate ventilation and select proper ventilation pumps for confined space operation.

b. Use a dust mask that conforms to CNS14755. If the solvent is needed for the construction, use a respirator with proper barrier and effective filtering function, airline respirator, a self-contained compressed air breathing apparatus (SCBA) and wear appropriate protective clothing.

(6) Electrical operation:

a. Electrical professionals not designated for construction projects shall not engage in electrical operations. Electrical construction shall be carried out in accordance with approved drawings.

b. Personnel engaged in live wire operation of high voltage circuit shall wear protective insulating equipment and live wire operation appliances.

c. Protective insulating equipment shall be used when laying, inspecting, repairing, painting and other operations and their affiliated operations are carried out close to circuits or circuit supports.

d. The frame of the distribution box and the frame supporting the fixed switchgear shall be grounded with copper rods, copper plates and ground grids. The grounding device shall be inspected regularly/irregularly to avoid the occurrence of electrical inductance due to the deterioration or damage of insulation of electrical equipment or circuit.

e. Implement electricity management, including the locking the distributor, posting the name and contact number of the person in charge, indicating electricity usage precautions.

f. The scope of power failure management should be clearly defined, warning sign "no operation under power failure" should be hung, power supply should be cut off and safety measures such as switch and lock should be applied.

g. In case of electrical injury, the insulator shall be used as soon as possible to remove the person being shocked or the electrified objects the person comes into contact with, or the power supply shall be turned off.

(7) Confined space operation: before entering the confined space for operation, workers should first confirm that there are no hazards in the space that can cause hypoxia, poisoning, electric shock, collapse, being trapped, being rolled, fire and explosion. Where there is a danger, a hazard prevention plan shall be drawn up and submitted to the authority for approval before implementation. A confined space hazard prevention plan shall cover:

a. Identification of hazards in confined space.

b. Determination of concentration of oxygen, danger and hazardous substances in confined space.

c. Implementation method of ventilation and air exchange.

d. Isolation measures for electric energy, high temperature, low temperature and hazardous substances, and prevention measures for hazards such as hypoxia, poisoning, electric shock, collapse, being trapped and being rolled.

e. Operating methods and safety control methods.

f. Entering and working permit procedures.

g. Inspection and maintenance of protective equipment provided.

h. Operation control facilities and operation safety check method.

i. Emergency response measures.

5. Total Loss and Disposition due to Environmental Pollution Incidents in the Most Recent 2 Fiscal Year and up to the Date of Publication of the Annual Report:

Unit: NT$thousand

| Year | 2018 | 2019 | The Current Fiscal Year (2020) up to March 31, 2020 |
|---|---|---|---|
| Pollution | Violation of Waste Disposal Act and Air Pollution Control Act | Violation of Waste Disposal Act and Air Pollution Control Act | Violation of Waste Disposal Act and Air Pollution Control Act |
| Disposition Amount | 29 | 4 | - |

The merged company attaches great importance to environmental protection and environmental sustainability. In addition to using low-noise machines and equipment to carry out work and implementing anti-pollution measures in accordance with the law, to maintain the construction environment in the work area and prevent pollution from spilling out of the work area, it also employs personnel on the site to strengthen cleaning and maintain environmental rectification and cleanliness, and implements the 5S system.

(II) Future Countermeasures and Possible Expenditures:

1. Future countermeasures:

Based on the recent general promotion of environmental awareness and the concept of sustainable environmental management, the merger company regards the prevention and control of pollution and environmental protection as the responsibility of its business operation. The construction process of each project is in accordance with the relevant laws and regulations on environmental protection, and contractors are strictly required to do a good job in environmental protection, so as to reduce the pollution penalty. In order to ensure the environmental quality of the project and maintain public health, in addition to adding pollution control equipment, the following specific measures are also taken:

(1) Set up washing equipment at the entrance and exit of the construction site to prevent road pollution outside the work area, and designate people to clean the road surface irregularly.
(2) Set fences around the site, and set dust-proof net, canvas and inclined fence around the building structure to prevent the dust from blowing and the construction dust from overflowing.
(3) Plan to set up garbage pipelines during construction, and collect and clean up wastes regularly.
(4) Set up temporary toilets and septic tanks, clean and abstract regularly.
(5) Regularly dredge the surrounding existing drainage system, actively cooperate with the environmental protection authorities to maintain the surrounding roads during the construction, inspect the surrounding environment and roads of the site area every day, and keep them clean and tidy.
(6) Adopt the construction method with low noise and low pollution under safe conditions to reduce the disturbance to the surrounding environment and neighboring houses of the construction in progress.
(7) Control the construction hours of vehicles and heavy machinery, so as to reduce the noise and avoid disturbing the residents nearby.
(8) Stipulate the requirements for noise and waste, the control clauses for waste water in the contracts with professional manufacturers.
(9) Establish specific measures for environmental protection on construction site and assign personnel to be responsible for the environmental protection business.

(10) Promote the concept of environmental protection and its impact on corporate image in education and training.

2. Possible future expenditures:
During the construction of each project, the merged company complies with relevant laws and regulations on environmental protection, and strictly requires contractors to do a good job in environmental protection, so as to reduce the pollution penalty. The environmental protection work on the existing site has been implemented.

3. The impacts of current pollution and related improvements on the company's earnings, competitive position and capital expenditure and the material environmental protection capital expenditure expected in the coming two fiscal years: None.

## V. Labor Relations:

(I) The Company's employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interests:

1. Employee benefit plans:
The merged company has established an Employee Welfare Committee which is responsible for the planning and implementation of various employee benefit plans. The main benefit plans and implementation status are as follows:
(1) Giving gifts for the Dragon Boat Festival, Mid-Autumn festival, birthday, wedding and childbirth, etc. Gift certificate of NT$3,000 for Dragon Boat Festival, Mid-Autumn festival, birthday each, wedding gift of NT$20,000, childbirth gift of NT$10,000 for the first child and more than NT$20,000 for the second child.
(2) Grant hospitalization allowance for bereavement, injuries and sickness. Bereavement allowances range from NT$6,000 to NT$20,000, depending on kinship, and NT$4,000 for hospitalization for the employee himself/herself and their relatives for injuries and sickness.
(3) Provide health check, group insurance and house purchase discount and other benefits. The medical examination subsidy will be NT$5,000 for each full year of service in June every year.
(4) Organize sports meeting and other activities.
(5) Provide tourism subsidies from time to time.
(6) Allocate and distribute employee bonus in accordance with the company's Articles of Incorporation.

2. Continuing education and training of employee:
In 2019, the company innovated the planning of education and training arrangements, actively creates a learning environment and pays more attention to the possibility of talent development, such as: carried out the first batch of middle-level executives' training, cultivated the core competence of executives, improved their language ability and on-line the education and training, and obtained the subsidy of nearly NT$300,000 in 2019 for the "Enterprise Manpower Promotion Plan", an increase of 40% compared with 2018. In order to make the learning of colleagues more effective, the Human Resources Department plans relevant training courses according to the job requirements of all levels/functions, improves the professional skills of colleagues and develops the functions required by various positions, and formulates education and training plans. The main implementation status are as follows:

(1) Each person shall independently participate in 20 hours (inclusive) of education and training per year:
   a. Internal instructor courses: In order to enable colleagues to learn and pass on their professional skills through the company's internal instructor courses, nearly 100 internal instructor courses have been held in 2019, allowing colleagues to acquire knowledge through the courses to achieve inheritance and resource sharing. The number of participants reached 2,400 person-time.
   b. External education and training: In order to continue the founder's learning philosophy, we hope that our colleagues will not forget to improve themselves in their spare time. Subsidy of NT$5,000 per person is provided for external training every year, and the company encourages employees to accumulate their own strength through external training institutions. The total number of participants in 2019 is 360 person-time.
   c. Orientation training: Strengthen the recognition of the company culture, the understanding of the system through the orientation training every quarter and establish the friendship among colleagues.

(2) Management training:
   a. Middle-level executive training program: Introduced training from DDI professional management consulting company in 2019, conduct a one-year training program for a total of 17 high potential leaders.
   b. Core competency curriculum plan: This year, we cooperated with Grand Pacific Management Taiwan Ltd. to organize 3 talent courses, including Team Leadership and Incentive, Work Planning and Execution and Coach-style Performance Interview Skills. for a total of 38 executive, to enhance their core competence.

(3) Lifelong learning plan:
   a. Graduation subsidy: In order to strengthen the employees' learning ability, encourage them on continuing education, and establish a perfect system of academic continuing education, with 10 colleagues have acquired master degree and doctoral degree, and 9 colleagues are currently in advanced study.
   b. Special study subsidy: In order to encourage colleagues to improve their majors and obtain relevant certificates (licenses), as long as they are willing and perform well, Kedge Construction subsidizes colleagues to participate in the course training. 24 person-times have been subsidized in 2019, with an average amount of subsidy of NT$14,000 per person.

(4) Language learning: To become an international enterprise, we introduce an online English teaching platform. We hope that our colleagues can improve their communication skills through English self-study. We have cultivated 8 English speaking talents in 2019.

(5) Internal instructor training: To inherit the company's culture, construct professional course design and improve teaching ability, we promoted the first step internal instructor training in 2019, and a total of 16 people were qualified to be internal instructors.

(6) Digital learning: Kedge's construction sites are distributed throughout Taiwan. To enable colleagues to participate in education and training immediately crossing industry, a complete e-learning self-learning platform was purchased in 2019. It is expected that relevant courses will be available from 2020, so that colleagues can study at any time without being restricted by time and space.

(7) Overview of annual education and training in 2019:

| | Type | | Number of Course | Cost (NT$thousand) | Cost Ratio | Number of Participant |
|---|---|---|---|---|---|---|
| Type of Training | Internal Training | Internal Instructor Course | 94 | 175 | 3.6% | 2,400 |
| | | External Instructor Course | 21 | 548 | 11.3% | 386 |
| | Middle-level Executive Training Program | | 4 | 2,200 | 45.5% | 90 |
| | Lifelong Learning | Professional Study Subsidy (License/Certificate Subsidy) | 4 | 331 | 6.8% | 24 |
| | | Graduation Subsidy (Continuing Education of Master) | - | 496 | 10.3% | 10 |
| | External Training (Colleagues Trained by External Professional Organizations) | | 293 | 586 | 12.1% | 360 |
| | Advanced Language Study | | 100 | 500 | 10.3% | 8 |
| | Total | | 516 | 4,836 | 100% | 3,278 |

3. Code of conduct and ethics for employees:
All employees of the company shall abide by laws and regulations and the company's internal control system when dealing with the company's affairs, and adhere to personal integrity and social ethics standards in order to protect the company's assets, rights and interests and image, which shall include:
(1) Protection of confidential information: The basic information form of employees filled in by each colleague during job hunting with an consent form signed shall only be used for collection, disposal and utilization within the company. At the time of employment, a "Statement of Employee Confidentiality" shall also be signed, promising that one shall not disclose any business secrets of the company during the period of employment or after dimission.
(2) Prohibition of seeking personal gain: Each colleague shall not use the company's property, information or position for personal gain, and shall not run the same business for himself or for others.
(3) Shall not solicit improper interests: Each colleague shall not claim a gift, kickback, entertainment or other improper interests from the company's vendors. The executives shall not accept any form of financial gift from his/her subordinates.
(4) Rules of fair trade: Each colleague shall treat the company's supplier (clients) of goods purchased (sold), competitors and employees fairly.
(5) Prohibition of insider trading: Each colleague shall not use the insider information obtained from the execution of the business for the interests of others or for personal gain. The financial business information of the company shall not be published arbitrarily without permission or before disclosure, so as not to affect the rights and interests of other shareholders.

4. Retirement system:
The Company has formulated a retirement policy for the formal employed employees, and the retirement conditions, pension payment and calculation method of employees shall be handled in accordance with the Labor Standards Act, the Labor Pension Act

and the relevant laws and regulations.

The new pension system under the Labor Pension Act is a defined-contribution system. The merged company contributes labor pension funds on a monthly basis at a rate not less than 6% of the employee's monthly salary and to the individual labor pension accounts at the Bureau of Labor Insurance.

The old pension system under the Labor Standards Act is a defined-benefit system. Upon approval of retirement, the pension will paid for two bases for each full year of seniority, one base for each full year of seniority for those with seniority exceeding fifteen years, up to a maximum of 45 months. The pension payment is calculated by multiplying the aforementioned base standard by the average monthly salary of the six months prior to the date of approval of retirement. At present, the merged company sets aside a pension reserve of 3% of the total monthly salary of the employees and supplements the pension reserve according to Article 56, paragraph 2 of the Labor Standards Act. The pension account is with the Bank of Taiwan.

5. Promotion of workplace safety, sanitation and health:

The Company has been in line with the advanced countries in the world and passed the certification of ISO 45001 Occupational Safety and Health Management System in 2018, obtained the first TAF certificate of domestic construction industry issued by the international certification agency SGS. To provide a safe, hygienic, healthy and comfortable working environment for all employees, the company actively plans and provides all kinds of occupational safety and health education and training, occupational safety and health promotion, competitions and disaster prevention drills. In order to improve the safety and health protection of the employees, we provide group insurance for all employees. The Company establishes an annual health promotion plan for employees and provides health checks that are superior to the acts. The results are as follows:

(1) Develop procedures and plans for occupational safety and health management

According to the ISO 45001 Occupational Safety and Health Management System, to compile procedures and standards related to occupational safety and health; specify and standardize the occupational safety and health management plan for each project according to law; set up an occupational safety and health management unit and report qualified and number of occupational safety and health management personnel to the labor inspection unit in the place where the project is located; formulate, plan, supervise and promote the implementation of occupational safety and health; purchase and install safety and health facilities and equipment in compliance with regulations and test and maintain regularly; provide appropriate and adequate personal protective equipment (PPE) for all staff.

(2) Provide staff with safety and health education and training, promotion, competition and disaster prevention drill

Encourage employees to obtain occupational safety and health related professional certificates and offer special classes, such as: various kinds of training of construction industry occupational safety and health business executives, occupational safety and health management personnel, various operation executives, etc. Organize relevant occupational safety and health education and training from time to time in accordance with project engineering needs, such as: 6 hours of education and training for construction workers and 1 hour of education and training for new workers. Encourage and provide employees to sign up for occupational safety and healthy card training, industrial safety and healthy card training, Taiwan occupational safety and healthy card instructor training and follow-up Taiwan occupational safety and healthy card training. Organize occupational safety and health related competitions, such as: inspection of high-risk safety and health project at the construction site, similar Golden Safety Award competition. The inspection of high-risk safety and security projects at construction sites has been carried out for 60% of the construction projects this year. In accordance with ISO 45001 Occupational Safety and Health Management System and the exclusive occupational safety and health management plans, at least one disaster prevention drill shall be conducted for each project in the first half of the year and the second half of the year respectively, and the meeting of occupational safety agreement for continuous disaster prevention promotion shall be organized.

(3) Formulate health, personal protection and women protection plans according to law

Formulate health service plan, prevention plan for diseases triggered by abnormal work load, human hazards prevention plan, thermal hazards prevention plan, unlawful infringement prevention plan and maternal employee health protection plan, etc. in accordance with the law, which are superior to other construction companies.

(4) Optimize health check of labor health protection, continue to promote health promotion in the workplace

Provide every employee with an annual health check for all age groups and the cost of which will be borne by the company, which are superior to the law. From 2018, special projects have been carried out to promote on-site health services of professional doctors and licensed nurses, thus effectively improving the health protection and health promotion of workers in the construction industry.

(5) Actively participate in occupational safety and health related organizations and cooperate in promoting occupational safety and health activities

The Company actively participates in occupational safety and health related organizations and activities, such as: participated in the Construction Industry Site Independent Management Strategic Alliance convened by the Taibei City Labor Inspection Office where the company located and served as the leader of the executive planning team and the leader of the organizational communication team; Participated in the Construction Industry Occupational Safety and Health Promotion Association of the Occupational Safety and Health Administration of the Ministry of Labor in the Northern, Central and Southern districts: currently (2019-2020) serves as the chairman of the Construction Industry North District Occupational Safety and Health Promotion Association, the member of the organization and communication group of the Construction Industry Central District Occupational Safety and Health Promotion Association, the leader of the executive planning team of the Construction Industry Southern District Occupational Safety and Health Promotion Association; Joined as the project owner's safety partner, such as: joined the safety partner signed by the West Coastal Highway Southern District Temporary Engineering Department of the Directorate General of Highways, MOTC and the Occupational Safety and Health Center of Southern District Occupational Safety and Health Administration of the Ministry of Labor, and co-organized the occupational safety and health observation workshop and observation; And participated in the work safety family activities and safety and health observation itineraries organized from time to time by the New Taipei City Labor Inspection Office, Taoyuan City Labor Inspection Office, Taichung City Labor Inspection Office, Occupational Safety and Health Department (OShd) Of Labor Affairs Bureau of Tainan City Government, occasionally organized work safety family activities and safety and health observation trip.

(II) Any Losses Suffered by the company in the Most Recent Fiscal Year and up to the Annual Report Publication Date due to Labor Disputes, and Disclosing an Estimate of Possible Expenses that could be Incurred Currently and in the Future and Measures Being or to be Taken: None.

1. As the company has always attached great importance to labor relations, there is no loss caused by labor disputes at present, so no loss is expected to be incurred at present and in the future.
2. The estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken:
   (1) Establish interactive communication and appeal channels. In order to protect all employees from physical or mental unlawful infringement when performing their duties, the company provides the complaint channels of Occupational Safety and Health Office and the Human Resources Department, encourages colleagues to adopt the established internal complaint handling system for such disputes, and will make every effort to provide additional assistance if required.
   (2) Comply with relevant labor laws and regulations and strengthen welfare measures. In view of the improvement of labor welfare in recent years, the company has set up and improved the mechanism to protect the physical and mental health of employees in accordance with relevant labor laws and regulations.

## VI. Important Contract:

April 17, 2020

| Contract Nature | Contracting Parties | Commencement and Expiration Date | Major Content |
|---|---|---|---|
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2020 | New construction of Zhongyuan Project B of Guande Xinzhuang |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2020 | New construction of Zhongyuan Project D2 of Guande Xinzhuang |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2021 | New construction of Taichung MRT G8 Station Building |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2020 | New construction of the urban renewal project for the Xindian Administrative and Living Park |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2021 | New construction of Fuhe Section, Chungcheng District, Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2022 | New construction of Sanchong Section, Sanchong District, New Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2021 | New construction of Sanmin Section, Sanchong District, New Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2020 | New construction of (South Base) Minsheng Section, Songshan District, Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2020 | New construction of (North Base) Minsheng Section, Songshan District, Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2022 | New construction of the urban renewal project for Bei'an Section, Zhongshan District, Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2023 | New construction of Zhongxing Section, Sanchong District, New Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2023 | New construction of the urban renewal project for Ruian Section, Da'an District, Taipei City |
| Construction Contract | Kindom Development Co., Ltd. | Estimated completion year: 2024 | New construction of the National Highway Section, Zhonghe District, New Taipei City |
| Construction Contract | Eastern Engineering Office of Railway Bureau, MOTC | Estimated completion year: 2021 | Construction plan of the electrification project of the Taitung-Chaozhou Section of the South-link Line of Taiwan Railways - civil engineering and general mechanical and electrical engineering of the Pu'an-Jinlun Section of the C712A Section |

| | | | |
|---|---|---|---|
| Construction Contract | Taipei Veterans General Hospital | Estimated completion year: 2021 | Turnkey project of the new medical building of Taipei Veterans General Hospital |
| Construction Contract | Chang Gung Medical Foundation | Estimated completion year: 2020 | Phase I of the BOT project of Fengshan Hospital |
| Construction Contract | Academia Sinica | Estimated completion year: 2020 | Construction project of the public and first building of the Southern Area |
| Construction Contract | Economic Development Department of New Taipei City Government | Estimated completion year: 2021 | Turnkey project of Baogao Smart Industrial Park in Xindian District |
| Construction Contract | New Construction Office, Public Works Department, Taipei City Government | Estimated completion year: 2023 | Reconstruction turnkey project of South Gate Building and Market |
| Construction Contract | New Construction Office, Public Works Department, Taipei City Government | Estimated completion year: 2021 | New construction of Nanhu Elementary School Activity Center in Neihu District, Taipei City |
| Construction Contract | Charter Investments Limited | Estimated completion year: 2020 | Repair engineering of the factory building in Zhangbin Industrial Zone |
| Construction Contract | Taiwan Semiconductor Manufacturing Co., Ltd. | Estimated completion year: 2020 | TSMC Nanko 18th Plant Phase III - CUP |
| Construction Contract | Taiwan Semiconductor Manufacturing Co., Ltd. | Estimated completion year: 2020 | TSMC Nanko 18th Plant Phase IV to VI - excavation of soil retaining piles |
| Construction Contract | Central Engineering Office of Railway Bureau, MOTC | Estimated completion year: 2025 | Undergrounding project of the Tainan Station of the C212 Section |
| Construction Contract | Office of Public Construction, Taoyuan City | Estimated completion year: 2023 | Turnkey project of Taoyuan Convention and Exhibition Center |

# Chapter 6. Financial Information

## I. Condensed Balance Sheet, Comprehensive Income Statement for the Most Recent Five Years and the Auditor's Opinions:

### (I) Condensed Balance Sheet

1. Consolidated Financial Statements:

Unit: NT$thousand

| Item \ Year | | 2015 (Note 1) | 2016 (Note 1) | 2017 (Note 1) | 2018 (Note 1) | 2019 (Note 1) | Financial Data for the Current Fiscal Year (2020) up to March 31, 2020 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | Financial Data for the Most Recent Five Fiscal Years | | | | | |
| Current Assets | | 4,598,855 | 5,057,908 | 6,206,612 | 6,544,742 | 7,708,041 | 8,235,015 |
| Property, Plant and Equipment | | 64,526 | 64,163 | 63,800 | 63,438 | 63,116 | 78,077 |
| Intangible Assets | | - | - | - | - | - | - |
| Other Assets | | 279,992 | 328,001 | 329,812 | 375,603 | 505,691 | 411,736 |
| Total Assets | | 4,943,373 | 5,450,072 | 6,600,224 | 6,983,783 | 8,276,848 | 8,724,828 |
| Current Liabilities | Before Distribution | 2,798,192 | 3,178,702 | 4,183,820 | 4,368,826 | 5,427,525 | 5,883,197 |
| | After Distribution | 2,904,228 | 3,337,755 | 4,412,857 | 4,686,933 | (Note 3) | - |
| Non-current Liabilities | | 58,021 | 57,626 | 61,809 | 82,035 | 108,201 | 112,516 |
| Total Liabilities | Before Distribution | 2,856,213 | 3,236,328 | 4,245,629 | 4,450,861 | 5,535,726 | 5,995,713 |
| | After Distribution | 2,962,249 | 3,395,381 | 4,474,666 | 4,768,968 | (Note 3) | - |
| Equity Attributable to the Shareholders of the Parent Company | | 2,087,063 | 2,213,633 | 2,354,478 | 2,532,798 | 2,740,961 | 2,728,980 |
| Share Capital | | 1,060,357 | 1,060,357 | 1,060,357 | 1,060,357 | 1,060,357 | 1,060,357 |
| Capital Reserve | | 515,312 | 517,880 | 518,031 | 518,208 | 518,241 | 518,305 |
| Retained Earnings | Before Distribution | 533,324 | 630,925 | 764,380 | 951,056 | 1,036,204 | 1,122,631 |
| | After Distribution | 427,288 | 471,872 | 535,343 | 632,949 | (Note 3) | - |
| Other Equities | | (21,930) | 4,471 | 11,710 | 3,177 | 126,159 | 27,687 |
| Treasury Shares | | - | - | - | - | - | - |
| Non-controlling Interest | | 97 | 111 | 117 | 124 | 161 | 135 |
| Total Equity | Before Distribution | 2,087,160 | 2,213,744 | 2,354,595 | 2,532,922 | 2,741,122 | 2,729,115 |
| | After Distribution | 1,981,124 | 2,054,691 | 2,125,558 | 2,214,815 | (Note 3) | - |

Note 1. The financial data from 2015 to 2019 has been audited and attested by the CPAs.
Note 2. The financial data as of March 31, 2020 has been reviewed by the CPAs.
Note 3. The earnings distribution plan for the year 2019 has not been resolved and adopted by the shareholders' meeting.

2. Parent Company only Financial Statements:

Unit: NT$thousand

| Item \ Year | | Financial Data for the Most Recent Five Fiscal Years | | | | | Financial Data for the Current Fiscal Year (2020) up to March 31, 2020 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | 2015 (Note 1, Note 4) | 2016 (Note 1) | 2017 (Note 1) | 2018 (Note 1) | 2019 (Note 1) | |
| Current Assets | | 4,334,955 | 4,742,420 | 5,878,977 | 6,242,028 | 7,368,798 | - |
| Property, Plant and Equipment | | 54,365 | 54,077 | 53,789 | 53,501 | 53,254 | - |
| Intangible Assets | | - | - | - | - | - | - |
| Other Assets | | 464,462 | 528,374 | 544,756 | 575,373 | 724,629 | - |
| Total Assets | | 4,853,782 | 5,324,871 | 6,477,522 | 6,870,902 | 8,146,681 | - |
| Current Liabilities | Before Distribution | 2,709,607 | 3,055,166 | 4,062,761 | 4,257,290 | 5,302,984 | - |
| | After Distribution | 2,815,643 | 3,214,219 | 4,291,798 | 4,575,397 | (Note 3) | - |
| Non-current Liabilities | | 57,112 | 56,072 | 60,283 | 80,814 | 102,736 | - |
| Total Liabilities | Before Distribution | 2,766,719 | 3,111,238 | 4,123,044 | 4,338,104 | 5,405,720 | - |
| | After Distribution | 2,872,755 | 3,270,291 | 4,352,081 | 4,656,211 | (Note 3) | - |
| Share Capital | | 1,060,357 | 1,060,357 | 1,060,357 | 1,060,357 | 1,060,357 | - |
| Capital Reserve | | 515,312 | 517,880 | 518,031 | 518,208 | 518,241 | - |
| Retained Earnings | Before Distribution | 533,324 | 630,925 | 764,380 | 951,056 | 1,036,204 | - |
| | After Distribution | 427,288 | 471,872 | 535,343 | 632,949 | (Note 3) | - |
| Other Equities | | (21,930) | 4,471 | 11,710 | 3,177 | 126,159 | - |
| Treasury Shares | | - | - | - | - | - | - |
| Total Equity | Before Distribution | 2,087,063 | 2,213,633 | 2,354,478 | 2,532,798 | 2,740,961 | - |
| | After Distribution | 1,981,027 | 2,054,580 | 2,125,441 | 2,214,691 | (Note 3) | - |

Note 1. The financial data from 2015 to 2019 has been audited and attested by the CPAs.

Note 2. No parent company only financial statements has been issued as of March 31, 2020.

Note 3. The earnings distribution plan for the year 2019 has not been resolved and adopted by the shareholders' meeting.

Note 4. In 2013, the company applied the IFRS 11 Joint Arrangements of version 2013 to supersede the previous IAS 31 Interests in Joint Ventures and retroactively adjusted the statement for the comparison period of previous year (refer to the company's Parent Company only Financial Statements for 2015).

(II) Condensed Comprehensive Income Statement

1. Consolidated Financial Statements:

Unit: NT$thousand

| Item \ Year | Financial Data for the Most Recent Five Fiscal Years | | | | | Financial Data for the Current Fiscal Year (2020) up to March 31, 2020 (Note 2) |
|---|---|---|---|---|---|---|
| | 2015 (Note 1) | 2016 (Note 1) | 2017 (Note 1) | 2018 (Note 1) | 2019 (Note 1) | |
| Operating Income | 5,859,405 | 8,313,902 | 8,369,078 | 11,429,192 | 11,462,442 | 2,772,204 |
| Gross Operating Profit | 367,336 | 438,373 | 557,131 | 728,873 | 718,161 | 187,204 |
| Net Operating Profit | 169,722 | 218,047 | 311,492 | 502,819 | 470,381 | 124,584 |
| Non-Operating Income and Expenses | (2,528) | 32,394 | 47,631 | 14,380 | 29,533 | (12,390) |
| Net Profit before Tax | 167,194 | 250,441 | 359,123 | 517,199 | 499,914 | 112,194 |
| Net Profit from Continuing Operations in Current Period | 167,194 | 250,441 | 359,123 | 517,199 | 499,914 | 112,194 |
| Loss from Discontinuing Operations | - | - | - | - | - | - |
| Net Profit for the Current Period | 134,387 | 204,498 | 295,327 | 407,513 | 402,356 | 86,424 |
| Other Comprehensive Income in the Current Period (Net after Tax) | (98,863) | 25,554 | 4,426 | (326) | 123,918 | (98,495) |
| Total Comprehensive Income for the Current Period | 35,524 | 230,052 | 299,753 | 407,187 | 526,274 | (12,071) |
| Net Profit Attributable to Owners of Parent Company | 134,390 | 204,490 | 295,323 | 407,506 | 402,348 | 86,427 |
| Net Profit Attributable to Non-controlling Interests | (3) | 8 | 4 | 7 | 8 | (3) |
| Total Comprehensive Income Attributable to Owners of the Parent Company | 35,548 | 230,038 | 299,747 | 407,180 | 526,237 | (12,045) |
| Total Comprehensive Income Attributable to Non-controlling Interests | (24) | 14 | 6 | 7 | 37 | (26) |
| Earnings Per Share (NT$) | 1.27 | 1.93 | 2.79 | 3.84 | 3.79 | 0.82 |

Note 1. The financial data from 2015 to 2019 has been audited and attested by the CPAs.

Note 2. The financial data as of March 31, 2020 has been reviewed by the CPAs.

2. Parent Company only Financial Statements:

Unit: NT$thousand

| Item \ Year | Financial Data for the Most Recent Five Fiscal Years | | | | | Financial Data for the Current Fiscal Year (2020) up to March 31, 2020 (Note 2) |
|---|---|---|---|---|---|---|
| | 2015 (Note 1, Note 3) | 2016 (Note 1) | 2017 (Note 1) | 2018 (Note 1) | 2019 (Note 1) | |
| Operating Income | 5,705,793 | 8,113,165 | 8,359,822 | 11,318,212 | 11,362,618 | - |
| Gross Operating Profit | 358,208 | 425,158 | 546,871 | 695,070 | 694,751 | - |
| Net Operating Profit | 171,572 | 210,327 | 311,592 | 483,211 | 460,038 | - |
| Non-Operating Income and Expenses | (5,689) | 36,933 | 44,030 | 28,153 | 35,105 | - |
| Net Profit before Tax | 165,883 | 247,260 | 355,622 | 511,364 | 495,143 | - |
| Net Profit from Continuing Operations in Current Period | 165,883 | 247,260 | 355,622 | 511,364 | 495,143 | - |
| Loss from Discontinuing Operations | - | - | - | - | - | - |
| Net Profit for the Current Period | 134,390 | 204,490 | 295,323 | 407,506 | 402,348 | - |
| Other Comprehensive Income in Current Period (Net of Tax) | (98,842) | 25,548 | 4,424 | (326) | 123,889 | - |
| Total Comprehensive Income for the Current Period | 35,548 | 230,038 | 299,747 | 407,180 | 526,237 | - |
| Earnings Per Share (NT$) | 1.27 | 1.93 | 2.79 | 3.84 | 3.79 | - |

Note 1. The financial data from 2015 to 2019 has been audited and attested by the CPAs.
Note 2. No parent company only financial statements has been issued as of March 31, 2020.
Note 3. In 2013, the company applied the IFRS 11 Joint Arrangements of version 2013 to supersede the previous IAS 31 Interests in Joint Ventures and retroactively adjusted the statement for the comparison period of previous year (refer to the company's Parent Company only Financial Statements for 2015).

(III) Name of CPAs and Their Opinions Given Thereby for the Most Recent Five Fiscal Years:

| Year | Name of CPA | Audit Opinion |
|---|---|---|
| 2015 | Ti-Nuan Chien, Shu-Ying Chang | Unqualified Opinion |
| 2016 | Ti-Nuan Chien, Shu-Ying Chang | Unqualified Opinion |
| 2017 | Ti-Nuan Chien, Shu-Ying Chang | Unqualified Opinion |
| 2018 | Ti-Nuan Chien, Shu-Ying Chang | Unqualified Opinion |
| 2019 | Ti-Nuan Chien, Shu-Ying Chang | Unqualified Opinion |

## II. Financial Analysis for the Most Recent Five Fiscal Years:

### (I) Consolidated Financial Statements:

| Item Analyzed \ Year | | 2015 (Note 1) | 2016 (Note 1) | 2017 (Note 1) | 2018 (Note 1) | 2019 (Note 1) | The Current Fiscal Year (2020) up to March 31, 2020 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | Financial Analysis for the Most Recent Five Years | | | | | |
| Financial Structure | Debt-to-Asset Ratio (%) | 57.78 | 59.38 | 64.33 | 63.73 | 66.88 | 68.72 |
| | Proportion of Long-Term Capital in Property, Plant and Equipment (%) | 3,324.52 | 3,548.18 | 3,787.47 | 4,122.07 | 4,514.42 | 3,639.52 |
| Solvency | Current Ratio (%) | 164.35 | 159.38 | 148.35 | 149.81 | 142.02 | 139.98 |
| | Quick Ratio (%) | 131.03 | 130.64 | 127.75 | 118.03 | 108.85 | 104.14 |
| | Interest Coverage Ratio (Time) | 334.72 | 2,123.38 | 1,085.96 | 259.34 | 235.70 | 177.41 |
| Operating Ability | Receivables Turnover Rate (Times) | 3.11 | 4.10 | 3.27 | 3.59 | 3.56 | 3.86 |
| | Average Collection Days | 117 | 89 | 112 | 101.67 | 102.52 | 94.55 |
| | Inventory Turnover Rate (Times) | 0.74 | 0.87 | 0.71 | 0.82 | 0.79 | 0.75 |
| | Payables Turnover Rate (Times) | 2.65 | 3.31 | 2.93 | 3.69 | 3.06 | 2.61 |
| | Average Days of Sales | 493 | 420 | 514 | 445 | 462 | 486 |
| | Property, Plant and Equipment Turnover Rate (Times) | 90.52 | 129.21 | 130.80 | 179.65 | 181.15 | 157.07 |
| | Total Asset Turnover Rate (Times) | 1.23 | 1.60 | 1.39 | 1.68 | 1.50 | 1.30 |
| Profitability | Return on Assets (%) | 2.82 | 3.94 | 4.91 | 6.02 | 5.30 | 4.09 |
| | Return on Equity (%) | 6.25 | 9.51 | 12.93 | 16.68 | 15.26 | 12.64 |
| | PBT to Pay-in Capital (%) | 15.77 | 23.62 | 33.87 | 48.78 | 47.15 | 42.32 |
| | Net Profit Margin (%) | 2.29 | 2.46 | 3.53 | 3.57 | 3.51 | 3.12 |
| | Earnings Per Share (NT$) | 1.27 | 1.93 | 2.79 | 3.84 | 3.79 | 0.82 |
| Cash Flow | Cash Flow Ratio (%) | 10.91 | 7.11 | 7.62 | (Note 3) | 25.06 | 9.73 |
| | Cash Flow Adequacy Ratio (%) | 113.41 | 90.11 | 111.41 | 114.23 | 161.03 | 204.14 |
| | Cash Reinvestment Ratio (%) | 6.77 | 5.22 | 6.57 | (Note 3) | 36.37 | 20.02 |
| Leverage | Operating Leverage | 2.16 | 2.01 | 1.79 | 1.45 | 1.53 | 1.50 |
| | Financial Leverage | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.01 |

Reasons for changes over 20% in financial ratios in the most recent 2 fiscal years:

1. Cash flow ratio, cash reinvestment ratio: Mainly caused by the increase of construction volume in 2019 and the peak of project investment, resulting in the increase of trade payable and the estimate of goods payments at the end of the year compared with the same period of last year; and some of the engineering receivables with large volume were priced on schedule in 2018 and recovered in 2019, resulting in an increase in net cash flow from operating activities.
2. Cash flow adequacy ratio: mainly caused by the increase in net cash flow from operating activities in the most recent 5 fiscal years.

(II) Parent Company only Financial Statements:

| Item Analyzed | Year | 2015 (Note 1, Note 5) | 2016 (Note 1) | 2017 (Note 1) | 2018 (Note 1) | 2019 (Note 1) | The Current Fiscal Year (2020) up to March 31, 2020 (Note 2) |
|---|---|---|---|---|---|---|---|
| | | Financial Analysis for the Most Recent Five Years | | | | | |
| Financial Structure | Debt-to-Asset Ratio (%) | 57.00 | 58.43 | 63.65 | 63.14 | 66.35 | - |
| | Proportion of Long-Term Capital in Property, Plant and Equipment (%) | 3,944.04 | 4,206.81 | 4,489.32 | 4,885.16 | 5,339.87 | - |
| Solvency | Current Ratio (%) | 159.98 | 155.49 | 144.70 | 146.62 | 138.96 | - |
| | Quick Ratio (%) | 125.59 | 126.52 | 124.42 | 114.44 | 105.81 | - |
| | Interest Coverage Ratio (Time) | 332.10 | 2,096.42 | 1,075.39 | 256.43 | 242.18 | - |
| Operating Ability | Receivables Turnover Rate (Times) | 3.15 | 4.11 | 3.31 | 3.59 | 3.55 | - |
| | Average Collection Days | 116 | 89 | 110 | 101.67 | 102.81 | - |
| | Inventory Turnover Rate (Times) | 0.74 | 0.86 | 0.71 | 0.82 | 0.79 | - |
| | Payables Turnover Rate (Times) | 2.70 | 3.37 | 3.07 | 3.83 | 3.15 | - |
| | Average Days of Sales | 493 | 424 | 514 | 445 | 462 | - |
| | Property, Plant and Equipment Turnover Rate (Times) | 104.63 | 149.63 | 155.00 | 210.98 | 212.87 | - |
| | Total Asset Turnover Rate (Times) | 1.23 | 1.59 | 1.42 | 1.70 | 1.51 | - |
| Profitability | Return on Assets (%) | 2.90 | 4.02 | 5.01 | 6.13 | 5.38 | - |
| | Return on Equity (%) | 6.25 | 9.51 | 12.93 | 16.68 | 15.26 | - |
| | PBT to Pay-in Capital (%) | 15.64 | 23.32 | 33.54 | 48.23 | 46.70 | - |
| | Net Profit Margin (%) | 2.36 | 2.52 | 3.53 | 3.60 | 3.54 | - |
| | Earnings Per Share (NT$) | 1.27 | 1.93 | 2.79 | 3.84 | 3.79 | - |
| Cash Flow | Cash Flow Ratio (%) | 12.90 | 5.54 | 7.90 | (Note 3) | 24.98 | - |
| | Cash Flow Adequacy Ratio (%) | 101.17 | 80.65 | 101.74 | 107.93 | 161.03 | - |
| | Cash Reinvestment Ratio (%) | 8.82 | 2.74 | 6.66 | (Note 3) | 35.22 | - |
| Leverage | Operating Leverage | 2.09 | 2.02 | 1.76 | 1.44 | 1.51 | - |
| | Financial Leverage | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | - |

Reasons for changes over 20% in financial ratios in the most recent 2 fiscal years:

1. Cash flow ratio, cash reinvestment ratio: Mainly caused by the increase of construction volume in 2019 and the peak of project investment, resulting in the increase of trade payable and the estimate of goods payments at the end of the year compared with the same period of last year; and some of the engineering receivables with large volume were priced on schedule in 2018 and recovered in 2019, resulting in an increase in net cash flow from operating activities.
2. Mainly caused by the increase in net cash flow from operating activities in the most recent 5 fiscal years.

Note 1. The financial data from 2015 to 2019 has been audited and attested by the CPAs.

Note 2. The financial data as of March 31, 2020 has been reviewed by the CPAs, but no parent company only financial statements has been issued.

Note 3. Operating activities are net cash outflows, thus the relevant ratios are not calculated.

Note 4. The formula is as follows:

1. Financial Structure
   (1) Debt-to-asset ratio = total liabilities / total assets.
   (2) Proportion of long-term capital in property, plant and equipment = (total equity + non-current liabilities) / net property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
   (3) Interest coverage ratio = net profit before tax and interest expense / interest expense of the current period.
3. Operating Ability
   (1) Receivables (including accounts receivable and notes payable arising from business) turnover ratio = net sales / average receivables of each period (including accounts receivable and notes payable arising from business).
   (2) Average collection days = 365 / receivables turnover.
   (3) Inventory turnover rate= cost of sales / average inventories.
   (4) Payables (including accounts payable and notes payable arising from business) turnover ratio = net sales revenue / average payables for each period (including accounts payable and notes payable arising from business).
   (5) Average days for sale = 365 / inventory turnover rate.
   (6) Property, plant and equipment turnover rate = net sales / average balance of net property, factory and equipment.
   (7) Total asset turnover rate = net sales / average total assets.
4. Profitability
   (1) Return on assets = [post-tax profit or loss + interest expense x (1 - tax rate)] / average total assets.
   (2) Return on equity = post-tax profit or loss / average total equity.
   (3) Net profit margin = post-tax profit or loss / net sales.
   (4) Earnings per share = (gain or loss attributable to owners of the parent company (presented as "net profit after tax" in the parent company only financial statements) - preferred stock dividend) / weighted average number of shares outstanding. (Note 6)
5. Cash Flow
   (1) Cash flow ratio = net cash flow rising from operating activities / current liabilities.
   (2) Net cash flow adequacy ratio = net cash flow rising from operating activities in the most recent five years / (capital expenditure + inventory increase + cash dividend) in the most recent five years.
   (3) Cash re-investment ratio = (net cash flow rising from operating activities – cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital) (Note 7)
6. Leverage
   (1) Operating leverage = (net operating income - changes in operating costs and expenses) / operating income.
   (2) Degree of Financial leverage (DFL) = operating profit / (operating profit - interest expense).

Note 5. In 2013, the company applied the IFRS 11 Joint Arrangements of version 2013 to supersede the previous IAS 31 Interests in Joint Ventures and retroactively adjusted the statement for the comparison period of previous year (refer to the company's Parent Company only Financial Statements for 2015).

III. Supervisors' Audit Report for 2019

Supervisors' Audit Report of Kedge Construction Co., Ltd.

The 2019 Financial Statements of the company prepared and submitted by the Board of Directors have been reviewed and audited by the CPAs of KPMG Taiwan, Ti-Nuan Chien and Shu-Ying Chang, together with the Business Report and the Statement of Earnings Distribution, have been audited by the Supervisor and deemed as compliance. Therefore, the Supervisor issued the Audit Report in accordance with Article 219 of the company Act for approval

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2020 Regular Shareholders' Meeting of the company

Supervisor: Peng-Lung Hua

March 30, 2020

## IV. 2019 Consolidated Financial Statements Audited and Attested by CPAs

# Statement

In 2019 (from January 1, 2019 to December 31, 2019), the "companies" required to be included in the consolidated financial statements of affiliates under the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are all the same as companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in the International Financial Reporting Standards No.10 (IFRS 10) approved by the Financial Supervisory Commission (FSC), and relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the proceeding consolidated financial statements of parent and subsidiary companies, thus the company is not required to prepare separate consolidated financial statements of affiliates.

Hereby declare

Company Name: Kedge Construction Co., Ltd.

Chairman: Miriam Ma

Date: March 23, 2020

## Independent Auditors' Report

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

**Audit Opinion**

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

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

**Foundation of Audit Opinion**

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

**Key Audit Matters**

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

I. Construction Contracts

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

Description of Key Audit Matters:

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

Corresponding Audit Procedures:

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

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

**Other Matters**

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

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

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

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

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

**Auditor's Responsibility for Auditing Consolidated Financial Statements**

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

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

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

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

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

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

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

KPMG

Taipei,Taiwan

Republic of China

March 23, 2020

<u>*Notices to Readers*</u>

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

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

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

**Unit: NT$ thousands**

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

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

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

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

**Unit: NT$ thousands**

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

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

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

**Unit: NT$ thousands**

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

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

## KEDGE CONSTRUCTION CO., LTD. and Its Subsidiaries

## Consolidated Statements of Cash Flows

## January 1 to December 31, 2019 and 2018

**Unit: NT$ thousands**

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

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

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

### I. Company Overview

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

### II. The Approval Date and Procedures of the Financial Report

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

### III. Application of Newly Issued and Revised Standards and Interpretations

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

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

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

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

IFRS 16 "Lease"

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

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

(1) Definition of Lease

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

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

(2) Lessee

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

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

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

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

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

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

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

(3) Lessor

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

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

(4) Impact on Financial Statements

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

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

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

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

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

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

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

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

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

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

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

## IV. Summary of Material Accounting Policies

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

(I) Compliance Declaration

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

(II) Foundation of Preparation

1. Foundation of Measurement

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

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

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

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

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

2. Functional Currency and Presentation Currency

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

(III) Foundation of Consolidation

1. Preparation Principle of Consolidated Financial Statements

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

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

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

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

2. Subsidiaries Included in the Consolidated Financial Statements

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

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

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

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

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

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

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

(V) Cash and Cash equivalents

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

(VI) Financial Instruments

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

1. Financial Assets

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

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

(1) Financial Assets Measured at Amortized Cost

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

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

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

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

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

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

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

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

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

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

(4) Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

(5) Derecognition of Financial Assets

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

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

2. Financial Liabilities and Equity Instruments

(1) Classification of Liabilities or Equities

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

(2) Equity Transactions

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

(3) Financial Liabilities

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

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

(4) Derecognition of Financial Liabilities

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

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

(5) Offsetting of Financial Assets and Financial Liabilities

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

(6) Financial Guarantee Contract

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

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

(VII) Investments in Associates

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

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

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

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

(VIII) Joint Arrangements

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

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

(IX) Investment Property

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

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

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

(X) Property, Plant and Equipment

1. Recognition and Measurement

Property, plant, and equipment items are measured by cost (including capitalized borrowing costs) less accumulated depreciation and any accumulated impairment. When the useful life of a material component of property, plant, and equipment is different, it shall be treated as a separate item (main component) of property, plant, and equipment.

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

2. Subsequent Cost

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

3. Depreciation

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

No depreciation shall be recognized for the land.

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

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

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

(XI) Lease

Applicable from January 1, 2019

1. Lease Judgment

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

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

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

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

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

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

2. Lessee

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

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

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

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

(1) Fixed benefits, including substantial fixed benefits;
(2) The variable lease benefits depend on an index or rate, and the index or rate on the inception of the lease is applied as the initial measurement;
(3) The residual guarantee amount expected to be paid; and
(4) When reasonably determined that the purchase option or lease termination option will be exercised, the exercise price or the penalty payable.

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

(1) Changes in the index or rate used to determine lease benefits result in changes in future lease benefits;
(2) The residual guarantee amount expected to be paid has changed;
(3) The evaluation of the underlying asset purchase option has changed;
(4) The assessment of whether to exercise the option of extension or termination has changed, and alter the assessment of the lease term;
(5) Modification of the subject matter, scope, or other terms of the lease.

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

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

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

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

3. Lessor

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

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

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

Applicable before January 1, 2019

1. Lessor

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

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

2. Lessee

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

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

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

(XII) Impairments of Non-Financial Assets

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

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

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

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

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

(XIII) Provisions

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

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

(XIV) Revenue Recognition

1. Revenue from Contracts with Clients

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

(1) Labor Service

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

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

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

(2) Construction Contract

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

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

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

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

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

2. Cost of Client Contracts

Cost of Fulfilling Contracts

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

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

(XV) Employee Benefits

1. Defined Contribution Plan

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

2. Defined Benefit Plan

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

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

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

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

3. Short-term Employee Benefits

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

(XVI) Income Tax

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

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

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

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

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

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

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

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

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

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

(XVII) Earnings per Share

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

(XVIII) Segment Information

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

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

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

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

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

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

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

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

(I)Revenue Recognition

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

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

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

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

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

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

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

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

(I) Note 6 (7), investment property

(II) Note 6 (19), financial instrument

## VI. Description of Significant Accounting Items

(I) Cash and cash equivalents

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

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

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

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

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

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

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

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

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

   The equity instrument investment held by the Consolidated Company is a long-term strategic investment and not held for trading purposes, so it has been designated to be measured at fair value through other comprehensive income.
2. For the equity instrument investment designated as measured at fair value through other comprehensive income, the dividend incomes recognized by the Consolidated Company in 2019 and 2018 were NT$10,955,000 and NT$5,577,000.
3. The Consolidated Company did not dispose of strategic investment in 2019 and 2018, and accumulated profit and loss during that period were not transferred within the equity.
4. None of the financial assets of the Consolidated Company has been pledged as collateral.
5. Please refer to Note 6 (19) for credit risk (including impairment of debt instrument investment) and market risk information.

(IV) Notes Receivable and Accounts Receivable

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

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

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

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

There is no provision for doubtful debt loss and write-down reversal in 2019 and 2018.

As of December 31, 2019 and 2018, none of the receivables of the Consolidated Company were pledged as collateral.

(V) Investment under Equity Method

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

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

1. Associates

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

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

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

2. Collateral

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

(VI) Property, Plant and Equipment

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

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

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

(VII) Investment Property

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

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

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

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

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

(VIII) Right-of-use Assets

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

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

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

(IX) Short-term Loans

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

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

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

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

(X) Provisions

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

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

(XI) Operating Lease

1. Lessee Lease

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

| | 2018.12.31 |
|---|---|
| Within 1 year | $ 2,425 |

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

2. Lessor Lease

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

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

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

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

(XII) Employee Benefits

1. Defined Benefit Plan

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

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

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

(1) Components of plan assets

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

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

(2) Changes in present value of defined benefit obligations

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

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

(3) Changes in fair value of plan assets

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

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

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

(5) Expenses recognized as profit and loss

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

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

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

| | | 2019 | 2018 |
|---|---|---|---|
| Operating cost | $ | (2) | 11 |

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

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

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

(7) Actuarial assumption

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

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

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

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

(8) Sensitivity analysis

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

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

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

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

2. Defined Contribution Plans

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

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

3. Short-term Compensated Absences

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

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

(XIII) Income Tax

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

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

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

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

3. Deferred tax assets

(1) Unrecognized deferred tax assets

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

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Deductible temporary difference | $ 803 | 803 |

(2) Recognized deferred tax assets

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

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

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

(XIV) Capital and Other Equity

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

1. Capital Surplus

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

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

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

2. Retained Earnings

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

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

(1) Legal capital surplus

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

(2) Earnings distribution

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

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

3. Other Equity (net after tax)

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

(XV) Earnings per Share

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

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

(XVI) Revenue from Client Contracts

1. Disaggregation of Revenue

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

2. Contract Balance

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

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

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

(XVII) Remuneration of Employees, Directors, and Supervisors

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

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

(XVIII) Non-operating Income and Expenses

1. Other Income

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

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

2. Other Gains and Losses

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

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

3. Financial Cost

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

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

(XIX) Financial Instruments

1. Credit Risk

(1) Credit risk exposure

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

(2) The concentration of credit risk

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

2. Liquidity Risk

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

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

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

3. Interest Rate Analysis

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

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

4. Other Price Risk

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

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

5. Fair Value Information

(1) Type and fair value of financial instruments

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

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

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

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

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

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

Non-derivative financial instruments

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

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

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

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

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

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

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

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

(4) Details of changes in Level 3

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

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

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

(XX) Financial Risk Management

1. Outline

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

(1) Credit risk

(2) Liquidity risk

(3) Market risk

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

2. Risk Management Framework

(1) Risk management policies

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

(2) Organizational structure of risk management:

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

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

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

3. Credit Risk

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

(1) Accounts receivable and other receivables

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

(2) Investment

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

4. Liquidity Risk

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

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

5. Market Risk

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

(1) Interest rate risk

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

(2) Other market price risks

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

(XXI) Capital Management

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

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

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

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

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

## VII. Related Party Transactions

(I) The Parent Company and the Ultimate Controlling Party

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

(II) Name and Relation of Affiliates

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

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

(III) Material Transactions with Affiliates

1. Sales of Services to Affiliates

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

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

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

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

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

2. Receivables from Affiliates and Contract Assets

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

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

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

3. Endorsement

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

4. Leases

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

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

5. Others

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

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

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

(IV) Key Management Personnel Transactions

Remuneration of key management personnel includes:

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

## VIII. Pledged Assets

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

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

## IX. Material Contingent Liabilities and Unrecognized Contract Commitments

(I) Material Unrecognized Contract Commitments

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

(II) Contingent Liability

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

## X. Material Disaster Losses: None

## XI. Material Post-period Matters: None

## XII. Others

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

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

## XIII. Supplementary Disclosures

(I) Information on Material Transactions

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

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

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

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

(1) A company with business contacts.
(2) A company in which the Company directly or indirectly holds more than 50% of the voting rights.
(3) A company that directly or indirectly holds more than 50% of the voting rights of the Company.
(4) Companies in which the Company holds directly or indirectly 90% or more of the voting rights.
(5) Where a company fulfills its contractual obligations by providing mutual endorsements for another company in the same industry or for joint builders for purposes of undertaking a construction project
(6) Where all capital contributing shareholders make endorsements for their jointly invested company in proportion to their shareholding percentages.

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

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

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

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

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

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

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

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

Unit: NT$1,000

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

Note: It refers to the current valuation amount.

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

Unit: NT$1,000

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

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

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

Note 1. The number is filled in as follows:

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

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

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

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

(II) Information on Reinvestment

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

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

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

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

(III) Information on Investments in Mainland China:

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

## XIV. Segment Information

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

## V. 2019 Parent Company only Financial Statements Audited and Attested by CPAs

### Independent Auditors' Report

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

**Audit Opinion**

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

In our opinion, the aforementioned parent company only financial statements in all material aspects are in compliance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and are sufficient to present the financial position of Kedge Construction Co., Ltd. as of December 31, 2019, and 2018, and its financial performance and cash flows for the year 2019 and 2018 from January 1, to December 31.

**Foundation of Audit Opinion**

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

**Key Audit Matters**

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

I. Construction Contracts

Please refer to Note 4 (13) "revenue recognition" of parent company only financial statements for details of the accounting policies related to the building contracts. Please refer to Note 5 of parent company only financial statements for details of the accounting estimates and assumed uncertainties of estimated total contract cost of the building contracts. Please refer to Note 6 (15) "revenue of the client contracts" of parent company only financial statements for details of revenue recognition and the accumulated cost incurred.

Description of Key Audit Matters:

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

Corresponding Audit Procedures:

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

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

**Responsibilities of the Management and Governing Body for the Parent Company Only Financial Statements**

It is the management's responsibility to fairly present the parent company only financial statements in compliance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and to sustain essential internal controls respecting the preparation of the parent company only financial statements so as to ensure that there is no material misrepresentation in the parent company only financial statements due to fraud or error.

In the preparation of the parent company only financial statements, the responsibility of management also includes the assessment of the sustainability of going concerned for Kedge Construction Co., Ltd., disclosure of relevant matters, as well as the adoption of the accounting base for continuing operations, unless the management intends to liquidate the Kedge Construction Co., Ltd. or terminate the business, or there is no practicable measure other than liquidation or termination of the business. The governing body (including Supervisors) of Kedge Construction Co., Ltd. is responsible for supervising the financial reporting process.

**Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements**

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

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

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

Evaluate the overall presentation, structure, and content of the parent company only financial statements (including relevant notes), and whether the parent company only financial statements fairly represent the underlying transactions and events.

5. Obtain sufficient and appropriate audit evidence for the financial information of the invested company adopting the equity method to express opinions on the parent company only financial statements. We are responsible for the guidance, supervision, and implementation of the audit cases, and for forming the audit opinions for Kedge Construction Co., Ltd.

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

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

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

KPMG

Taipei,Taiwan

Republic of China

March 23, 2020

<u>*Notices to Readers*</u>

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

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

**KEDGE CONSTRUCTION CO., LTD.**

**Balance Sheets**

**December 31, 2019 and 2018**

**Unit: NT$ thousands**

| | | 2019.12.31 | | 2018.12.31 | |
|---|---|---|---|---|---|
| | **Assets** | **Amount** | **%** | **Amount** | **%** |
| | **Current assets:** | | | | |
| 1100 | Cash and cash equivalents (Note 6 (1) and (18)) | $ 2,288,640 | 28 | 1,130,538 | 16 |
| 1110 | Financial assets at fair value through profit or loss - current (Note 6 (2) and (18)) | 22,474 | - | 17,835 | - |
| 1170 | Notes and accounts receivable - net amount (Note 6 (4), (15) and (18)) | 1,127,588 | 15 | 737,620 | 11 |
| 1180 | Notes and accounts receivable - affiliates net amount (Note 6 (15), (18) and 7) | 1,908,205 | 23 | 2,626,309 | 38 |
| 1140 | Contract assets - current (Note 6 (15) and 7) | 1,555,198 | 19 | 1,195,153 | 17 |
| 1410 | Prepayments | 202,562 | 2 | 174,816 | 3 |
| 1470 | Prepayments | 20,579 | - | 17,943 | - |
| 1476 | Other financial assets - current (Note 6 (18) and 8) | 243,552 | 4 | 341,814 | 7 |
| | - | 7,368,798 | 91 | 6,242,028 | 92 |
| | **Non-current assets:** | | | | |
| 1518 | Equity instrument measured at fair value through other comprehensive income (Note 6 (3) and (18)) | 15,950 | - | 10,225 | - |
| 1550 | Investments accounted for using equity method (Note 6 (5)) | 573,005 | 7 | 432,163 | 6 |
| 1600 | Property, plant and equipment (Note 6 (6) and 8) | 53,254 | 1 | 53,501 | 1 |
| 1760 | Net investment property (Note 6 (7) and 8) | 102,544 | 1 | 103,010 | 1 |
| 1840 | Deferred tax assets (Note 6 (12)) | 23,814 | - | 20,734 | - |
| 1975 | Net defined benefit assets - non-current (Note 6 (11)) | 1,361 | - | - | - |
| 1980 | Other financial assets - non-current (Note 6 (18)) | 7,955 | - | 9,241 | - |
| | | 777,883 | 9 | 628,874 | 8 |
| | **Total assets** | $ 8,146,681 | 100 | 6,870,902 | 100 |

| | | 2019.12.31 | | 2018.12.31 | |
|---|---|---|---|---|---|
| | **Liabilities and equity** | **Amount** | **%** | **Amount** | **%** |
| | **Current liabilities:** | | | | |
| 2100 | Short-term loans (Note 6 (8), (18) and 8) | $ 150,000 | 2 | - | - |
| 2130 | Contract liabilities - current (Note 6 (15)) | 978,454 | 12 | 995,684 | 14 |
| 2150 | Notes payable (Note 6 (18) and 7) | 356,433 | 4 | 377,531 | 5 |
| 2170 | Accounts payable (Note 6 (18) and 7) | 3,497,894 | 43 | 2,538,707 | 37 |
| 2200 | Other payables (Note 6 (11) and (18)) | 253,702 | 3 | 241,283 | 5 |
| 2230 | Current tax liabilities | 47,929 | 1 | 81,171 | 1 |
| 2300 | Other current liabilities | 18,572 | - | 22,914 | - |
| | - | 5,302,984 | 65 | 4,257,290 | 62 |
| | **Non-current liabilities:** | | | | |
| 2552 | Warranty long-term provisions (Note 6 (9)) | 101,321 | 1 | 78,040 | 1 |
| 2640 | Net defined benefit liabilities - non-current (Note 6 (11)) | - | - | 55 | - |
| 2600 | Other non-current liabilities | 1,415 | - | 2,719 | - |
| | - | 102,736 | 1 | 80,814 | 1 |
| | **Total liabilities** | 5,405,720 | 66 | 4,338,104 | 63 |
| | **Equity (Note 6 (13))** | | | | |
| 3100 | Share capital | 1,060,357 | 13 | 1,060,357 | 15 |
| 3200 | Capital surplus | 518,241 | 6 | 518,208 | 8 |
| 3300 | Retained earnings | 1,036,204 | 13 | 951,056 | 14 |
| 3400 | Other equity | 126,159 | 2 | 3,177 | - |
| | **Total equity** | 2,740,961 | 34 | 2,532,798 | 37 |
| | **Total liabilities and equity** | $ 8,146,681 | 100 | 6,870,902 | 100 |

(Please refer to the attached Notes to Parent Company Only Financial Statements)

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

**Unit: NT$ thousands**

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Amount** | **%** | **Amount** | **%** |
| 4000 | **Operating revenue (Note 6 (10), (15) and 7)** | $ 11,362,618 | 100 | 11,318,212 | 100 |
| 5000 | **Operating costs (Note 6 (11), (16), 7 and 12)** | 10,667,867 | 94 | 10,623,142 | 94 |
| | **Gross profit** | 694,751 | 6 | 695,070 | 6 |
| | **Operating expense:** | | | | |
| 6200 | **Administrative expense (Note 6 (11), (16), 7 and 12)** | 234,713 | 2 | 211,859 | 2 |
| | **Net operating profit** | 460,038 | 4 | 483,211 | 4 |
| | **Non-operating income and expense:** | | | | |
| 7010 | Other incomes **(Note 6 (17) and 7)** | 8,849 | - | 17,958 | - |
| 7020 | Other gains and losses (Note 6 (17)) | 4,723 | - | (5,413) | - |
| 7050 | Financial costs (Note 6 (17)) | (2,053) | - | (2,002) | - |
| 7070 | Share of profit and loss of subsidiaries, associates and joint ventures using equity method recognition | 23,586 | - | 17,610 | - |
| | | 35,105 | - | 28,153 | - |
| | **Profit before tax from continuing operating department** | 495,143 | 4 | 511,364 | 4 |
| 7950 | **Less: Income tax expense (Note 6 (12))** | 92,795 | 1 | 103,858 | 1 |
| | **Net income** | 402,348 | 3 | 407,506 | 3 |
| 8300 | **Other comprehensive income:** | | | | |
| 8310 | **Items that will not be reclassified to profit or loss** | | | | |
| 8311 | Remeasurements of defined benefit plans | 907 | - | 571 | - |
| 8316 | Unrealized profits and losses from investments in equity instruments measured at fair value through other comprehensive income | 122,982 | 1 | (897) | - |
| | | 123,889 | 1 | (326) | - |
| 8300 | **Other comprehensive income (net amount after tax)** | 123,889 | 1 | (326) | - |
| | **Total comprehensive income (loss)** | **$ 526,237** | **4** | **407,180** | **3** |
| | **Earnings per share (NT$) (Note 6 (14))** | | | | |
| 9750 | **Basic earnings per share (NT$)** | **$** | **3.79** | | **3.84** |
| 9850 | **Diluted earnings per share (NT$)** | **$** | **3.79** | | **3.83** |

(Please refer to the attached Notes to Parent Company Only Financial Statements)

# KEDGE CONSTRUCTION CO., LTD.
# Statement of Changes in Equity
# January 1 to December 31, 2019 and 2018

**Unit: NT$ thousands**

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

(Please refer to the attached Notes to Parent Company Only Financial Statements)

## KEDGE CONSTRUCTION CO., LTD.
## Statements of Cash Flows
## January 1 to December 31, 2019 and 2018

**Unit: NT$ thousands**

| | | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| **Profit before tax for the period** | $ | 495,143 | 511,364 |
| **Adjustments:** | | | |
| Income and expenses item | | | |
| Depreciation expense | | 713 | 755 |
| Net (profit) loss on financial assets or liabilities at fair value through profit or loss | | (4,723) | 1,527 |
| Interest expense | | 2,053 | 2,002 |
| Interest revenue | | (5,540) | (13,123) |
| Dividend income | | (500) | (250) |
| Share of profit of subsidiaries, associates and joint ventures using equity method recognition | | (23,586) | (17,610) |
| Total income and expense items | | (31,583) | (26,699) |
| Movement of assets/liabilities relating to operating activities: | | | |
| Net movement of assets relating to operating activities: | | | |
| Reduction of financial assets enforced at fair value through profit or loss | | 84 | 48 |
| Increase in notes and accounts receivable | | (389,968) | (94,237) |
| Notes and accounts receivable - decrease (increase) in affiliates | | 718,104 | (1,148,353) |
| Decrease (increase) in contract asset | | (360,045) | 256,758 |
| Decrease (increase) in prepayments | | (27,746) | 24,767 |
| Increase in other current assets | | (2,636) | (4,804) |
| Decrease (increase) in other financial assets | | 98,665 | (9,722) |
| Increase in non-current net defined benefit assets- | | (1,361) | - |
| Total net movement of assets relating to operating activities | | 35,097 | (975,543) |
| Total net movement of liabilities relating to operating activities | | | |
| Increase (decrease) in notes payable | | (21,098) | 66,543 |
| Increase in accounts payable | | 959,187 | 219,440 |
| Increase (decrease) in contract liabilities | | (17,230) | 53,984 |
| Increase in other payable | | 12,452 | 6,501 |
| Increase in liability reserve | | 23,281 | 20,481 |
| Increase (decrease) in other current liabilities | | (4,342) | 1,590 |
| Increase (decrease) in net defined benefit liabilities | | 852 | (576) |
| Increase (decrease) in other non-current liabilities | | (1,304) | 1,197 |
| Total net movement of liabilities relating to operating activities | | 951,798 | 369,160 |
| Total net movement of assets and liabilities relating to operating activities | | 986,895 | (606,383) |
| Total adjustment items | | 955,312 | (633,082) |
| Cash inflows (outflows) generated from operation | | 1,450,455 | (121,718) |
| Interest collection | | 5,138 | 13,016 |
| Dividends collection | | 500 | 250 |
| Interest payment | | (2,053) | (2,002) |
| Income tax payment | | (129,117) | (64,467) |
| **Net cash inflow (outflow) from operating activities** | | 1,324,923 | (174,921) |
| **Cash flows from investing activities** | | | |
| Decrease in other financial assets | | 1,286 | 2,909 |
| **Net cash inflow from investing activities** | | 1,286 | 2,909 |
| **Cash flows from financing activities** | | | |
| Increase in short-term loans | | 321,000 | 436,000 |
| Decrease in short-term loans | | (171,000) | (586,000) |
| Increase in short-term promissory notes payable | | 90,000 | 50,000 |
| Decrease in short-term promissory notes payable | | (90,000) | (100,000) |
| Cash dividend distribution | | (318,107) | (229,037) |
| Overdue unclaimed dividends | | - | 177 |
| **Net cash outflow from financing activities** | | (168,107) | (428,860) |
| Increase (decrease) in cash and cash equivalents | | 1,158,102 | (600,872) |
| Opening balance of cash and cash equivalents of the period | | 1,130,538 | 1,731,410 |
| Ending balance of cash and cash equivalents of the period | $ | 2,288,640 | 1,130,538 |

(Please refer to the attached Notes to Parent Company Only Financial Statements)

**KEDGE CONSTRUCTION CO., LTD.**
**Notes to Parent Company Only Financial Statements**
**Year 2019 and Year 2018**
**(The unit for all amounts expressed is in thousands of NTD unless otherwise stated)**

## I. Company Overview

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

## II. The Approval Date and Procedures of the Financial Report

The parent company only financial statements have been approved by the Board of Directors on March 23, 2020.

## III. Application of Newly Issued and Revised Standards and Interpretations

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

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

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

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

IFRS 16 "Leases"

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

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

(1) Definition of Lease

The Company has previously judged whether an agreement belongs to or includes a lease on the contract start date by IFRIC 4. After the change of accounting policy, the lease definition of IFRS 16 is applied to evaluate whether the contract belongs to or includes a lease; see Note 4 (10) for details of relevant accounting policies.

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

(2) Lessee

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

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

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

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

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

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

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

(3) Lessor

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

Under IFRS 16, the classification of subleasing should be evaluated based on right-of-use assets rather than underlying assets. After reevaluating the classification of subleases previously classified as operating leases under IAS 17, the Company believes that such subleases should be classified as financial leases under IFRS 16.

(4) Impact on Financial Statements

The Company has assessed that the application of the new standards has no material impact.

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

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

| **Newly issued, amended, and revised standards and interpretations** | **The effective date of issuance by IASB** |
|---|---|
| Amendments to IFRS 3 "Definition of a Business" | January 1, 2020 |
| IFRS 9, Amendments to IAS 39 and IFRS 7 "Interest Rate Index Reform" | January 1, 2020 |
| Amendment to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 |

The Company has assessed that the application of the above newly endorsed IFRS will not result in material variations to the parent-only financial report.

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

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

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

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

## IV. Summary of Material Accounting Policies

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

(I) Compliance Declaration

The parent company only financial statements are prepared following the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(II) Foundation of Preparation

1. Foundation of Measurement

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

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

(2) Financial assets measured at fair value through other comprehensive income; and

(3) Net defined benefit liabilities (or assets) are measured by the fair value of pension fund assets minus the present value of the defined benefit obligations and the cap effects measurement mentioned in note 4 (14).

2. Functional Currency and Presentation Currency

The Company takes the currency of the main economic environment in which each business operates as its functional currency. The parent company only financial statements presents the New Taiwan dollar as the functional currency. All financial information represented in NTD is in the unit of thousands of NT$.

(III) Classification Standards for Distinguishing Current and Non-current Assets and Liabilities

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

1. The asset is expected to be realized within its normal operating cycle, or it is intended to be sold or depleted;
2. The asset is held mainly for trading purposes;
3. The asset is expected to be realized within 12 months after the reporting period; or
4. The asset is cash or cash equivalent, but it will be used for the exchange of assets or settlement of liabilities at least 12 months after the reporting period, unless otherwise limited.

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

1. The liability is expected to be settled within its normal operating cycle;
2. The liabilities held are primarily for the trading purpose;
3. The liabilities are expected to settle the obligation within 12 months after the reporting period; or
4. The liabilities have no unconditional right to defer the settlement for at least 12 months after the reporting period. The liabilities provisions may be settled by issuing equity instruments at the option of the counterparty, and will not impact its classification.

(IV) Cash and Cash Equivalents

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

(V) Financial Instruments

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

1. Financial Assets

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

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

   (1) Financial Assets Measured at Amortized Cost

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

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

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

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

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

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

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

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

Financial assets not measured at the aforementioned amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss, including derivative financial assets. The Company's intention to sell receivables immediately or shortly is measured at fair value through profit or loss but is included in the receivables. At the time of initial recognition, to eliminate or materially reduce accounting mismatches, the Company may irrevocably designate financial assets that meet the criteria of measuring at amortized cost or at fair value through other comprehensive income as financial assets measured at fair value through profit or loss.

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

(4) Impairment of Financial Assets

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

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

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

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

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

If the credit risk rating of a financial instrument is equivalent to the "investment grade" defined globally (investment grade BBB of Standard & Poor's, investment grade Baa3 of Moody's or investment grade twA of Taiwan Rating, or higher grade), the Company considers the credit risk of such debt securities is low.

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

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

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

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

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

(5) Derecognition of Financial Assets

The Company shall only derecognize the financial assets when the contractual rights from the cash flow of the assets are terminated, or the financial assets have been transferred and almost all the risks and rewards of the ownership of the assets have been transferred to other enterprises, or almost all the risks and rewards of the ownership have not been transferred or retained and the control of the financial assets has not been retained.

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

2. Financial Liabilities and Equity Instruments

(1) Classification of Liabilities or Equities

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

(2) Equity Transactions

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

(3) Financial Liabilities

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

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

(4) Derecognition of Financial Liabilities

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

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

(5) Offsetting of Financial Assets and Financial Liabilities

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

(6) Financial Guarantee Contract

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

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

(VI) Investments in Subsidiaries

In the preparation of the parent company only financial statements, the Company adopts the equity method to evaluate the controlled investee company. Under the equity method, the current profit and loss and other comprehensive profit and loss of the parent company only financial statements are the same as the apportionment of the current profit and loss and other comprehensive profit and loss attributable to the owners of the parent company in the financial report prepared on the basis of consolidation, and the owner's equity of the parent company only financial statements is the same as the owner's equity attributable to the owners of the parent company in the financial report prepared on the basis of consolidation.

Where the change of the Company's ownership interest in a subsidiary does not result in loss of control, it shall be treated as an equity transaction with the owner.

(VII) Joint Arrangements

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

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

(VIII) Investment Property

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

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

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

(IX) Property, Plant and Equipment

1. Recognition and Measurement

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

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

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

2. Subsequent Cost

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

3. Depreciation

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

   No depreciation shall be recognized for the land.

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

| | |
|---|---|
| Houses and buildings | 53 years |
| Transportation equipment | 5 years |
| other equipment | 3 years |

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

(X) Leases

Applicable from January 1, 2019

1. Lease Judgment

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

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

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

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

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

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

2. Lessee

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

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

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

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

(1) Fixed benefits, including substantial fixed benefits;

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Lessor

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

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

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

Applicable before January 1, 2019

1. Lesser

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

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

2. Lessee

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

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

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

(XI) Impairments of Non-financial Asset

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

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

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

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

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

A goodwill impairment loss shall not be reversed. Non-financial assets other than goodwill are only reversed to the extent that they do not exceed the carrying amount (less depreciation or amortization) determined when the impairment loss of the asset is not recognized in the previous year.

(XII) Provisions

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

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

(XIII) Revenue Recognition

1. Revenue from Client Contracts

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

(1) Labor Services

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

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

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

(2) Construction Contracts

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

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

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

The Company provides a standard warranty for residential property and public construction in line with the agreed specifications and has recognized the warranty liability reserve for this obligation. Please refer to Note 6 (9) for details.

2. Financial Component

Cost of Fulfilling Contracts

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

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

(XIV) Employee Benefits

1. Defined Contribution Plan

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

2. Defined Benefit Plan

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

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

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

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

3. Short-term Employee Benefits

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

(XV) Income Tax

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

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

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

1. Assets or liabilities initially recognized in a transaction other than a business combination that at the time of the transaction does not affect accounting profit and taxable income (loss);
2. Due to temporary differences arising from investment in subsidiaries, associates and joint venture interests, the Company can control the reversing point of temporary differences and is likely not to revert in the foreseeable future; and
3. The taxable temporary difference arising from the initial recognition of goodwill.

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

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

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

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

(XVI) Earnings per Share

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

(XVII) Segment Information

The Company has disclosed segment information in the consolidated financial report, so the parent company only financial statements do not disclose segment information.

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

The management must make judgments, estimates, and assumptions when preparing the parent company only financial statements under the Regulations Governing the Preparation of Financial Reports by Securities Issuers, which will have an impact on the adoption of accounting policies and the reported amount of assets, liabilities, earnings, and expenses. The actual results may differ from the estimates.

The management continuously reviews estimates and basic assumptions, and changes in accounting estimates are recognized during the period of change and the future period affected. For the uncertainty of assumptions and estimates, the relevant information about significant risks that will cause material adjustments in the next year is as follows:

(I) Revenue Recognition

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

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

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

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

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

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

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

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

(I) Note 6 (7), investment property

(II) Note 6 (18), financial instrument

## VI. Description of Significant Accounting Items

(I) Cash and cash equivalents

| | | 2019.12.31 | 2018.12.31 |
|---|---|---|---|
| Cash and petty cash | $ | 710 | 1,226 |
| Demand deposit | | 470,722 | 476,065 |
| Check deposit | | 178,591 | 483,584 |
| Cash equivalents | | 1,638,617 | 169,663 |
| Cash and cash equivalents | $ | 2,288,640 | 1,130,538 |

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

Please refer to Note 6 (18) for the disclosure of interest rate risk and sensitivity analysis of financial assets and liabilities of the Company.

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

The details are as follows:

| | | 2019.12.31 | 2018.12.31 |
|---|---|---|---|
| Financial assets enforced at fair value through profit or loss: | | | |
| Non-derivative financial assets | | | |
| Funds | $ | 22,474 | 17,835 |

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

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

| | | 2019.12.31 | 2018.12.31 |
|---|---|---|---|
| Equity instruments measured at fair value through other comprehensive income | | | |
| Shares of domestic TWSE/TPEx listed companies - Kindom Development Co., Ltd. | $ | 15,950 | 10,225 |

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

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

2. For the equity instrument investment designated as measured at fair value through other comprehensive income, the dividend income recognized by the Company in 2019 and 2018 were NT$500,000 and NT$250,000 respectively.

3. The Company did not dispose of strategic investment in 2019 and 2018, and

accumulated profit and loss during that period were not transferred within the equity.

4. As of December 31, 2019 and 2018, none of the Company's financial assets were pledged as collateral.
5. Please refer to Note 6 (18) for credit risk (including impairment of debt instrument investment) and market risk information.

(IV) Notes Receivable and Accounts Receivable

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Accounts receivable | $ 1,127,588 | 737,620 |
| Less: Loss allowance | - | - |
| | $ 1,127,588 | 737,620 |

The Company adopts the simplified method to estimate the expected credit loss of all notes receivable and accounts receivables, that is, to measure lifetime expected credit losses. For this measurement purpose, such notes receivable and accounts receivables are grouped concerning the common credit risk characteristics that represent the client's ability to pay all due amounts under contract terms and have been incorporated into forward-looking information. The expected credit loss of notes receivable and accounts receivable of the Company is analyzed as follows:

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

| | 2018.12.31 | | |
|---|---|---|---|
| | The carrying amount of notes and accounts receivable | Weighted average expected credit loss rate | Allowance of lifetime expected credit losses |
| Not overdue | $ 737,620 | - | - |

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

(V) Investment under Equity Method

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

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Subsidiaries | $ 573,005 | 432,163 |

1. Subsidiaries

   Please refer to the 2019 consolidated financial statements.

2. Collateral

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

(VI) Property, Plant and Equipment

Details of changes in cost, depreciation and impairment loss of property, plant, and equipment of the Company in 2019 and 2018 are as follows:

| | Land | Houses and buildings | Transportation equipment | Other Equipment | Total |
|---|---|---|---|---|---|
| Cost or deemed cost: | | | | | |
| Balance on January 1, 2019 | $ 53,200 | 12,667 | 1,930 | 407 | 68,204 |
| Balance on December 31, 2019 | **$ 53,200** | **12,667** | **1,930** | **407** | **68,204** |
| Balance on January 1, 2018 | $ 53,200 | 12,667 | 1,930 | 407 | 68,204 |
| Balance on December 31, 2018 | **$ 53,200** | **12,667** | **1,930** | **407** | **68,204** |
| Depreciation and impairment loss: | | | | | |
| Balance on January 1, 2019 | $ - | 12,473 | 1,823 | 407 | 14,703 |
| Depreciation for the year | - | 194 | 53 | - | 247 |
| Balance on December 31, 2019 | **$ -** | **12,667** | **1,876** | **407** | **14,950** |
| Balance on January 1, 2018 | $ - | 12,239 | 1,769 | 407 | 14,415 |
| Depreciation for the year | - | 234 | 54 | - | 288 |
| Balance on December 31, 2018 | **$ -** | **12,473** | **1,823** | **407** | **14,703** |
| Carrying Amount | | | | | |
| December 31, 2019 | **$ 53,200** | **-** | **54** | **-** | **53,254** |
| January 1, 2018 | **$ 53,200** | **428** | **161** | **-** | **53,789** |
| December 31, 2018 | **$ 53,200** | **194** | **107** | **-** | **53,501** |

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

(VII) Investment Property

Details of changes in cost, depreciation, and impairment loss of investment property of the Company in 2019 and 2018 are as follows:

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

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

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

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

(VIII) Short-term Loans

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

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

Please refer to Note 6 (18) for information on the exposure to interest rate and liquidity risk of the Company.

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

(IX) Provisions

| | Warranty |
|---|---|
| Balance on January 1, 2019 | $ 78,040 |
| Additional provisions during the period | 27,816 |
| Provisions used during the period | (4,535) |
| Balance on December 31, 2019 | $ 101,321 |
| Balance on January 1, 2018 | $ 57,559 |
| Additional provisions during the period | 33,316 |
| Provisions used during the period | (12,835) |
| Balance on December 31, 2018 | $ 78,040 |

In 2019 and 2018, the warranty provisions of the Company is mainly related to construction contracting. The warranty provisions are estimated based on the historical warranty data of various constructions. The Company expects that the liability will occur mostly 1 year after the construction acceptance.

(X) Operating Lease

1. Lessee Lease

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

| | 2018.12.31 |
|---|---|
| Within 1 year | $ 2,229 |

The Company leases its office by operating lease. The operating lease expense reported in profit and loss in 2018 was NT$2,229,000.

2. Lessor Lease

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

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

When the Company leases the investment property, as almost all risks and remuneration attached to the ownership of the underlying assets have not been transferred, such tenancy agreement is classified as an operating lease. Please refer to Note 6 (7) investment property for details.

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

(XI) Employee Benefits

1. Defined Benefit Plan

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

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

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

(1) Components of plan assets

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

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

(2) Changes in present value of defined benefit obligations

The changes in the present value of defined benefit obligations of the

Company in 2019 and 2018 are as follows:

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

(3) Changes in fair value of plan assets

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

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

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

(5) Expenses recognized as profit and loss

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

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

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

| | 2019 | 2018 |
|---|---|---|
| Operating cost | $ (2) | 11 |

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

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

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

(7) Actuarial assumption

The material actuarial assumptions used by the Company to determine the present value of the defined benefit obligations at the end of the financial report are as follows:

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

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

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

(8) Sensitivity analysis

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

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

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

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

2. Defined Contribution Plans

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

The pension expenses of the Company under the defined contribution pension mechanism in 2019 and 2018 are NT$21,613,000 and NT$20,840,000 respectively, which have been contributed to the Bureau of Labor Insurance.

3. Short-term Compensated Absences

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

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Short-term compensated absences | $ 14,433 | 11,511 |

(XII) Income Tax

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

| | 2019 | 2018 |
|---|---|---|
| Current income tax expense | | |
| Arising in the current period | $ 96,365 | 105,793 |
| Adjustments of income tax in the prior period | (3,333) | 1,751 |
| Surtax on unappropriated retained earnings | 2,843 | 3,394 |
| | 95,875 | 110,938 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (3,080) | (4,671) |
| Change in income tax rate | - | (2,409) |
| | (3,080) | (7,080) |
| Income tax expense | $ 92,795 | 103,858 |

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

| | 2019 | 2018 |
|---|---|---|
| Profit before tax | $ 495,143 | 511,364 |
| Income tax calculated according to the domestic tax rate of the location of the Company | $ 99,028 | 102,272 |
| Change in income tax rate | - | (2,409) |
| Adjustments of income tax in the prior period | (3,333) | 1,751 |
| Surtax on unappropriated retained earnings | 2,843 | 3,394 |
| Investment profit and loss recognized by the equity method | (4,717) | (3,522) |
| Tax exemption profit | (117) | (60) |
| Non-deductible expense | 120 | 34 |
| Others | (1,029) | 2,398 |
| Total | $ 92,795 | 103,858 |

3. Deferred tax assets

(1) Unrecognized deferred tax assets

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

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Deductible temporary difference | $ 798 | 798 |

(2) Recognized deferred tax assets

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

| | Provisions | Unrealized construction loss | Cumulative compensated absences | Others | Total |
|---|---|---|---|---|---|
| January 1, 2019 | $ 15,608 | 2,160 | 2,302 | 664 | 20,734 |
| Recognized in the income statements | 4,656 | (2,160) | 584 | - | 3,080 |
| December 31, 2019 | $ 20,264 | - | 2,886 | 664 | 23,814 |
| January 1, 2018 | $ 9,785 | 6 | 1,805 | 2,058 | 13,654 |
| Recognized in the income statements | 5,823 | 2,154 | 497 | (1,394) | 7,080 |
| December 31, 2018 | $ 15,608 | 2,160 | 2,302 | 664 | 20,734 |

4. The Company's business income tax declaration has been approved by the collection authority until 2017.

(XIII) Capital and Other Equity

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

1. Capital Surplus

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

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

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

2. Retained Earnings

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

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

(1) Legal capital surplus

According to the Company Act, the Company shall contribute 10% of the after-tax net profit as the legal capital surplus until it is equal to the total capitalization. When the Company has no loss, it may, by resolution of the shareholders' meeting, issue new shares or cash with the legal capital surplus, provided that the surplus exceeds 25% of the paid-in capital.

(2) Earnings distribution

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Dividend rate (NT$)** | **Amount** | **Dividend rate (NT$)** | **Amount** |
| Dividends distributed to owners of ordinary shares: | | | | |
| Cash | $ 3.00 | 318,107 | 2.16 | 229,037 |

3. Other Equity (net after tax)

| | **Unrealized gains or losses on financial assets at fair value through other comprehensive income** | **Available-for-sale investment** | **Total** |
|---|---|---|---|
| Balance on January 1, 2019 | $ 3,177 | - | 3,177 |
| Unrealized profit (loss) of financial assets measured at fair value through other comprehensive income | 122,982 | - | 122,982 |

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

(XIV) Earnings per Share

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

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

(XV) Revenue from Client Contracts

1. Disaggregation of Revenue

| | 2019 | 2018 |
|---|---|---|
| Timing of revenue recognition: | | |
| Gradually transferred constructions over time | $ 11,356,536 | 11,295,309 |
| Gradually transferred services over time | 6,082 | 22,903 |
| | $ 11,362,618 | 11,318,212 |

2. Contract Balance

| | 2019.12.31 | 2018.12.31 | 2018.01.01 |
|---|---|---|---|
| Notes and accounts receivable (including affiliates) | $ 3,035,793 | 3,363,929 | 2,121,339 |
| Less: Loss allowance | - | - | - |
| Total | $ 3,035,793 | 3,363,929 | 2,121,339 |
| Contract asset construction- | $ 1,555,198 | 1,195,153 | 1,446,174 |
| Contract asset service income- | - | - | 5,737 |
| Less: Loss allowance | - | - | - |
| Total | $1,555,198 | 1,195,153 | 1,451,911 |
| Contract liability construction- | $ 978,454 | 995,684 | 941,700 |

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

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

(XVI) Remuneration of Employees, Directors, and Supervisors

According to the corporation by-laws of the Company, if there is any profit in the year, 0.5% - 1% should be allocated as the employees' remuneration and no more than 2% as the remuneration of Directors and Supervisors. However, if the Company still has accumulated deficits, it shall reserve the amount of compensation in advance. The Company's estimated remuneration of employees in 2019 and 2018 are NT$5,105,000 and NT$5,272,000 respectively, and estimated remuneration of Directors and Supervisors are NT$10,209,000 and NT$10,544,000 respectively. That is based on the Company's profit before tax before deducting remuneration of employees, Directors, and Supervisors during the period multiplied by the remuneration distribution ratio of employees, Directors, and Supervisors stipulated in the corporation by-laws of the Company as the estimated basis, and reported as the operating costs and operating expenses in 2019 and 2018. There is no difference between the remuneration of the employees, Directors, and Supervisors allocated by the aforesaid resolution of the Board of Directors and the amount estimated in the parent company only financial statements for 2019 and 2018. For relevant information, please refer to the Market Observation Post System (MOPS).

(XVII) Non-operating Income and Expenses

1. Other Income

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

| | 2019 | 2018 |
|---|---|---|
| Interest income | | |
| Loans and receivables | $ 4,772 | 1,937 |
| Bank deposits | 768 | 683 |
| Other interest income | - | 10,503 |
| Dividend income | 500 | 250 |
| Rent income | 11 | 11 |
| Other income | 2,798 | 4,574 |
| | **$ 8,849** | **17,958** |

2. Other Gains and Losses

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

| | 2019 | 2018 |
|---|---|---|
| Profit (loss) of financial assets at fair value through profit or loss | $ 4,723 | (1,527) |
| Other expenses | - | (3,886) |
| | **$ 4,723** | **(5,413)** |

3. Financial Cost

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

| | | 2019 | 2018 |
|---|---|---|---|
| Interest expense | | | |
| Bank loans | $ | 2,024 | 1,798 |
| Others | | 29 | 204 |
| | $ | 2,053 | 2,002 |

(XVIII) Financial Instruments

1. Credit Risk

(1) Credit risk exposure

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

(2) The concentration of credit risk

The revenue of the Company in 2019 and 2018 is derived from the sales to domestic clients, the clients of the Company are concentrated in the construction industry and public works, etc. As of December 31, 2019 and 2018, 98% of notes and accounts receivable balance is composed of six clients respectively, but they are mainly companies within the group, companies with good credit, and government agencies, etc., therefore no material concentration of credit risk in the evaluation of the Company. The Company still regularly evaluates the possibility of recovery of accounts receivable and provides the allowance for bad debts, also the loss of bad debts is within the expectation of the management.

2. Liquidity Risk

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

| | Carrying amount | Contractual cash flow | Within 1 year | 13 years- | 35 years- | Later than 5 years |
|---|---|---|---|---|---|---|
| **December 31, 2019** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Unsecured bank loans | $ 150,000 | 151,400 | 151,400 | - | - | - |
| Notes payable | 356,433 | 356,433 | 356,433 | - | - | - |
| Accounts payable | 3,497,894 | 3,497,894 | 2,065,395 | 1,432,499 | - | - |
| Other payables | 73,652 | 73,652 | 73,652 | - | - | - |
| | $ 4,077,979 | 4,079,379 | 2,646,880 | 1,432,499 | - | - |
| **December 31, 2018** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Notes payable | $ 377,531 | 377,531 | 377,531 | - | - | - |
| Accounts payable | 2,538,707 | 2,538,707 | 1,468,520 | 1,070,187 | - | - |
| Other payables | 48,449 | 48,449 | 48,449 | - | - | - |
| | $ 2,964,687 | 2,964,687 | 1,894,500 | 1,070,187 | - | - |

The Company does not expect the cash flow of maturity analysis to occur significantly earlier, or the actual amount will be meaningfully different.

3. Interest Rate Analysis

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

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

4. Other Price Risk

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Securities price on the reporting date** | **After-tax amount of other comprehensive income** | **After-tax profit or loss** | **After-tax amount of other comprehensive income** | **After-tax profit or loss** |
| Up by 10% | $ 1,595 | - | 1,023 | - |
| Down by 10% | $ (1,595) | - | (1,023) | - |

5. Fair Value Information

(1) Type and fair value of financial instruments

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

| | 2019.12.31 | | | | |
|---|---|---|---|---|---|
| | | Fair value | | | |
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | | |
| Financial assets enforced at fair value through profit or loss | $ 22,474 | 22,474 | - | - | 22,474 |
| Financial assets measured at fair value through other comprehensive income | $ 15,950 | 15,950 | - | - | 15,950 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | $ 2,288,640 | - | - | - | - |
| Notes receivable and accounts receivable (including affiliates) | 3,035,793 | - | - | - | - |
| Other financial assets - current- | 243,552 | - | - | - | - |
| Other financial assets - non-current- | 7,955 | - | - | - | - |
| Subtotal | 5,575,940 | - | - | - | - |
| Total | $ 5,614,364 | 38,424 | - | - | 38,424 |
| Financial liabilities measured at amortized cost | | | | | |
| Short-term loans | $ 150,000 | - | - | - | - |
| Notes payable and accounts payable | 3,854,327 | - | - | - | - |
| Other payables | 73,652 | - | - | - | - |
| Total | $ 4,077,979 | - | - | - | - |

| | 2018.12.31 | | | | |
|---|---|---|---|---|---|
| | | Fair value | | | |
| | Carrying amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit or loss | | | | | |
| Financial assets enforced at fair value through profit or loss | $ 17,835 | 17,835 | - | - | 17,835 |
| Financial assets measured at fair value through other comprehensive income | $ 10,225 | 10,225 | - | - | 10,225 |
| Financial assets measured at amortized cost | | | | | |
| Cash and cash equivalents | $ 1,130,538 | - | - | - | - |
| Notes receivable and accounts receivable (including affiliates) | 3,363,929 | - | - | - | - |
| Other financial assets - current- | 341,814 | - | - | - | - |
| Other financial assets - non-current- | 9,241 | - | - | - | - |
| Subtotal | 4,845,522 | - | - | - | - |
| Total | $ 4,873,582 | 28,060 | - | - | 28,060 |
| Financial liabilities measured at amortized cost | | | | | |
| Notes payable and accounts payable | $ 2,916,238 | - | - | - | - |
| Other payables | 48,449 | - | - | - | - |
| Total | $ 2,964,687 | - | - | - | - |

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

Non-derivative financial instruments

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

If the public quotation of a financial instrument can be obtained from an exchange, broker, underwriter, industry association, pricing service agency or competent authority in a timely and frequent manner, and the price represents the actual and regular fair market transactions, then the financial instrument has an active market quotation. If the above conditions are not met, the market is deemed not active. Generally speaking, large bid-ask spread, a significant increase in bid-ask spread, or a small volume of transactions are indicators of inactivity.

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

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

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

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

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

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

(3) There is no transfer between different levels in 2019 and 2018.

(XIX) Financial Risk Management

1. Outline

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

(1) Credit risk

(2) Liquidity risk

(3) Market risk

The notes convey the aforementioned various risk exposure of the Company and the objectives, policies, and procedures for the measurement and risk management of the Company. For further quantitative disclosure, please refer to the notes to the parent company only financial statements.

2. Risk Management Framework

(1) Risk management policies:

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

(2) Organizational structure of risk management:

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

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

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

3. Credit Risk

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

(1) Accounts receivable and other receivables

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

(2) Investment

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

(3) Guarantee

In line with the Company's policy, financial guarantee can only be provided to fully owned subsidiaries, companies with business contacts, etc. As of December 31, 2019 and 2018, the endorsements and guarantees provided by the Company were all NT$14,192,000.

4. Liquidity Risk

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

Generally speaking, the Company ensures that there is sufficient cash to meet the needs of expected operating expenses, including the performance of financial obligations, but excluding the potential impact that can not be reasonably expected under extreme circumstances, such as natural disasters. Moreover, the unused comprehensive loan facilities (including NT dollar loan, letter of credit and commercial paper facilities) of the Company on December 31, 2019 and

2018 totaled NT$3,671,975,000 and NT$3,597,523,000.

5. Market Risk

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

(1) Interest rate risk

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

(2) Other market price risks

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

(XX) Capital Management

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

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

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

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

| | 2019.12.31 | 2018.12.31 |
|---|---|---|
| Total liabilities | $ 5,405,720 | 4,338,104 |
| Less: Cash and cash equivalents | (2,288,640) | (1,130,538) |
| Net indebtedness | 3,117,080 | 3,207,566 |
| Total equity | 2,740,961 | 2,532,798 |
| Adjusted capital | $ 5,858,041 | 5,740,364 |
| Debt to capital ratio | 53% | 56% |

## VII. Related Party Transactions

(I) The Parent Company and the Ultimate Controlling Party

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

(II) Name and Relation of Affiliates

During the period covered by these parent company only financial statements, the affiliates who have transactions with the Company are as follows:

| Name of affiliates | Relationship with the Company |
|---|---|
| Kindom Development Co., Ltd. | The parent company of the Company |
| Guanqing Electromechanical Co., Ltd. | Subsidiary of the Company |
| Dingtian Construction Co., Ltd. | Subsidiary of the Company |
| ReadyCom eServices Corp. | Associates |
| Kindom Yu San Education Foundation | The Chairman of the board and the Chairman of the Company are within the second-degree kinship |

(III) Material Transactions with Affiliates

1. Sales of Services to Affiliates

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

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

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

(1) The construction contracted by the Company to the affiliate is the contract price after the reasonable management fee and profit are added in accordance with the project budget, following the outsourcing operation regulations of the construction project of the affiliated company, and

submitted to the supervisor for approval through price comparison and negotiation procedures.

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

2. Outsourcing project

The current valuation amount of the Company's outsourcing project to affiliates is as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Total contract amount** | **Valuated amount** | **Current valuation amount** | **Total contract amount** | **Valuated amount** | **Current valuation amount** |
| Subsidiaries | $ 1,651,896 | 1,189,929 | 581,876 | 1,662,855 | 1,046,891 | 510,302 |

The total contract amount of the project shall be negotiated by both parties, and payment shall be made according to the progress of the project according to the contract concluded after negotiation.

3. Contract Assets and Receivables from Affiliates

Details of the Company's receivables from affiliates are as follows:

| **Accounting items** | **Category of affiliates** | **2019.12.31** | **2018.12.31** |
|---|---|---|---|
| Notes receivable | Parent company - Kindom Development Co., Ltd.- | $ 1,287,602 | 1,899,951 |
| Accounts receivable | Parent company - Kindom Development Co., Ltd.- | 620,603 | 726,358 |
| Contract Assets | Parent company - Kindom Development Co., Ltd.- | 347,810 | 130,118 |
| Contract assets (retention receivables) | Parent company - Kindom Development Co., Ltd.- | 21,494 | 43,714 |
| | | $ 2,277,509 | 2,800,141 |

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

4. Payables to Affiliates

Details of the Company's payables to affiliates are as follows:

| **Accounting items** | **Category of affiliates** | **2019.12.31** | **2018.12.31** |
|---|---|---|---|
| Notes payable | Subsidiaries | $ 9,535 | 29,567 |
| Accounts payable | Subsidiaries | 97,993 | 29,830 |
| | | $ 107,528 | 59,397 |

5. Endorsement and Guarantee

On December 31, 2019 and 2018, the Company is the joint partner and joint debtor of the ultimate parent company Kindom Development Co., Ltd. for cooperative development and construction, with the amount of NT$14,192,000.

6. Leases

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

Also, the Company leased office building from its parent company Kindom Development Co., Ltd., with a total contract value of NT$186,000 per month for both 2019 and 2018. The rental expense for both 2019 and 2018 is NT$2,229,000.

7. Others

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

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

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

(IV) Key Management Personnel Transactions

Remuneration of key management personnel includes:

| | 2019 | 2018 |
|---|---|---|
| Short-term employee benefits | $ 59,766 | 53,287 |
| Benefits after retirement | 145 | 230 |
| | $ 59,911 | 53,517 |

## VIII. Pledged Assets

The details of the asset carrying value pledged as collateral by the Company are as follows:

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

## IX. Material Contingent Liabilities and Unrecognized Contract Commitments

(I) Material Unrecognized Contract Commitments

1. On December 31, 2019 and 2018, the total amount of material construction contracts by the Company were NT$34,596,725,000 and NT$36,016,936,000 respectively, and the payments received according to the contracts were NT$12,258,009,000 and NT$15,416,652,000 respectively.

2. Approved by the Board of Directors on December 20, 2019 and December 21, 2018, the Company committed to donating NT$5,500,000 and NT$4,000,000 to the Kindom Yu San Education Foundation in 2020 and 2019 for the promotion of the foundation's business.

(II) Contingent Liability

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

**X. Material Disaster Losses: None**

**XI. Material Post-period Matters: None**

## XII. Others

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

| Function / Nature | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Attributed to operating cost** | **Attributed to operating expense** | **Total** | **Attributed to operating cost** | **Attributed to operating expense** | **Total** |
| Employee benefit expenses | | | | | | |
| Salary expense | $ 429,443 | 135,599 | 565,042 | 463,503 | 122,207 | 585,710 |
| Labor insurance and national health insurance expense | 38,046 | 8,812 | 46,858 | 35,909 | 7,673 | 43,582 |
| Pension expense | 16,631 | 4,980 | 21,611 | 16,407 | 4,444 | 20,851 |
| Remuneration of Directors | - | 12,849 | 12,849 | - | 13,200 | 13,200 |
| Other employee benefits expense | 232 | 11,732 | 11,964 | 584 | 8,976 | 9,560 |
| Depreciation expense | 466 | 247 | 713 | 467 | 288 | 755 |
| Depletion expense | - | - | - | - | - | - |
| Amortization expense | - | - | - | - | - | - |

Additional information on the number of employees and employee welfare expenses of the Company in 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Number of employees | 769 | 764 |
| Number of directors not concurrently employed | 5 | 5 |
| Average employee benefit expenses | $ 845 | 869 |
| Average employee salary expense | $ 740 | 772 |
| Adjustment of average employee salary expenses (Note) | (4.15)% | |

Note: The Company's salary expense reflects the composition of manpower required by each year's operation and the performance of coordinating with the project's declared completion progress. The number of the above employees includes foreign workers who receive a basic salary. Among the salary expenses of the Company in 2019 and 2018, the base salary of non-executive full-time employees is adjusted by 2.78% and 2.95% respectively, and the foreign workers account for about 30% of the total number.

## XIII. Supplementary Disclosures

(I) Information on Material Transactions

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

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

Unit: NT$1,000

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

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

(1) A company with business contacts.

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

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

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

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

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

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

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

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

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

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

Unit: NT$1,000

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

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

Unit: NT$1,000

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

Note: It refers to the current valuation amount.

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

Unit: NT$1,000

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

9. Dealing in derivatives: none.

(II) Information on Reinvestment

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

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

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

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

(III) Information on Investments in Mainland China: None

## XIV. Segment Information: None

## KEDGE CONSTRUCTION CO., LTD.
## Statement of Cash and Cash Equivalents
## December 31, 2019

**Unit: NT$1,000**

| Item | Description | Amount |
|---|---|---|
| Cash and petty cash | | $ 710 |
| Bank deposit | Demand deposit | 470,722 |
| | Check deposit | 178,591 |
| Cash equivalents | Financial bills | 1,638,617 |
| | | $ 2,288,640 |

## Statement of Accounts Receivable

| Client's Name | Description | Amount | Remarks |
|---|---|---|---|
| Company A | Construction payment and retained amount | $ 449,484 | |
| Company B | 〃 | 313,839 | |
| Company C | 〃 | 165,492 | |
| Company D | 〃 | 103,162 | |
| Others | 〃 | 95,611 | The balance of each client is less than 5% of the amount of this account |
| | | $ 1,127,588 | |

| Affiliates | | | |
|---|---|---|---|
| The investment company (parent company) evaluates the Company by the equity method. | Construction payment | $ 1,908,205 | |

**KEDGE CONSTRUCTION CO., LTD.**
**Statement of Contract Assets / Liabilities**
**December 31, 2019**

**Unit: NT$1,000**

| Name of construction project | Accumulated cost incurred and profit recognized | Accumulated claim amount according to construction progress | Contract assets | Contract liabilities |
|---|---|---|---|---|
| 031J | 637,455 | 530,578 | 106,877 | - |
| 041B | 489,592 | 480,357 | 9,235 | - |
| 041D | 2,470,145 | 2,494,487 | - | 24,342 |
| 061B | 3,777,036 | 3,407,072 | 542,370 | - |
| 061C | 388,063 | 364,721 | 23,342 | - |
| 061D | 101,151 | 65,253 | 35,898 | - |
| 061G | 188,100 | 179,398 | 8,702 | - |
| 061I | 102,396 | 102,428 | - | 32 |
| 061J | 380,355 | 288,951 | 91,404 | - |
| 061K | 9,598 | - | 9,598 | - |
| 061L | 162,683 | 202,181 | 9,951 | 39,498 |
| 061M | 117,244 | 251,328 | 3,470 | 134,084 |
| 071G | 316,154 | 240,281 | 99,901 | - |
| 071K | 65,734 | 21,957 | 43,777 | - |
| 071L | - | - | 1,713 | - |
| 071O | 579,217 | 506,363 | 89,084 | - |
| 071P | 10,892 | - | 10,892 | - |
| 071Q | 8,253 | 11,396 | - | 3,143 |
| 071S | 235,902 | 227,816 | 8,086 | - |
| 081A | 704,497 | 1,068,839 | 23,566 | 364,342 |
| 081B | 17,215 | 225,822 | - | 208,607 |
| 081C | 3,213 | - | 3,213 | - |
| 081D | 121,730 | 125,994 | 291 | 4,264 |
| 081E | 242,977 | 202,688 | 60,558 | - |
| 081F | 12,803 | 157,611 | - | 144,808 |
| 991C | 1,047,154 | 1,102,488 | - | 55,334 |
| Cases closed | - | - | 373,270 | - |
| | **12,189,559** | **12,258,009** | **1,555,198** | **978,454** |

**KEDGE CONSTRUCTION CO., LTD.**
**Statement of Changes in Investments under the Equity Method**
**January 1 to December 31, 2019**

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

| Name | Beginning balance | | The increase in the period (Note) | | The decrease in the period (Note) | | Ending balance | | | Equity net value | | Details of collaterals, pledges or loans provided | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount | Number of shares | Amount | Number of shares | Shareholding ratio | Amount | Unit price | Total price | | |
| Jiequn Investment Co., Ltd. | 16,396 | $ 260,672 | - | 109,129 | - | - | 16,396 | 99.98% | 369,801 | - | 369,883 | - | |
| Guanqing Electromechanical Co., Ltd. | 7,747 | 171,491 | - | 31,713 | - | - | 7,747 | 99.96% | 203,204 | - | 203,283 | - | |
| | | $ 432,163 | | 140,842 | | - | | | 573,005 | | 573,166 | | |

Note: The increase in the period is the total of the share of subsidiaries' profit and loss recognized by the equity method of NT$23,586,000 and the unrealized valuation profit of equity instrument investment measured at fair value through other comprehensive income of NT$117,256,000 .

**KEDGE CONSTRUCTION CO., LTD.**
**Statement of Other Financial Assets - Current**
**December 31, 2019**

**Unit: NT$1,000**

| Item | Description | Amount |
|---|---|---|
| Refundable deposit of constructions | | $ 13,298 |
| Restricted assets | | 224,488 |
| Other notes receivable | | 123 |
| Other receivables | | 4,774 |
| Others | | 869 |
| | | **$ 243,552** |

## Statement of Notes Payable

| Item | Description | Amount | Remarks |
|---|---|---|---|
| Subsidiary of the Company | Construction payment | $ 9,535 | |
| Company A | 〃 | 36,991 | |
| Company B | 〃 | 31,109 | |
| Company C | 〃 | 23,001 | |
| Company D | 〃 | 22,333 | |
| Others | 〃 | 233,464 | The balance of each client is less than 5% of the amount of this account |
| | | **$ 356,433** | |

# KEDGE CONSTRUCTION CO., LTD.
## Statement of Accounts Payable
## December 31, 2019

**Unit: NT$1,000**

| Manufacturer name | Description | Amount | Remarks |
|---|---|---|---|
| Company A | Construction payment and retained amount | $ 80,828 | |
| Company B | 〃 | 35,434 | |
| Company C | 〃 | 24,196 | |
| Company D | 〃 | 18,217 | |
| Company E | 〃 | 17,165 | |
| Company F | 〃 | 16,102 | |
| Company G | 〃 | 15,287 | |
| Company H | 〃 | 14,441 | |
| Company I | 〃 | 13,888 | |
| Company J | 〃 | 13,533 | |
| Company K | 〃 | 13,414 | |
| Company L | 〃 | 13,392 | |
| Company M | 〃 | 12,134 | |
| Company N | 〃 | 11,583 | |
| Company O | 〃 | 10,197 | |
| Company P | 〃 | 10,037 | |
| Others | 〃 | 3,178,046 | The balance of each client is less than NT$10,000,000 and less than 1% of the amount of this account |
| | | **$ 3,497,894** | |

**KEDGE CONSTRUCTION CO., LTD.**
**Statement of Operating Revenue**
**January 1 to December 31, 2019**

**Unit: NT$1,000**

| Item | Description | Amount |
|---|---|---|
| Construction contract revenue | 031B | $ 94,266 |
| | 031J | 360,534 |
| | 041B | 294,375 |
| | 041D | 1,407,946 |
| | 041E | 1,784,603 |
| | 051F | 338,228 |
| | 051H | 656,830 |
| | 061A | 25,129 |
| | 061B | 1,487,191 |
| | 061C | 239,011 |
| | 061D | 101,151 |
| | 061G | 188,100 |
| | 061H | 10,897 |
| | 061I | 102,396 |
| | 061J | 380,355 |
| | 061L | 162,683 |
| | 061M | 117,244 |
| | 071A | 117,617 |
| | 071D | 333,142 |
| | 071F | 359,253 |
| | 071G | 290,816 |
| | 071H | 27,810 |
| | 071I | 4,793 |
| | 071K | 65,735 |
| | 071M | 2,262 |
| | 071O | 579,217 |
| | 071Q | 8,254 |
| | 071R | 5,873 |
| | 071S | 235,902 |
| | 081A | 704,497 |
| | 081D | 121,730 |
| | 081E | 242,977 |
| | 991C | 469,066 |
| | Others | 36,653 |
| | Subtotal | 11,356,536 |
| Rental income of investment property | | 6,082 |
| | | **$ 11,362,618** |

**KEDGE CONSTRUCTION CO., LTD.**
**Statement of Operating Costs**
**January 1 to December 31, 2019**

**Unit: NT$1,000**

| Item | Description | Amount |
|---|---|---|
| Construction contract costs | 031B | $ 37,326 |
| | 031J | 343,842 |
| | 041B | 280,746 |
| | 041D | 1,338,324 |
| | 041E | 1,712,605 |
| | 051F | 308,478 |
| | 051H | 670,461 |
| | 061A | 13,553 |
| | 061B | 1,449,038 |
| | 061C | 227,945 |
| | 061D | 96,468 |
| | 061G | 179,392 |
| | 061H | 7,613 |
| | 061I | 98,452 |
| | 061J | 365,707 |
| | 061L | 149,515 |
| | 061M | 111,372 |
| | 071A | 107,915 |
| | 071D | 248,445 |
| | 071F | 346,599 |
| | 071G | 274,808 |
| | 071H | 21,487 |
| | 071I | 3,616 |
| | 071K | 62,691 |
| | 071M | 778 |
| | 071O | 556,308 |
| | 071Q | 6,763 |
| | 071R | 3,902 |
| | 071S | 224,980 |
| | 081A | 614,235 |
| | 081D | 109,559 |
| | 081E | 226,483 |
| | 991C | 447,408 |
| | Others | 20,586 |
| | Subtotal | 10,667,400 |
| Rental cost of investment property | | 467 |
| | | **$ 10,667,867** |

**KEDGE CONSTRUCTION CO., LTD.**
**Statement of Administrative Expenses**
**January 1 to December 31, 2019**

**Unit: NT$1,000**

| Item | Description | Amount | Remarks |
|---|---|---|---|
| Salary expenses | | $ 148,448 | |
| Insurance expenses | | 11,776 | |
| Donations | | 6,027 | |
| Employee benefits | | 7,122 | |
| Service expenses | | 9,126 | |
| Sundry purchases | | 16,185 | |
| Other expenses | | 36,029 | |
| | | **$ 234,713** | |

## Statement of Other Income

| Item | Description | Amount |
|---|---|---|
| Interest income | Time deposit interest, demand deposit interest, and construction payment interest, etc | $ 5,540 |
| Dividend income | | 500 |
| Rental income | | 11 |
| Other income | Indemnity income, etc. | 2,798 |
| | | **$ 8,849** |

VI. If the company or its Affiliates have Experienced Financial Difficulties in the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report, the Difficulties and the Effects thereof: None.

# Chapter 7. Review and Analysis of the Company's Financial Position and Financial Performance and Listing of Risk

## I. Financial Position:

Comparative Analysis Statement of Financial Position

Unit: NT$ thousand; %

| Item \ Year | 2019 | 2018 | Differences | |
|---|---|---|---|---|
| | | | Amount | % |
| Current Assets | 7,708,041 | 6,544,742 | 1,163,299 | 17.77 |
| Property, Plant and Equipment | 63,116 | 63,438 | (322) | (0.51) |
| Other Assets | 505,691 | 375,603 | 130,088 | 34.63 |
| Total Assets | 8,276,848 | 6,983,783 | 1,293,065 | 18.52 |
| Current Liabilities | 5,427,525 | 4,368,826 | 1,058,699 | 24.23 |
| Non-current Liabilities | 108,201 | 82,035 | 26,166 | 31.90 |
| Total Liabilities | 5,535,726 | 4,450,861 | 1,084,865 | 24.37 |
| Equity Attributable to the Shareholders of the Parent Company | 2,740,961 | 2,532,798 | 208,163 | 8.22 |
| Share Capital | 1,060,357 | 1,060,357 | - | - |
| Capital Reserve | 518,241 | 518,208 | 33 | 0.01 |
| Retained Earnings | 1,036,204 | 951,056 | 85,148 | 8.95 |
| Other Equities | 126,159 | 3,177 | 122,982 | 3,871.01 |
| Non-controlling Interest | 161 | 124 | 37 | 29.84 |
| Total Equity | 2,741,122 | 2,532,922 | 208,200 | 8.22 |

Reasons for changes over 20% in ratios:

1. Increase in other assets, other equities and non-controlling interests: mainly caused by the fact that the market value of financial assets measured at fair value through other comprehensive income, has increased during the current period, resulting in the increase of unrealized valuation gain and loss recognized.
2. Increase in current liabilities and total liabilities: mainly caused by the increase in the construction volume in current period and the peak of project investment, resulting in a relative increase in the trade payable and the estimate of goods payments at the end of the year.
3. Increase in non-current liabilities: mainly caused by the large quantity of construction completed and settled in current period which are large-scale engineering, resulting in a relatively large increase in the warranty liability reserves recognized.

## II. Financial Performance:

### (I) Main Reasons for Any Material Change in Operating Income, Operating Profit, or Income before Tax during the Most Recent Two Fiscal Years:

Unit: NT$ thousand; %

| Item \ Year | 2019 | 2018 | Increase (Decrease) Amount | Rate of Change (%) |
|---|---|---|---|---|
| Operating Income | 11,462,442 | 11,429,192 | 33,250 | 0.29 |
| Operating Cost | 10,744,281 | 10,700,319 | 43,962 | 0.41 |
| Gross Operating Profit | 718,161 | 728,873 | (10,712) | (1.47) |
| Operating Expense | 247,780 | 226,054 | 21,726 | 9.61 |
| Net Operating Profit | 470,381 | 502,819 | (32,438) | (6.45) |
| Non-Operating Income and Expenses | 29,533 | 14,380 | 15,153 | 105.38 |
| Pre-tax Income from Continuing Operations | 499,914 | 517,199 | (17,285) | (3.34) |
| Income Tax Expense | 97,558 | 109,686 | (12,128) | (11.06) |
| Net Profit for the Current Period | 402,356 | 407,513 | (5,157) | (1.27) |
| Other Comprehensive Income (Net of Tax) | 123,918 | (326) | 124,244 | 38,111.66 |
| Total Comprehensive Income for the Current Period | 526,274 | 407,187 | 119,087 | 29.25 |

Reasons for changes over 20% in ratios:

1. Increase in non-operating income and expenses: Mainly due to the fact that the market value of financial assets measured at fair value through profit or loss, has increased during the current period, resulting in the increase of unrealized valuation gain and loss recognized.
2. Decrease in other comprehensive income (net of tax): Mainly due to the fact that the market value of financial assets measured at fair value through other comprehensive income, has increased during the current period, resulting in the increase of unrealized gain and loss recognized.

### (II) Sales Volume Forecast and the Basis thereof, and the Effect upon the company's Financial Operations As Well As Measures to be Taken in Response: Not applicable.

## III. Cash Flow:

### (I) Liquidity Analysis for the Most Recent Two Fiscal Years:

| Item \ Year | 2019 | 2018 | Increase (decrease) Ratio (%) |
|---|---|---|---|
| Cash Flow Ratio (%) | 25.06 | Note | Note |
| Cash Flow Adequacy Ratio (%) | 161.03 | 114.23 | 40.97 |
| Cash Reinvestment Ratio (%) | 36.37 | Note | Note |

Note: Operating activities are net cash outflows, thus the relevant ratios are not calculated.

Reasons for material changes in ratios:

Mainly caused by the increase in net cash flow from operating activities in the most recent 5 fiscal years.

### (II) Analysis of Changes in Cash Flow for the Most Recent Fiscal Year (2019):

Unit: NT$ thousand

| Beginning Cash Balance(1) | Net Cash Flow From Operating Activities Throughout the Year (2) | Net Cash Flow From Investment and Financing Activities Throughout the Year (3) | Cash Surplus (Deficit) at the End of Period (1)+(2)+(3) | Remedial Measures for Cash Deficit | |
|---|---|---|---|---|---|
| | | | | Investment Plan | Financial Plan |
| 1,333,037 | 1,360,312 | (166,940) | 2,526,409 | - | - |

1. Analysis of changes in cash flow in the most recent fiscal year:
   (1) Operating activities: The cash inflow of NT$1,360,312 thousand in the current period is mainly caused by the increase of construction volume in 2019 and the peak of project investment, the increase of payments for contracting trade payable and the estimate of goods payments at the end of the year, and the recovery of some of the engineering receivables for 2018 with large volume in 2019.
   (2) Investment activities and financing activities: The cash outflow of NT$166,940 thousand in the current period is mainly caused by cash dividends paid in the current period.
2. Improvement Plans for Insufficient Liquidity: None.

### (III) Cash Liquidity Analysis for the Coming Year:

Unit: NT$thousand

| Beginning Cash Balance (1) | Expected Net Cash Inflow from Business Activities for the Year (2) | Expected Cash Outflow for the Year (3) | Expected Cash Surplus (Deficit) (1)+(2)-(3) | Remedial Measures for Expected Cash Deficit | |
|---|---|---|---|---|---|
| | | | | Investment Plan | Financial Plan |
| 2,526,409 | 489,987 | (366,009) | 2,650,387 | - | - |

1. Analysis of changes in cash flow in the coming year:
   (1) Operating activities: Taken into consideration of the impact in the current period from that to promote the major input of the project to be priced only after the completion of the project by phase, and some of the owner's advance payment can be used to cover the initial project capital input.
   (2) Cash outflows for the year: Taken into consideration of the impact of investment activities and financing activities, including the payment of cash dividends.
2. Corrective measures to be taken in response to expected illiquidity: None.

## IV. Impact of any Major Capital Expenditures during the Most Recent Fiscal Year:

(I) The Use and Sources of Major Capital Expenditures: None.

(II) Expected Potential Benefits: None.

## V. Reinvestment Policy for the Most Recent Fiscal Year, the Main Reasons for the Profits/Losses Generated thereby, the Plan for Improving Reinvestment Profitability, and Investment Plans for the Coming Year:

At present, the company's reinvestment strategy is mainly to meet the needs of business expansion, in which, Guanqing Electromechanical Co., Ltd. actively invested according to the overall operation in 2019, resulting in a decrease in overall profit, and the investment income of NT$11,972 thousand is recognized according to the shareholding ratio. In addition, the increase in the market price of financial assets held by Jiequn Investment Co., Ltd. is recognized as unrealized profits, resulting in an increase in profits, so the company recognized the investment gains of NT$11,614 thousand according to the shareholding ratio. The Company has no material investment plans for the coming year.

## VI. The Risks and Analysis and Assessment during the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Publication of the Annual Report:

(I) The effect upon the company's profits (losses) of interest and exchange rate fluctuations and changes in the inflation rate, and response measures to be taken in the future:

The main source of working capital raised by the merged company is from the operation. The interest expense for 2019 of NT$2,130 thousand is mainly from the bank guarantee loans. At present, the interest rate fluctuation of the central bank is small and the change of the benchmark interest rate of financial institutions is limited, thus the merged company is able to maintain an appropriate portfolio of fixed and floating interest rates, and adopts a cost-effective strategy to avoid the occurrence of material interest rate movements that would have a material impact on profits and losses.

The merged company is a comprehensive construction enterprise, of which the contracted projects are domestic public works and civil construction projects, the raw materials are mainly obtained in the domestic market, hence the impact of exchange rate fluctuations on it is minimal. In addition, the rise and fall of raw materials purchased in Taiwan in recent years can be offset by each other and the Taiwan inflation is still mild. Therefore, the short-term profit and loss of the merged company is not significantly affected.

(II) The Company's policy regarding high-risk investments, highly leveraged investments, loans to other parties, endorsements, guarantees, and derivatives transactions; the main reasons for the profits/losses generated thereby; and response measures to be taken in the future:

The merged company is committed to the development of its own industry and does not engage in high-risk and highly leveraged investments, capital lending to others or derivative trading. Endorsement/guarantee are mainly provided for the project contracting business needs and is in accordance with the Operational Procedures for Endorsements and Guarantees and the relevant provisions of the competent authority, the object of which is mainly affiliated enterprises and companies with business transactions, whose operation and financial conditions are normal, performance and solvency are not in danger, and no loss is incurred by endorsement and guarantee.

(III) Research and Development Work to be Carried out in the Future, and Further Expenditures Expected for Research and Development Work:

The merged company is a comprehensive construction enterprise, and the research and development is mainly focused on shortening the construction period, improving the construction method, reducing pollution and improving efficiency. The improvement of the construction method and production technology is independently developed by the

Technical Research and Development Division or introduced from the cooperative manufacturers. In recent years, in addition to strengthening the comprehensive computerization, the company introduces the public works management system for management, which have been fully introduced to all sites at present; the company will also actively implement the following plans in the future with an estimated input of manpower and resources of NT$15 million approximately.

| Item No. | Research Project in Most Recent Year |
|---|---|
| 1 | Application development and equipment for project information system integration |
| 2 | BIM projects comply with the certification of international standard BSI-BIM and promotion |
| 3 | Research and development of the quantitative output of BIM auxiliary engineering |
| 4 | Implementation of security and safety measures with BIM application |
| 5 | Research and introduction of FIM maintenance platform |
| 6 | Research on the introduction of UAV aerial photography image converted into numerical terrain data into BIM drawing information |
| 7 | Introduction of civil engineering CIM (Civil 3D / Infraworks) |
| 8 | Development of the IoT control system for construction personnel positioning |
| 9 | Research on the application platform of IoT technology with BIM drawing input |

(IV) Effect on the company's financial operations of important policies adopted and changes in the legal environment at home and abroad, and measures to be taken in response:

The merged company has always paid close attention to the development of domestic and foreign political and economic situations and legal changes and has the ability to cope with them properly. It has always complied with relevant laws and regulations and adhered to the principle of prudent operation to maintain sustainable development. Changes in domestic and foreign important policies and laws in the most recent fiscal year do not have a material impact on the financial operation.

(V) Effect on the company's financial operations of developments in science and technology as well as industrial change, and measures to be taken in response:

In response to the technological and industrial changes, the merged company keeps abreast of market changes and actively obtains industrial information through various means to expand its business. At present, there is no material impact on the company's financial operation caused by changes in technology or industry in the merged company.

(VI) Effect on the company's crisis management of changes in the company's corporate image, and measures to be taken in response:

Adhering to the business philosophy of "integrity, quality, service, innovation and sustainability," the merged company insists on providing high-quality construction projects to make owners at ease, make customers at ease, make employees feel warm, and does its best to fulfill its corporate social responsibility to enhance corporate value and build a high-quality corporate image without any change in corporate image.

(VII) Expected Benefits and Possible Risks Associated with Any Merger and Acquisitions, and Mitigation Measures being or to be Taken: None.

(VIII) Expected Benefits and Possible Risks Associated with Any Plant Expansion, and Mitigation Measures being or to be Taken: None.

(IX) Risks Associated with Any Consolidation of Sales or Purchasing Operations, and Mitigation Measures being or to be Taken:

The main raw materials of the merged company are steel bar, concrete, cement, sand, red brick and other bulk building materials, which can be purchased through negotiation in the Taiwan market except for some materials supplied by the owner. Therefore, there is no consolidation of purchase. The merged company has established interaction with major manufacturers for many years; it also carefully evaluates the quality, technical and operating financial status of each supplier to each subcontractor and material supplier before transactions and distributes the specific works to several subcontractors as required by the construction of the works to ensure the smooth implementation of the construction project and avoid the consolidation of contractors.

The merged company mainly contracts domestic public works and civil construction projects, and its main business include public construction, high-level residential buildings and technology plants and other building projects. There is no consolidation of sales. With the exception of public works carried out by government agencies, all projects undertaken by ordinary private owners are subject to owner's credit investigation before bidding, thereby the credit risk has been minimized.

(X) Effect upon and Risk to the company in the Event a Major Quantity of Shares Belonging to a Director, Supervisor, or Shareholder Holding Greater than a 10 Percent Stake in the company has been Transferred or has otherwise Changed Hands, and Mitigation Measures being or to be Taken:

As of the date of publication of the annual report, there is no substantial transfer or change hands of equity by Directors, Supervisors or major shareholders holding more than 10 percent of the shares of the merged company.

(XI) Effect upon and Risk to Company Associated with Any Change in Governance Personnel or top Management, and Mitigation Measures being or to be Taken: None.

(XII) Litigious and Non-Litigious Matters. List Major Litigious, Non-Litigious or Administrative Disputes That: (1) Involve the Company and/or Any Company Director, Any Company Supervisor, the General Manager, Any Person with Actual Responsibility for the Firm, Any Major Shareholder Holding a Stake of Greater than 10 Percent, and/or Any Company or Companies Controlled by the company; and (2) Have Been Concluded by Means of a Final and Unappealable Judgment, or are still under Litigation. Where Such a Dispute Could Materially Affect Shareholders' Equity or the Prices of the Company's Securities, the Annual Report Shall Disclose the Facts of the Dispute, Amount of Money at Stake in the Dispute, the Date of Litigation Commencement, the Main Parties to the Dispute, and the Status of the Dispute as of the Date of Publication of the Annual Report:

1. Material litigation, non-litigation or administrative litigation in which the company is currently involved in:

| Case No. | Cause of Occurrence and Status | Impact on the company's Financial Operation |
|---|---|---|
| 981E | Due to the dispute between the subcontractor on the valuation method of the retained and additional project payment, the subcontractor required the company to pay the construction payment of NT$13,660 thousand. As the subcontractor appealed to the court for failure of coordination. In this case, the Taipei District Court of Taiwan ordered the company to pay NT$3,474 thousand. However, the company lodged an appeal against the decision. The second instance was judged by Taiwan High Court to order the company to pay NT$66 thousand. The subcontractor has appealed the third instance. The Company will still file a lawsuit against, depending on the court decision by the third instance. | No material impact |
| 041A | Due to the fact that the neighboring house manufacturer claimed that the structure and floor of the plant were damaged due to the improper construction by the company. The two parties failed to coordinate, so the neighboring house manufacturer sued the court for the company's joint compensation of NT$15,665 thousand. The Company has filed a lawsuit against the relevant monitoring data and will continue to deal with it according to the judgment result. | No material impact |

2. Major Litigious, Non-Litigious or Administrative Disputes That: (1) Involve the

company and/or Any Company Director, Any Company Supervisor, the General Manager, Any Person with Actual Responsibility for the Firm, Any Major Shareholder Holding a Stake of Greater than 10 Percent, and/or Any Company or Companies Controlled by the company; and (2) Have Been Concluded by Means of a Final and Unappealable Judgment, or are still under Litigation. Where Such a Dispute Could Materially Affect Shareholders' Equity or the Prices of the company's Securities, the Annual Report Shall Disclose the Facts of the Dispute, Amount of Money at Stake in the Dispute, the Date of Litigation Commencement, the Main Parties to the Dispute, and the Status of the Dispute as of the Date of Publication of the Annual Report: None.

(XIII) Other Important Risks, and Mitigation Measures being or to be Taken:

1. Risk management policy:
   During operation, enterprises often encounter many uncertainties that may threaten their operations. In order to detect and control them as early as possible and reduce the losses caused by the occurrence of risks, good risk management policies are required. The Board of Directors of the merged company shall, in accordance with the operation strategy, operation environment and department plan, formulate the overall risk management policy, including the environment, internal and external operation process and strategic decision, and conduct a drill to deal with and control potential unknown risks and risks of financial loss, so as to ensure that most potential known risks can be effectively controlled.
   In addition, if there is a material potential operating risk that may affect the performance of the financial or business contracts or the company fails to comply with laws and regulations, the company shall promptly take appropriate countermeasures and report to the Board of Directors. The Auditing Office will monitor and track the implementation of the improvement plan on the issues and management decisions delivered by the Board of Directors and will submit the project report in due time. The Board of Directors shall submit risk management reports on the resolutions, deliverables, supervision and subsequent implementation of risk management. In the future, when the business management is faced with similar or similar problems, it can refer to the past experience and put forward a better solution.
2. Organizational structure of risk management:
   Each level or division of the merged company is liable for risk. Once a risk situation is identified, it should be notified promptly to the Auditing Office or senior management and solutions should be sought early. Decision-makers should also take action in the shortest possible time. The organizational structure of risk management of the merged company is as follows:

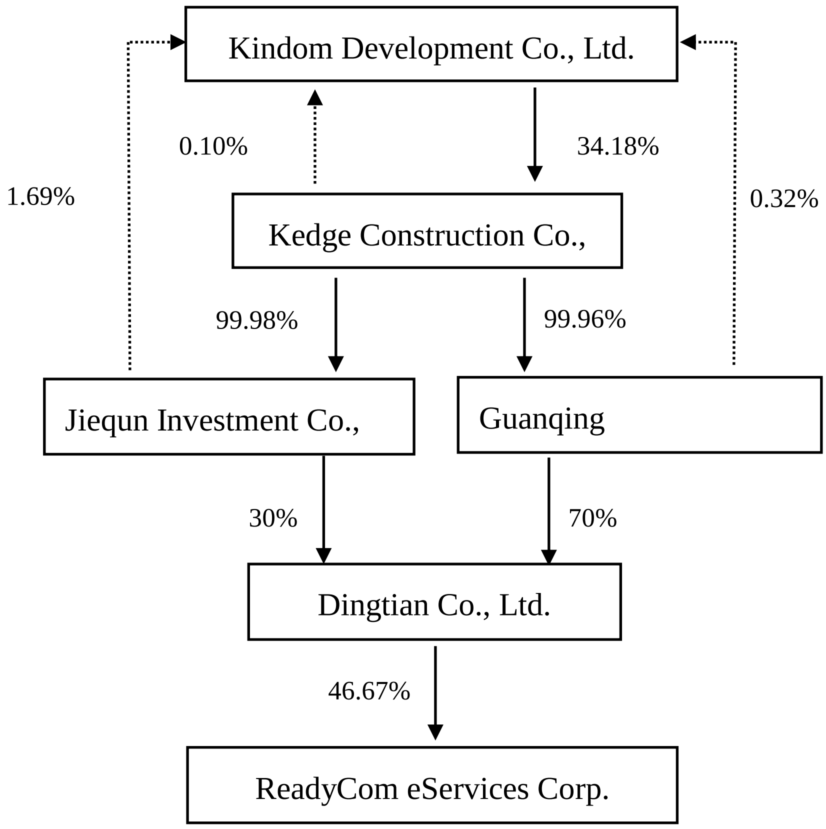
| Name of Organization | Scope of Responsibilities |
|---|---|
| Board of Directors | Formulate risk management policies to ensure the effective operation of the risk management system and the allocation of resources |
| Senior Management | Implement the risk management decisions of the Board of Directors and coordinate the risk management affairs between different departments |
| Auditing Office | Carry out daily risk management audit, supervise risk management activities, and report the implementation status to the Board of Directors and Supervisors |
| Other Departments | Summarize the implementation results of risk management activities, carry out daily risk management operations, adjust the risk categories according to the environment and draw up the commitment plan |

## VII. Other Important Matters: None.

# Chapter 8. Special Disclosure

## I. Affiliates Information:

### (I) Organizational Structure of Affiliates:




Note: It is a controlling company that directly holds 34.18% of the common stock of Kedge Construction Co., Ltd., and holds more than half of the seats on the Board of Directors.

(II) Basic Information on Affiliates:

December 31, 2019; Unit: NT$thousand

| Company Name | Date of Establishment | Address | Paid-in Capital | Principal Business or Production Items |
|---|---|---|---|---|
| Kindom Development Co., Ltd. | 1979.11 | 2F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 5,037,910 | 1. Development, rental and sales of residential and building.<br>2. Investment in public works.<br>3. Acting expropriation of districts and redistricting of municipal land.<br>4. Real estate business.<br>5. Real estate leasing. |
| Guanqing Electromechanical Co., Ltd. | 1997.12 | 3F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 77,500 | Installation engineering of electrical equipment and fire safety equipment. |
| Jiequn Investment Co., Ltd. | 1998.01 | 3F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 164,000 | General investment. |
| Dingtian Co., Ltd. | 1983.07 | 3F., No. 131, Sec. 8, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 23,000 | Comprehensive construction industry, etc. |
| ReadyCom eServices Corp. | 2008.05 | Rm. 1, 6F., No. 207, Dunhua N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.) | 30,000 | Information software services and management consultants. |

(III) The Shareholders in Common of Companies Presumed to have a Relationship of Control and Subordination: None.

(IV) Overall Business Scope of Affiliates:

1. Overall business of the affiliates mainly focuses on the construction of residential buildings, buildings and related civil engineering, mechanical and electrical construction, etc.
2. The Company and Dingtian Co., Ltd. contract the projects of Kindom Development Co., Ltd.; And part of the company's projects are contracted by Dingtian Co., Ltd. and Guanqing Electromechanical Co., Ltd.

## (V) Information on Directors, Supervisors, and General Managers of Affiliates:

December 31, 2019; Unit: thousand shares; NT$thousand; %

| Company Name | Title | Name or Representative | Number of Shares Held/Capital Contribution | |
|---|---|---|---|---|
| | | | Number of Shares/Capital Contribution | Shareholding/Contribution Ratio |
| Kindom Development Co., Ltd. | Chairman of the Board | Yude Investment Co., Ltd.<br>Legal representative: Mike Ma | 96,305<br>14,491 | 19.12%<br>2.88% |
| | Director and General Manager | Yude Investment Co., Ltd.<br>Legal representative: Chin-Chin Hung | 96,305<br>- | 19.12%<br>- |
| | Director | Yude Investment Co., Ltd.<br>Legal representative: Mei-Chu Liu | 96,305<br>61,105 | 19.12%<br>12.13% |
| | Director | Yude Investment Co., Ltd.<br>Legal representative: Ming Chen | 96,305<br>2,494 | 19.12%<br>0.50% |
| | Director | Yude Investment Co., Ltd.<br>Legal representative: Sheng-An Chang | 96,305<br>8 | 19.12%<br>- |
| | Director | Yude Investment Co., Ltd.<br>Legal representative: Ching-Fen Chang | 96,305<br>31 | 19.12%<br>0.01% |
| | Independent Director | Shen-Yu Kung | - | - |
| | Independent Director | Hung-Chin Huang | - | - |
| | Independent Director | Kuo-Feng, Lin | - | - |
| Guanqing Electromechanical Co., Ltd. | Chairman of the Board | Kedge Construction Co., Ltd.<br>Legal representative: Shao-Ling Ma | 7,747<br>- | 99.96%<br>- |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: Jung-Tai Chen | 7,747<br>- | 99.96%<br>- |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: Chin-Hua Fan | 7,747<br>- | 99.96%<br>- |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: Chien-Fang Huang | 7,747<br>- | 99.96%<br>- |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: Chin-Fu Ho | 7,747<br>- | 99.96%<br>- |
| | Supervisor | Miriam Ma | - | - |
| Jiequn Investment Co., Ltd. | Chairman of the Board | Kedge Construction Co., Ltd.<br>Legal representative: Shao-Ling Ma | 16,396<br>1 | 99.98%<br>0.01% |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: Chun-Ming Chen | 16,396<br>- | 99.98%<br>- |
| | Director | Kedge Construction Co., | 16,396 | 99.98% |

| | | | | |
|---|---|---|---|---|
| | | Ltd.<br>Legal representative: Wen-Yen Lin | - | - |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: Shu-Yuan Lin | 16,396<br>- | 99.98%<br>- |
| | Director | Kedge Construction Co., Ltd.<br>Legal representative: vacancy is to be filled | 16,396<br>- | 99.98%<br>- |
| | Supervisor | Ko-Hou Kuo | - | - |
| | Supervisor | Wen-Hsiung Chou | - | - |
| Dingtian Co., Ltd. | Chairman of the Board | Guanqing Electromechanical Co., Ltd.<br>Legal representative: Shao-Ling Ma | 1,610<br>- | 70.00%<br>- |
| ReadyCom eServices Corp. | Chairman of the Board | Ta-Lung Ho | - | - |
| | Director | Miriam Ma | - | - |
| | Director | Yu-Chang Li | - | - |
| | Supervisor | Dingtian Co., Ltd.<br>Legal representative: Shao-Ling Ma | 1,400<br>- | 46.67%<br>- |

(VI) Operation Overview of Each Affiliates:

December 31, 2019; Unit: NT$thousand (except for earnings per share)

| Company Name | Capitalization | Total Assets | Total Liabilities | Net Value | Operating Income | Net Operating Profit (Loss) | Net Profit (Loss) for the Current Period (after Tax) | Earnings per share (NT$)(after Tax) |
|---|---|---|---|---|---|---|---|---|
| Kindom Development Co., Ltd. | 5,037,910 | 43,828,824 | 31,201,320 | 12,627,504 | 8,117,436 | 1,329,758 | 1,283,526 | 2.60 |
| Guanqing Electromechanical Co., Ltd. | 77,500 | 323,866 | 120,584 | 203,282 | 382,113 | 8,176 | 11,976 | 1.55 |
| Jiequn Investment Co., Ltd. | 164,000 | 370,596 | 713 | 369,883 | 13,855 | 11,836 | 11,617 | 0.71 |
| Dingtian Co., Ltd. | 23,000 | 173,797 | 120,367 | 53,430 | 285,523 | 4,185 | 5,592 | (Note) |
| ReadyCom eServices Corp. | 30,000 | 57,411 | 13,469 | 43,944 | 74,130 | 114 | 2 | 0.01 |

Note: It is a limited company, no earnings per share.

(VII) Consolidated Financial Statements of Affiliated Enterprises:

In 2019, the "companies" required to be included in the consolidated financial statements of affiliates under the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are all the same as companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in the International Accounting Standards No.27 (IAS 27) approved by the Financial Supervisory Commission (FSC), and relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the proceeding consolidated financial statements of parent and subsidiary companies, thus the company is not required to prepare separate consolidated financial statements of affiliates.

(VIII) Affiliation Report:

# Statement

The Company's affiliation report for the fiscal year of 2018 (from January 1, 2019 to December 31, 2019) was prepared in accordance with the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, and the disclosed information is not materially inconsistent with the information disclosed in the notes to the financial statements of the above-mentioned period.

Hereby declare

Company Name: Kedge Construction Co., Ltd.

Chairman: Miriam Ma

Date: March 23, 2020

# CPA' Review Opinion on the Affiliation Report

To: Kedge Construction Co., Ltd.

The Affiliation Report for 2019 of Kedge Construction Co., Ltd. has been reviewed by the accountant in accordance with the provisions of Ministry of Finance Securities & Futures Commission Letter No. Taiwan-Finance-Securities-(6)-04448 issued on November 30, 1999. This review work, is based on whether the Affiliation Report for 2019 of Kedge Construction Co., Ltd. is prepared in accordance with the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, and whether the disclosed information is not materially inconsistent with the information disclosed in the notes to the financial statements of the period audited by the accountant on March 23, 2020, with the review opinions issued.

According to the review result of the accountant, no violation has been found in the preparation of the above affiliation report to the provisions of the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, and no material discrepancy has been found between the information disclosed in the foregoing affiliation report and the information disclosed in the notes to the financial statements of the same period.

KPMG Taiwan

| | |
|---|---|
| Certified Public Accountant | : |
| The original Ministry of Finance Securities & Futures Commission Letter No.Certified No. | : No. (88) Taiwan-Finance-Securities-(6)-18311<br>: Financial Supervisory Commission Order No. Financial-Supervisory-Securities-Corporate-0940100754 |

March 23, 2020

1. Overview of the Relationship Between the Subordinate Company and the Controlling Company:

Unit: Share; %

| Name of the Controlling Company | Reasons for the Control | Details of Shareholding and Pledges | | | Any Directors, Supervisors or Managerial Officers Appointed to the Subordinate Company by The Controlling Company | |
|---|---|---|---|---|---|---|
| | | Number of Shares Held | Shareholding Ratio | The Number of Shares Under Pledge | Title | Name |
| Kindom Development Co., Ltd. | Who have obtained more than half of the seats on the Board of Directors of Kedge Construction Co., Ltd. | 36,247,768 | 34.18% | - | Chairman of the Board<br>Director<br>Director<br>Director<br>Director and Executive Assistant General Manager<br>Director and Executive Assistant General Manager | Miriam Ma<br>Mei-Chu Liu<br>Ming-Tao Chen<br>Ai-Wei Yuan<br>Yi-Fang Huang<br>Shih-Hsuan Chou |

2. Purchase (Sale) of Goods:

Unit: NT$thousand; %

| Transactions with Controlling Companies | | | | Transaction Terms with Controlling Companies | | General Terms of Transaction | | Accounts Receivable (Payable), Notes Receivable (Payable) | | Overdue Accounts Receivable | | | Remarks |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Purchase (Sale) of Goods | Amount | As a Proportion of Total Goods Purchased (Sold) | Accumulated Gross Profit (Loss) on Goods Sold | Unit Price | Credit Granting Period | Unit Price | Credit Granting Period | Balance | As A Proportion of Total Accounts Receivable (Payable) or Notes Receivable (Payable) | Amount | Treatment Method | Amount of Allowance for Bad Debts | |
| Sale of Goods - 041B, etc. | 5,000,015 | (47.24)% | 475,389 | - | Note | Equivalent | Slightly longer than normal | 1,929,699 | 63.56% | - | - | - | |

Note: Payment by installment according to the contract is equal to general transaction.

3. Property Transactions: None.

4. Financing: None.
5. Asset Leasing:
   In 2019, the company's leases from related parties are as follows:

Unit: NT$thousand

| Type of Transaction (Rent out or Accepting Leases) | Name of the Object Leased | | Lease Period | Nature of Leasing (Note 1) | Determination Method of Leasing Price | Collection (Payment) Method | Comparison with Ordinary Leasing Price Levels | Total Leasing Price for the Current Period | Collection and Payment for the Current Period | Other Special Stipulations (Note 2) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Name | Location | | | | | | | | |
| Rent out | Kindom Building | Part of the space of 6F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 2019.01.01-2019.12.31 | Operating lease | Negotiating | Quarterly collection | Equal to ordinary leasing price | 1,131 | Full collection | - - |
| Rent out | Kindom Building | 3F., No. 131, Sec. 7, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 2019.01.01-2019.12.31 | Operating lease | Negotiating | Quarterly collection | Equal to ordinary leasing price | 2,229 | Full collection | - - |
| Lessee | Kindom Building | 3F., No. 131, Sec. 3, Heping E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | 2019.01.01-2019.12.31 | Operating lease | Negotiating | Quarterly payment | Equal to ordinary leasing price | 2,229 | Full payment | - - |

Note 1. Note 1: Whether the nature is capital lease or operating lease shall be stated.

Note 2. Note 2: If any other rights are established, such as surface rights, mortgage, easement, etc., they shall be indicated.

6. Other important transactions: None.
7. Endorsements and Guarantees:

Unit: NT$thousand; %

| The Maximum Balance of the company's Endorsements and Guarantees Provided for the Controlling Company | Ending Balance | | Reasons for Endorsements and Guarantees | Where a Collateral is Provided as Guarantee | | | Terms and Conditions or Dates for Rescinding the Endorsement or Guarantee Obligation or Withdrawing the Collateral | Amount of the Contingent Loss Recognized in the Financial Statements | Violation of the Relevant Operation Standards |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio to the Net Worth of the Financial Statements | | Name | Quantity | Value | | | |
| 14,192 | 14,192 | 0.52% | Note 1 | - | - | - | Depending on the conditions of the contracted works | - | - |

Note 1: It is an investment company evaluating the company by the equity method. The Company entered into an Administrative Contract of the Central South Supermarket with the Taipei City Government, which required the joint and several guarantors, and the Board of Directors of the company agreed to be the joint and several guarantor on November 11, 2015.

## II. Private Placement of Securities during the Most Recent Fiscal Year or during the Current Fiscal Year up to the Date of Publication of the Annual Report: None.

## III. Holding or Disposal of Shares in the company by the company's Subsidiaries during the Most Recent Fiscal Year or during the Current Fiscal Year up to the Date of Publication of the Annual Report: None.

## IV. Other Matters that Require Additional Description: None.

# Chapter 9. Matters that Materially Affect Shareholders' Equity or the Price of the Company's Securities Specified in Article 36, Paragraph 2, Subparagraph 2 if The Securities and Exchange Act, has Occurred during the Most Recent Fiscal Year or during the Current Fiscal Year up to the Date of Publication of the Annual Report: None.