

Kao Hsing Chang Iron & Steel Corp.
Financial Statements and Independent
Auditor's Report
2020 and 2019

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Independent Auditor's Report

To the board of directors of Kao Hsing Chang Iron & Steel Corp.:

Audit opinion

Regarding the balance sheet of Kao Hsing Chang Iron & Steel Corp. on December 31, 2020 and 2019, as well as comprehensive income statement, statement of changes in equity, and cash flow statement, as well as notes to the individual financial statements from January 1 to December 31, 2020 and 2019 (including a summary of major accounting policies), these have been audited by the accountants.

According to the opinion of the accountants, the above-mentioned consolidated financial statements are prepared in all material respects in accordance with the financial reporting standards of securities issuers, the International Financial Reporting Standards, International Accounting Standards, Interpretation and Interpretation Announcements approved and issued by the Financial Supervisory Commission. They are sufficient to express the financial situation of Kao Hsing Chang Iron & Steel Corp. on December 31, 2020 and 2019 and the financial performance and cash flows from January 1 to December 31 in 2020 and 2019.

Basis of Audit Opinion

The accountant performs the audit work in accordance with the accountant's rules for auditing financial statements and generally accepted auditing standards. The accountants' responsibilities under these standards will be further explained in the accountability sections of the accountants' audits of individual financial statements. The personnel subject to the independence norms of the firm affiliated with these accountants have maintained detachment and independence from Kao Hsing Chang Iron & Steel Corp. in accordance with accountant professional ethics norms, and have performed other responsibilities of the norms. The accountant believes that sufficient and appropriate audit evidence has been obtained to serve as the basis for expressing an audit opinion.

Key audit items

Key audit items refer to the most important items for the audit of the 2020 financial statements of Kao Hsing Chang Iron & Steel Corp. according to the professional judgment of the accountant. These matters have been dealt with in the process of checking the individual and overall financial statements and the formation of the audit opinion. The accountant does not express an opinion on these matters separately. The accountants judge that the key audit items that should be communicated in the audit report are as follows:

Based on unaudited version of transaction from the Chinese edition.

I. Impairment assessment for property, plant and equipment

Accounting policy on impairment assessment of property, plant, and equipment is explained in Note IV(XIII) - Impairment of non-financial assets; uncertainties concerning accounting estimates and assumptions of property, plant and equipment are explained in Note V(I); and impairment assessment of property, plant and equipment is detailed in Note VI(VII) - property, plant and equipment of this financial report.

Explanation of key audit issues:

Kao Hsing Chang Iron & Steel Corp. currently faces intensified competition in the form of price cuts from businesses around the world, and the methods adopted by Kao Hsing Chang Iron & Steel Corp. for estimating fair value of property, plant, and equipment are key to impairment assessment. Due to the high complexity involved in the choice of assessment approach and assumptions, we considered impairment assessment to be an issue of high concern when auditing financial statements.

Audit procedures:

We have obtained valuation reports issued from an external valuer commissioned by Kao Hsing Chang Iron & Steel Corp. and information prepared by the management, and examined the materials on hand to establish reasonable confidence in the valuer's professionalism, independence, and experience. Furthermore, we have examined the sources of information, choice of assumption and methodology, and consistency of conclusions presented in the valuation reports to determine the adequacy of impairment assessments performed on property, plant, and equipment. We also examined the sources of data and assumptions used by the management when assessing asset impairment to determine the adequacy of relevant disclosures made by Kao Hsing Chang Iron & Steel Corp.

II. Inventory valuation

For accounting policies on inventory valuation, please refer to Note IV(VII) of the financial report; for accounting estimates, assumptions, and uncertainties, please refer to Note V(II) of the financial report; for detailed disclosure on inventory valuation, please refer to Note VI(V) of the financial report.

Explanation of key audit issues:

Kao Hsing Chang Iron & Steel Corp. carries inventory mainly in the form of steel pipes and cold-rolled steel sheets, which are measured at the lower of cost and net realizable value. Given how susceptible the global steel market is to changes in raw material price, there may be significant volatility in product sales, demand, and pricing following a change of competitive landscape or industry environment. Due to the fact that estimation for net realizable value of inventory involves subjective judgments from the management of Kao Hsing Chang Iron & Steel Corp., it is possible that inventory cost may be stated above its net realizable value, which we considered an issue of high concern when auditing financial statements.

Audit procedures:

In terms of inventory valuation, we conducted a physical stock take at the end of the year to

examine the state of inventory carried on hand, reviewed the inventory aging report, and analyzed inventory turnover rates and aging changes to determine the rationality of valuation allowances that Kao Hsing Chang Iron & Steel Corp. had provided on inventory. Given that the management of Kao Hsing Chang Iron & Steel Corp. had adopted the net realizable value approach, we also checked selling prices and analyzed the percentage of selling expenses shown on sales orders to establish rationality in the pricing and expense of sales. For slow-moving inventory items, we examined the levels of devaluation loss provided in previous periods to determine whether the management of Kao Hsing Chang Iron & Steel Corp. had made adequate valuation allowance on inventory. We also assessed the fairness of related disclosures made by Kao Hsing Chang Iron & Steel Corp.

III. Impairment assessment of investment real estate

Accounting policy on impairment assessment of investment property is explained in Note IV(XIII) - Impairment of non-financial assets; uncertainties concerning accounting estimates and assumptions of investment property are explained in Note V(III); and impairment assessment of investment property is detailed in Note VI(IX) - Investment property of this financial report.

Explanation of key audit issues:

Intensified competition among the nation's export industries combined with domestic issues such as soil liquefaction and tax reform have made real estate transactions susceptible to market and environmental changes. The methods adopted by Kao Hsing Chang Iron & Steel Corp. for estimating fair value of investment property are key to impairment assessments, and due to the high complexity involved in the choice of assessment approach and assumptions, we considered impairment assessment to be an issue of high concern when auditing financial statements.

Audit procedures:

We have obtained information prepared by the management of Kao Hsing Chang Iron & Steel Corp., examined the sources of information and assumptions adopted by the management, and compared details of real estate properties transacted in nearby locations to evaluate impairment risk of the underlying assets. We also evaluated the adequacy of relevant disclosures made by Kao Hsing Chang Iron & Steel Corp.

Responsibilities of the management and governance body to the financial statements

Responsibilities of the management were to prepare and ensure fair presentation of financial statements in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the version of International Financial Reporting Standards, International Accounting Standards and interpretations thereof approved and published by the Financial Supervisory Commission, and to exercise proper internal control practices that are relevant to the preparation of financial statements so that the financial statements are free of material misstatements, whether caused by fraud or error.

The management's responsibilities when preparing financial statements also involved: assessing

the ability of Kao Hsing Chang Iron & Steel Corp. to operate, disclose information, and account for transactions as a going concern unless the management intends to liquidate or cease business operations, or is compelled to do so with no alternative solution.

The governance body of Kao Hsing Chang Iron & Steel Corp. (including the Audit Committee) is responsible for supervising the financial reporting process.

Auditors' responsibilities in the audit of financial statements

The purposes of our audit were to obtain reasonable assurance of whether the financial statements were prone to material misstatements caused by fraud or error, and issue a report of our audit opinions. We considered assurance to be reasonable only if it is highly credible. However, audit tasks conducted in accordance with generally accepted auditing principles do not necessarily guarantee detection of all material misstatements within the financial statements. Misstatements can arise from fraud or error. Misstatements are considered material if the individual amount or aggregate total is reasonably expected to affect economic decisions of the financial statement user.

When conducting audits in accordance with generally accepted auditing principles, we exercised judgments and raised doubts as deemed professionally appropriate. We also performed the following tasks as an auditor:

1. Identify and evaluate the risk of material misrepresentation of individual financial reports due to fraud or errors; design and implement appropriate countermeasures for the assessed risks; and obtain sufficient and appropriate audit evidence as the basis for audit opinions. Because fraud may involve collusion, forgery, deliberate omission, false statement or violation of internal control, the risk of not detecting a major false expression caused by fraud is higher than that caused by error.
2. Obtain the necessary understanding of the internal control relevant to the audit in order to design an appropriate audit procedure under the current circumstances, but its purpose is not to express an opinion on the effectiveness of Kao Hsing Chang Iron & Steel Corp.'s internal controls.
3. Evaluate the appropriateness of accounting policies adopted by management, and the reasonableness of accounting estimates and related disclosures made by management.
4. Based on the obtained audit evidence, the conclusion is made on the appropriateness of the management's use of the continuing operation accounting basis and whether or not there is a significant uncertainty in the event or situation that may cause major doubts about Kao Hsing Chang Iron & Steel Corp.'s ability to continue operations. If the accountant believes that there are significant uncertainties in these events or circumstances, he must remind the users of individual financial reports in the audit report to pay attention to the relevant disclosures in the individual financial reports or amend the audit opinions when such disclosures are inappropriate. The accountant's conclusion is based on the audit evidence obtained as of the date of the audit report.

Based on unaudited version of transaction from the Chinese edition.

However, future events or circumstances may cause Kao Hsing Chang Iron & Steel Corp. to no longer have the ability to continue operations.

5. Evaluate the overall expression, structure, and content of individual financial reports (including relevant notes) and whether or not individual financial reports are appropriate to express relevant transactions and events.
6. Obtain sufficient and appropriate verification evidence for the financial information of the investee company that adopts the equity method to express opinions on individual financial reports. The accountant is responsible for the guidance, supervision and execution of audit cases, and is responsible for forming audit opinions for Kao Hsing Chang Iron & Steel Corp.

The matters communicated between the accountant and the governance unit include the planned audit scope and time, and major audit findings (including significant deficiencies in internal control identified during the audit process).

The accountant also provides the governance unit with a statement that the personnel of the accounting firm's affiliated firm subject to independence regulations have complied with the independence of the accountant's professional ethics and communicates with the governance unit all relationships that may be considered to affect the independence of the accountant and other matters (including related protective measures).

Based on the matters communicated with the governance unit, the accountant decides the key audit items for the audit of Kao Hsing Chang Iron & Steel Corp.'s 2020 individual financial reports. The accountant stated these matters in the audit report, unless the law does not allow the public disclosure of specific matters or in very rare circumstances, the accountant decides not to communicate specific matters in the audit report because it can be reasonably expected that the negative impact of this communication will be greater than the public interest promoted.

KPMG Taiwan

Accounting:

Approval reference of the securities authority: (89)Tai-Tsai-Cheng (VI) No. 62474
Jin-Guan-Zheng-6-0960069825

March 11, 2021

Based on unaudited version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
Balance Sheet
December 31, 2020 and 2019

Unit: NTD Thousand

Assets		2020.12.31		2019.12.31	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (Note 6(1))	\$ 275,370	4	334,668	6
1120	Financial assets measured at fair value through other comprehensive income -- current (Note 6(2))	716,128	11	401,169	8
1151	Bills receivable (Note 6(3))	-	-	356	-
1152	Other notes receivable (Note 6 (4))	200	-	50,200	1
1170	Net accounts receivable (Note 6 (3))	105,317	2	78,636	2
1200	Other receivables (Notes 6 (4) and 7)	17,827	-	5,632	-
1220	Current income tax assets	2	-	11	-
130X	Inventory (Note 6 (5))	468,253	7	480,222	9
1470	Other current assets (Notes 6 (10) and 8)	14,563	-	50,878	1
Total current assets		1,597,660	24	1,401,772	27
Non-current assets:					
1517	Financial assets at fair value through other comprehensive income - non-current (Note VI (II))	986,641	15	878,414	17
1550	Investments using the equity method (Note VI (VI))	370,586	6	232,995	5
1600	Property, plant, and equipment (Notes VI (VII) and VIII)	1,539,887	23	1,578,543	31
1755	Right-of-use assets (Notes VI (VIII) and VII)	13,161	-	16,451	-
1760	Net investment property (Notes VI (IX) , VII, and VIII)	2,144,792	32	1,045,218	20
1920	Refundable deposits (Notes VI (IV), VII and IX)	9,467	-	8,069	-
Total non-current assets		5,064,534	76	3,759,690	73
Total assets		\$ 6,662,194	100	5,161,462	100

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
Balance Sheet (continued)
December 31, 2020 and 2019

Unit: NTD Thousand

		2020.12.31		2019.12.31	
		Amount	%	Amount	%
Liabilities and equity					
Current liabilities:					
2100	Short-term loans (Notes VI (XI) and VIII)	\$ 2,822,723	42	2,398,132	47
2151	Bills payable	20,280	-	11,627	-
2152	Other notes payable	7,561	-	6,889	-
2170	Accounts payable	21,733	-	9,571	-
2200	Other accounts payable	54,980	1	34,836	1
2230	Current tax liabilities	1,709	-	-	-
2300	Other current liabilities (Note VI (XII))	2,984	-	1,951	-
	Total current liabilities	2,931,970	43	2,463,006	48
Non-current liabilities:					
2541	Long-term bank loans (Notes VI (XIII) and VIII)	700,000	11	-	-
2570	Deferred income tax liabilities (Note VI (XVI))	210,632	3	210,632	4
2640	Net defined benefit liabilities-non-current (Note 6 (15))	42,394	1	43,115	1
2645	Guarantee deposits received	5,040	-	40	-
	Total non-current liabilities	958,066	15	253,787	5
	Total liabilities	3,890,036	58	2,716,793	53
Equity (Note 6 (17)):					
3100	Share capital	2,008,523	30	2,008,523	39
3200	Capital reserve	75,159	1	75,159	1
3300	Retained earnings:				
3310	Statutory reserve	146,880	2	146,880	3
3320	Special reserve	81,209	1	274,177	6
3350	Undistributed surplus earnings	216,673	4	21,139	-
		444,762	7	442,196	9
3400	Other equity interest	243,714	4	(81,209)	(2)
	Total equity	2,772,158	42	2,444,669	47
	Total liabilities and equity	\$ 6,662,194	100	5,161,462	100

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
Statements of Comprehensive Income
January 1 to December 31, 2020 and 2019

Unit: NTD Thousand

		2020		2019	
		Amount	%	Amount	%
4000	Operating income (Notes 6 (19) and 7)	\$ 962,510	100	1,142,137	100
5000	Operating costs (Notes VI (V)(XV))	940,489	98	1,146,465	100
5900	Operating margin (loss)	22,021	2	(4,328)	-
6000	Operating expenses (Notes 6 (15) and 7):				
6100	Marketing fees	25,679	3	51,077	4
6200	Management expenses	64,964	7	67,888	6
	Total operating expenses	90,643	10	118,965	10
6900	Net operating loss	(68,622)	(8)	(123,293)	(10)
	Non-operating income and expenses:				
7100	Interest income (Note VI (XXI))	134	-	190	-
7010	Other income (Notes VI (XXI) and VII)	84,890	9	41,110	4
7020	Other gains and losses (Note 6 (21))	(5,559)	-	(301)	-
7050	Finance costs (Note 6 (21))	(41,190)	(4)	(45,286)	(4)
7060	Share of profits/losses on equity-accounted associated companies and joint ventures (Note 6 (6))	(738)	-	(474)	-
7215	Gain on disposal of investment property	-	-	4,206	-
7610	Loss on disposal of property, plant, and equipment	-	-	(258)	-
	Total non-operating income and expenses	37,537	5	(813)	-
7900	Pre-tax profit (loss) from continuing operations	(31,085)	(3)	(124,106)	(10)
7950	Less: Income tax expense (Note 6 (16))	1,709	-	-	-
	Current net loss	(32,794)	(3)	(124,106)	(10)
8300	Other comprehensive income:				
8310	Items not reclassified to profit and loss				
8311	Determine the remeasurement of the benefit plan	1,715	-	2,192	-
8316	Unrealized valuation gains and losses via investment in equity investments measured at fair value through other comprehensive income.	240,892	25	200,524	17
8320	Share of other comprehensive profits and losses of affiliated companies and joint ventures recognized using the equity method-items not reclassified to profits and losses	117,676	12	(1,563)	-
8349	Less: Income tax related to items not reclassified	-	-	-	-
	Total items not reclassified to profit and loss	360,283	37	201,153	17
8300	Other comprehensive income for the period (net after tax)	360,283	37	201,153	17
	Total comprehensive income for the period	<u>\$ 327,489</u>	<u>34</u>	<u>77,047</u>	<u>7</u>
	Earnings per share (Note 6(18))				
9750	Basic earnings per share	<u>\$ (0.16)</u>		<u>(0.62)</u>	
9850	Diluted earnings per share	<u>\$ (0.16)</u>		<u>(0.62)</u>	

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu Manager: Rong-Feng Shenglu Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
Statement of Changes in Equity
January 1 to December 31, 2020 and 2019

Unit: NTD Thousand

				Retained earnings		Other equity items Gain (loss) from unrealized valuation of financial assets measured at fair value through other comprehensive income	Total equity interest
	Share capital	Capital reserve	Statutory reserve	Special reserve	Undistributed surplus earnings		
Balance as of January 1, 2019	\$ 2,008,523	75,159	146,880	122,366	288,871	(274,177)	2,367,622
Current net loss	-	-	-	-	(124,106)	-	(124,106)
Other comprehensive income for the period	-	-	-	-	2,192	198,961	201,153
Total comprehensive income for the period	-	-	-	-	(121,914)	198,961	77,047
Earnings appropriation and distribution:							
Provision for special reserve	-	-	-	151,811	(151,811)	-	-
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	5,993	(5,993)	-
Balance - December 31, 2019	2,008,523	75,159	146,880	274,177	21,139	(81,209)	2,444,669
Balance as of January 1, 2020	\$ 2,008,523	75,159	146,880	274,177	21,139	(81,209)	2,444,669
Current net loss	-	-	-	-	(32,794)	-	(32,794)
Other comprehensive income for the period	-	-	-	-	1,715	358,568	360,283
Total comprehensive income for the period	-	-	-	-	(31,079)	358,568	327,489
Earnings appropriation and distribution:							
Reversal of special reserve	-	-	-	(192,968)	192,968	-	-
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	33,645	(33,645)	-
Balance as of December 31, 2020	\$ 2,008,523	75,159	146,880	81,209	216,673	243,714	2,772,158

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
Statement of Cash Flow
January 1 to December 31, 2020 and 2019

Unit: NTD Thousand

	2020	2019
Cash flow from operating activities:		
Current pre-tax loss	\$ (31,085)	(124,106)
Adjustments:		
Income, expenses, and losses		
Depreciation	55,546	62,890
Interest expenses	41,190	45,285
Interest income	(134)	(189)
Dividend income	(56,669)	(35,340)
Share of losses on equity-accounted associated companies and joint ventures	738	474
Loss on disposal and scrapping of property, plant and equipment	-	258
Gain on disposal of investment property	-	(4,206)
Unrealized gains on foreign currency exchange	(15)	(192)
Total income, expenses, and losses	40,656	68,980
Changes in assets/liabilities related to business activities:		
Net changes in assets related to business activities:		
Decrease (increase) in bills receivable	356	(344)
Increase in other notes receivable	-	(1,432)
Increase in accounts receivable	(26,681)	(28,440)
Decrease (increase) in other receivables	(370)	5,351
Decrease in inventories	11,969	29,471
Decrease in other current assets	36,315	23,078
Total net changes in assets related to business activities	21,589	27,684
Net changes in liabilities related to operating activities:		
Increase (decrease) in bills payable	8,653	(17,235)
Increase (decrease) in accounts receivable	12,162	(22,025)
Increase (decrease) in other payables	2,955	(432)
Increase (decrease) in other current liabilities	1,033	(15,985)
Increase in net defined benefit liabilities	994	1,135
Total net changes in liabilities related to operating activities	25,797	(54,542)
Total net changes in assets and liabilities related to business activities	47,386	(26,858)
Total adjustment items	88,042	42,122
Cash inflow (outflow) generated from operations	56,957	(81,984)
Interest received	134	189
Dividends received	56,669	35,340
Interests paid	(40,255)	(47,382)
Income tax refunded	9	33,575
Net cash inflow (outflow) from operating activities	73,514	(60,262)
Cash flow from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(1,822,801)	(892,271)
Disposal of financial assets at fair value through other comprehensive income	1,625,334	1,151,533
Investments accounted for using equity method	(2,677)	-
Proceeds from sale of non-current assets pending disposal	-	20,000
Acquisition of property, plant, and equipment	(9,959)	(17,266)
Disposal of property, plant, and equipment	50,000	25,000
Increase in guarantee deposits paid	(1,398)	-
Decrease in refundable deposits	-	10,484
Acquisition of investment real estate	(1,100,892)	-
Disposal of investment real estate	-	4,995
Net cash inflow (outflow) from investing activities	(1,262,393)	302,475
Cash flow from financing activities:		
Increase in short-term loan	8,210,722	7,844,769
Decrease in short-term loan	(7,786,116)	(7,911,739)
Increase in long-term debt	700,000	-
Increase in deposit margin	5,000	-
Decrease in bills payable for the return of capital reduction	(25)	(101)
Net cash inflow (outflow) from financing activities	1,129,581	(67,071)
Increase (decrease) in current cash and cash equivalents	(59,298)	175,142
Beginning cash and cash equivalent balance	334,668	159,526
Cash and cash equivalents at the end of the period	\$ 275,370	334,668

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Notes to Financial Statements

2020 and 2019

(Unless otherwise specified, all amounts are presented in NTD)

I. Company history

Kao Hsing Chang Iron & Steel Corp. (the "Company") was approved for incorporation in January 1966 with office address registered at No. 318, Zhonghua 1st Road, Gushan District, Kaohsiung City. Primary business activities of the Company include: manufacturing, processing, and trading of steel pipes and cold-rolled steel sheets, manufacturing of metal architectural components, leasing, carpark management and wholesale of other products (activated carbon).

II. Financial statement approval date and procedures

This financial report has been approved during the board of directors meeting held on March 11, 2021, and announced to the public.

III. Application of new and amended standards and interpretations

- (I) Effect of adopting the latest and amended standards and interpretations approved by Financial Supervisory Commission ("FSC")

The Company has applied the following newly revised International Financial Reporting Standards from January 1, 2020, and they have not had a material effect on its financial reporting.

- Amendments to IFRS 3 regarding "Definition of a Business"
- Amendments to IFRS 9, IAS 39, and IFRS 7 - "Interest Rate Benchmark Reform"
- Amendments to IAS 1 and IAS 8 regarding "Definition of Materials"
- Amendment to IFRS 16, "Covid-19-Related Rent Concessions"

- (II) Impact of not adopting FSC-approved IFRS

Based on the Company's assessments, the application of the following newly revised International Financial Reporting Standards effective from January 1, 2021 will not have a material effect on its financial reporting.

- Amendment to IFRS 4 regarding "Deferral of effective date of IFRS 9"
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, "Interest Rate Benchmark Reform—Phase 2"

- (III) Newly revised standards and interpretations that are not yet approved by the FSC

The Company expects that the following newly issued and revised standards that have not yet been approved will not have a material impact on financial reporting.

- Amendments to IFRS 10 and IAS 28 regarding "Sale or contribution of assets between an investor and its associate or joint venture"
- IFRS 17 "Insurance contracts" and amendments to IFRS 17

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- Amendments to IAS 1, “Classifying Liabilities as Current or Non-current”
- Amendments to IAS 16, “Property, Plant and Equipment: Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts — Cost of Fulfilling a Contract”
- Annual improvements to IFRS standards for 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1, “Disclosure of Accounting Policies”
- Amendments to IAS 8, “Definition of Accounting Estimates”

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

IV. Summary of significant accounting policies

(I) Statement of compliance

This financial statement has been prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Preparation Guidelines") and FSC-approved international financial reporting standards, international accounting standards, and interpretations thereof (collectively referred to as "FSC-approved IFRS").

(II) Basis of preparation

1. Basis for measurement

This financial statement is prepared on the basis of historical cost, except for the key balance sheet items listed below:

- (1) Financial assets at fair value through profit and loss;
- (2) Financial assets at fair value through other comprehensive income; and
- (3) Net defined benefit liabilities (or assets), which is measured by deducting the present value of defined benefit plan obligations from the fair value of pension fund assets.

2. Functional currency and presentation currency

The Company designates the currency used in the main economic environment of its location as the functional currency. This financial statement is presented using the Company's functional currency (NTD). All financial figures denominated in NTD are presented in dollars.

(III) Foreign currency

Foreign currency transactions are converted into the functional currency using exchange rates as of the date of transaction. Foreign currency monetary items outstanding at the end of each reporting period (referred to as reporting date below) are subsequently converted into the functional currency using exchange rate applicable on that day. Foreign currency-denominated non-monetary items carried at fair value are converted into the functional currency using exchange rate as of the valuation date. Foreign currency-denominated non-monetary items carried at historical cost are converted using exchange rate as of the initial transaction date.

Differences from foreign currency conversion are generally recognized through profit and loss, or recognized through other comprehensive income under the following circumstances:

1. Equity instruments designated to be carried at fair value through other comprehensive income;
2. Financial liabilities designated to hedge net investment in foreign operations, within

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

3. the effective scope of hedge; or
4. Qualifying cash flow hedge, within the effective scope of hedge.

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

Assets that match any of the following criteria are classified as current assets; assets that do not fall into the current category are classified as non-current assets:

1. Assets that are expected to be realized, or intended to be sold or consumed, over the Company's normal operating cycle;
2. Assets that are held mainly for the purpose of trading;
3. Assets that are expected to be realized within twelve (12) months after the end of the reporting period; or
4. Cash or cash equivalents, except those that will be swapped or used to repay liabilities at least twelve (12) months from the reporting period, and those with restricted uses.

Liabilities that match any of the following criteria are classified as current liabilities; liabilities that do not fall into the current category are classified as non-current liabilities:

1. Liabilities that are expected to be repaid within the Company's normal business cycle;
2. Liabilities that are held mainly for the purpose of trading;
3. Liabilities that are expected to be repaid within twelve (12) months after the end of the reporting period; or
4. Liabilities with repayment terms that cannot be extended unconditionally beyond twelve (12) months after the reporting period. Liabilities with terms that give counterparties the option to be repaid in the form of equity instruments do not affect their classification.

(V) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalent refers to short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Time deposits that meet the above mentioned definitions and are held for the purpose of meeting short-term cash commitments instead of investment or other purposes are presented as cash equivalents.

(VI) Financial instruments

Accounts receivable and debt securities issued are recognized at the time occurred. All other financial assets and financial liabilities are recognized at initiation when the Company becomes a party to a financial instrument contract. Financial assets or liabilities that are not carried at fair value through profit and loss (excluding accounts receivable without major financial component) are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance. Accounts receivable without major

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financial component are initially measured at transaction price.

1. Financial assets

Purchase and sale of financial asset that conforms to customary practices is accounted using trade day or settlement day accounting, and the same approach is applied consistently to financial assets of the same classification.

The Company's financial assets are classified into: financial assets carried at cost after amortization, equity instruments at fair value through other comprehensive income, or financial assets at fair value through profit and loss at initiation. Only when the Company changes the ways financial assets are managed will it reclassify the affected financial assets according to policy, starting from the next reporting period.

(1) Financial assets carried at cost after amortization

Financial assets that meet all of the following conditions and are not designated to be carried at fair value through profit and loss shall be carried at cost after amortization:

- Financial assets that are held for the purpose of collecting contractual cash flow.
- Contractual terms of the financial asset give rise to cash flows on specific dates, and the cash flows are intended solely to pay principals and interests accruing on outstanding principals.

These assets are subsequently carried at initial cost plus/less accumulated amortization calculated using the effective interest rate method and after adjusting for loss provisions. Interest income, gain/loss on foreign currency exchange, and impairment loss are recognized through profit and loss. When decommissioned, gains or losses are recognized through profit and loss.

(2) Financial assets at fair value through other comprehensive income

Debt instruments that satisfy all of the following conditions and are not designated to be carried at fair value through profit and loss shall be carried at fair value through other comprehensive income:

- Financial assets that are held for the purpose of collecting contractual cash flow and sale.
- Contractual terms of the financial asset give rise to cash flows on specific dates, and the cash flows are intended solely to pay principals and interests accruing on outstanding principals.

At initiation, the Company can make an irrevocable choice to account for subsequent fair value changes in equity instruments not held for trading through other comprehensive income. The above choice is determined on an instrument-by-instrument

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

basis.

Investments in debt instruments are subsequently measured at fair value. Interest income, gain/loss on currency exchange, and impairment loss calculated using the effective interest method are recognized through profit and loss; other net gains or losses are recognized through other comprehensive income. When removed from balance sheet, amounts accumulated under other comprehensive income are reclassified into profit and loss.

Investments in equity instruments are subsequently measured at fair value. Dividend income is recognized through profit and loss (unless the dividends clearly represent a partial recovery of the investment cost). Other net gains or losses are recognized through other comprehensive income and are not reclassified into profit and loss.

Dividend income from equity investments are recognized on the day the Company becomes entitled to collect them (which is usually the ex-dividend day).

(3) Financial assets at fair value through profit or loss

Financial assets that are neither carried at cost after amortization nor at fair value through other comprehensive income are carried at fair value through profit and loss; this includes derivative financial assets. At initial recognition, the Company can make an irrevocable decision to designate financial assets that satisfy the criteria of being carried at cost after amortization or at fair value through other comprehensive income to be carried at fair value through profit and loss, for the purpose of eliminating or reducing accounting mismatch.

These assets are subsequently measured at fair value with net gains or losses (including any dividend and interest income) recognized through profit and loss.

(4) Impairment on financial assets

The Company recognizes loss provisions on financial assets carried at cost after amortization (including cash and cash equivalents, notes and accounts receivable, other receivables, guarantee deposits paid, and other financial assets) based on expected credit loss.

Loss provisions for the following financial assets are made based on 12-month expected credit loss; for all other financial assets, loss provisions are made based on expected credit loss for the remaining lifetime:

- Debt securities that are deemed to be of low risk as of the reporting date; and
- Other debt instruments and bank deposits that exhibit no significant increase in credit

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

- risk (i.e., risk of default over the financial instrument's expected duration) since initial recognition.

Loss provisions for notes and accounts receivable and contract assets are measured based on expected credit loss over the remaining lifetime

Expected credit loss for the remaining lifetime refers to the amount of credit losses that the financial instrument is likely to incur due to any possible default event in the remaining lifetime.

12-month expected credit loss refers to the amount of credit loss that a financial instrument may incur due to default event in the next 12 months (or shorter, if the financial instrument's expected remaining lifetime is less than 12 months).

The longest duration by which expected credit loss is measured shall be the maximum contract duration in which the Company is exposed to credit risk.

When assessing whether a financial instrument has significantly increased in credit risk since initial recognition, the Company uses reasonable and verifiable information (that can be obtained without excessive cost or investment) including qualitative and quantitative data in conjunction with its own past experience, credit rating, and forecasts.

A financial instrument is deemed to be of low credit risk if: the instrument exhibits low risk of default, the debtor has ample capacity to fulfill contractual cash flow obligations in the short term, and the debtor is prone to adverse economic or operational development that may (but does not necessarily) undermine its capacity to fulfill contractual cash flow obligations over the long term.

The Company considers credit risk to have increased significantly if contractual payment is overdue for more than 30 days.

The Company considers financial asset to have defaulted if contractual payment is overdue for more than 90 days, or if the borrower is unlikely to fulfill credit obligation and make pay full payment to the Company.

Expected credit loss is estimated by weighing credit losses for the remaining lifetime of a financial instrument against probability of occurrence. Credit losses are measured as the shortfall of cash collected, which is the difference between the amount of contractual cash flow collectible and the amount of cash flow the Company expects to collect. Expected credit losses are discounted at effective interest rate applicable to the financial asset.

The Company assesses financial assets carried at cost after amortization for credit

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impairment on every reporting date. A financial asset is deemed to have credit-impaired if estimated future cash flow exhibits one or several adverse events. Evidence of credit impairment includes any observable data that can be used to establish the following with respect to a financial asset:

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

- The borrower or issuer encounters significant financial distress;
- Event of default, such as delinquency or more than 90-day overdue;
- The Company grants compromise to the borrower for reasons relating to financial distress or contractual obligation that the Company would not have done so otherwise;
- The borrower is very likely to file for bankruptcy or undergo financial restructuring; or
- Occurrence of financial distress that may cause the financial asset to be removed from active market.

Loss provisions on financial assets carried at cost after amortization are deducted from book value. However, loss provisions on debt investments held at fair value through other comprehensive income are adjusted through profit and loss and recognized through other comprehensive income (without reducing asset book value).

When the Company has reason to believe that it may not recover part or all of a financial asset, the total book value of financial asset is reduced directly to reflect the expectation. If the counterparty is a corporate entity, the Company would analyze the timing and amount of charge-off based on rational expectations about recoverability. The Company expects no major reversal of amounts that it has charged off. However, the Company may still make claims on charged-off financial assets according to its recovery procedures.

(5) Removal of financial assets

Financial assets can be removed from balance sheet only if all contractual cash flow entitlements have ended, or if the asset has been transferred with virtually all risks and returns of ownership assumed by another party, or in situations where the Company neither transfers nor retains virtually all risks and returns of ownership or control over such financial asset.

The Company will continue recognizing financial assets it has signed transfer agreement for on the balance sheet if it retains virtually all risks and returns associated with the ownership of the transferred asset.

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

Debt and equity instruments issued by the Company are classified into financial

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

liabilities or equity depending on the terms of the underlying contract and the definitions of financial liability and equity used.

(2) Equity transactions

Equity instrument refers to any contract that represents the Company's entitlement to assets net of liabilities. Equity instruments issued by the Company are recognized at the amount of proceeds received net of direct issuing costs.

(3) Treasury stock

Buyback of equity instruments previously issued by the Company is accounted as a contra-equity transaction at the amount of consideration paid (including directly attributable costs). Shares repurchased by the Company are classified as treasury stock. Proceeds received from subsequent sale or re-issuance of treasury stock are recognized as additional equity; surplus or deficit arising from such transactions is recognized as capital reserve or retained earnings (if there is insufficient capital reserve to offset).

(4) Financial liabilities

Financial liabilities are classified into those that are carried at cost after amortization and those that are carried at fair value through profit and loss. Financial liabilities are carried at fair value through profit and loss if they are held for trading, characterized as derivative instrument, or designated to be so at initial recognition. Financial liabilities at fair value through profit and loss are carried at fair value with net gains and losses, including any interest expense, recognized through profit and loss.

Financial liabilities are subsequently carried at cost after amortization using the effective interest method. Interest expenses and gains/losses on currency exchange are recognized through profit and loss. When removing from balance sheet, any gains or losses incurred are also recognized through profit and loss.

(5) Removal of financial liabilities

Financial liabilities are removed from balance sheet upon fulfillment, cancellation, or expiry of contractual obligation.

When removing financial liabilities from balance sheet, any differences between the book value and the amount paid or payable (including any non-cash assets transferred and any liabilities assumed as part of the arrangement) are recognized through profit and loss.

(6) Offset of financial assets and liabilities

Financial assets and financial liabilities may be offset against each other and reported on the balance sheet in net amount only when the Company is legally entitled

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

to do so, and has the intention to settle assets and liabilities in net amount or realize them both at the same time.

(VII) Inventories

Inventory is stated at the lower of cost or net realizable value. Cost includes all costs incurred to acquire, produce, process, and bring inventory to its usable state and location, and is calculated using the weighted average method. Cost of finished products and work-in-progress includes manufacturing overheads, which are allocated proportionally based on normal production capacity.

Net realizable value refers to the estimated selling price less all additional costs required for completion and all associated marketing expenses under normal circumstances.

(VIII) Investment in associated companies

Associated company is an entity in which the Company has significant influence over financial and operating decisions, but no single or joint control.

The Company accounts for associated companies using the equity method. Under the equity method, investments are accounted at cost at initiation and the investment cost includes transaction cost. The book value of associated company includes goodwill recognized at initiation less any cumulative impairment losses.

The financial statements include profit and loss and other comprehensive income from associated companies, recognized based on percentage of equity ownership and adjusted for consistency of accounting policy, from the day the Company gains significant influence until the day it no longer exercises significant influence. If an associated company undergoes a change of equity that is not attributed to profit, loss, or other comprehensive income and has no impact on the Company's shareholding percentage, the Company will account for changes in ownership interest and its share of equity change in the associated company based on shareholding percentage, and recognize the change as "capital reserve."

Unrealized gains and losses arising from transactions between the Company and associated companies are recognized in corporate financial statements only for the percentage of ownership that is controlled by non-related investors. The Company will stop recognizing losses on associated companies when its share of the loss equals or exceeds the value of equity held. The Company will recognize extra losses and liabilities only for legal obligations and deemed obligations that arise in relation to ownership of investees, or payments made on behalf of investees.

(IX) Investment property

Investment properties refer to real estate properties that are held for rental income or

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

capital gain, or both, as opposed to normal business activities such as sale, production, supply of products, rendering of services, or administration. Investment properties are initially accounted at cost, and subsequently carried at cost less accumulated depreciation and cumulative impairment. These assets are subject to the same depreciation method and parameters such as useful year and residual value as does property, plant, and equipment.

Gain or loss on disposal of investment property (calculated as the difference between net disposal proceeds and book value of the asset) is recognized through profit and loss.

Rental income from investment properties are recognized as other income using the straight-line method over the lease tenor. Any lease incentives offered are recognized as part of rental income over the lease tenor.

(X) Property, plant, and equipment

1. Recognition and measurement

Property, plant, and equipment are carried at cost (including capitalized borrowing costs) less accumulated depreciation and any cumulative impairment.

Major components of property, plant, and equipment that have different useful lives are accounted as separate categories (of major components).

Gain or loss on disposal of property, plant, and equipment is recognized through profit and loss.

2. Subsequent costs

Subsequent expenditures are capitalized only when the Company is very likely to realize future economic benefits.

3. Depreciation

Depreciation is calculated using the straight-line approach, in which the cost of asset net of residual value is divided by the useful life of each component, and recognized through profit and loss.

No depreciation is provided on land.

The following useful life estimates are used for the current and comparative periods:

(1) Buildings	5-60 years
(2) Machinery	2-25 years
(3) Other equipment	5-25 years

The Company reviews its depreciation method, useful life, and residual value estimates on each reporting date. Changes are made as deemed necessary and appropriate.

(XI) Leases

1. Determination of lease arrangement

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

2.

The Company evaluates whether a contract meets the criteria of (or contains arrangements characterized as) lease on the day of establishment. A contract is considered as lease or deemed to contain lease elements if it involves a transfer of control over identified assets for a period of time in exchange for consideration. The Company evaluates the following aspects to determine whether a contract is a lease:

- (1) The contract in question involves use of one identified asset, which can be explicitly identified in the contract or implicitly specified at the time it is made available for use and that the asset is physically distinct or represents substantially all capacity. An asset would not be considered an identified asset if the supplier has substantive right to substitute such asset; and
- (2) The user is able to obtain virtually all economic benefits from using the identified asset throughout the period of use; and
- (3) The user gains the right to direct use of the identified asset in any of the following circumstances:
 - User is granted the right to determine the method and purpose by/for which the identified asset is used throughout the period of use.
 - Decisions concerning the method and purpose by/for which asset is used are determined in advance; and
 - The user is entitled to make use of the asset for the entirety of the period of use, and the supplier has no right to change or instruct otherwise; or
 - The method and purpose by/for which asset is used were pre-determined by the way the user had designed the asset.

3. As a lessee

The Company recognizes right-of-use assets and lease liabilities on the lease start date. Right-of-use assets are measured at cost at initiation; this cost includes the initial amount of lease liability, adjusted for any lease payments paid on or before the lease start date, plus any initial direct costs incurred and any estimated costs to dismantle/remove the asset and restore the location or the asset to its original state, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis from the lease start date until the end of useful life of right-of-use asset or until expiry of the lease tenor, whichever the earlier. Furthermore, the Company regularly assesses right-of-use assets for impairment and accounts for impairment losses as they occur. Right-of-use assets are also adjusted in circumstances where lease liabilities are subject to remeasurement.

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Lease liabilities are initially measured as the present value of unpaid lease payments as at the lease start date. Interest rate implicit in a lease is used as the discount rate if it can be easily determined; if the rate cannot be easily determined, the Company's incremental borrowing rate will be used as the discount rate instead. In general, the Company uses incremental borrowing rate as the discount rate.

The types of lease payments included in the calculation of lease liabilities include:

- (1) Fixed payments, including in-substance fixed payments;
- (2) Variable lease payments that are determined by certain index or rate, which are initially measured using index or rate as at the lease start date;
- (3) Amount of residual value guarantee expected to be paid; and
- (4) Amount of strike price or penalty payable, if there is reasonable assurance to exercise the purchasing or termination option.

Lease liabilities subsequently accrue interest using the effective interest approach, and are remeasured in the following circumstances:

- (1) When there is a change in the index or rate used for determining lease payments, which leads to changes in future lease payments;
- (2) When there is a change in the amount of residual value guarantee;
- (3) When there is a change in the assessment of asset purchasing option;
- (4) When there is a change in the likelihood of exercising lease extension/termination option, which may alter the Company's expectation about the lease tenor;
- (5) When there is a change in leased asset, scope of lease, or other terms.

When lease liability is remeasured due to: a change in the index or rate used to determine lease payment, a change in guaranteed residual value, or a purchase, extension, or termination of embedded options, a corresponding adjustment shall also be made to the book value of right-of-use asset at the same time. When book value of the right-of-use asset has been reduced to zero, further remeasurements shall be recognized through profit and loss instead.

If there is any contract amendment that reduces the scope of lease, the book value of right-of-use asset is reduced accordingly to reflect partial or total termination of lease arrangement. Any difference between right-of-use asset and remeasured lease liability is recognized through profit and loss.

Right-of-use assets that do not meet the definition of investment property and lease liabilities are presented on the balance sheet as single-line items.

4. Lessor

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

5.

Lease arrangements that the Company is a lessor of are investigated to determine whether virtually all risks and returns associated with ownership of the asset are transferred on the day of lease establishment. If so, the contract would be classified as a financial lease; if not, the asset would be classified as an operating lease. When assessing leases, the Company takes into consideration whether the lease tenor covers a major portion of the asset's useful life, among other indicators.

For lease arrangements where the Company is the intermediate lessor of a sublease, the Company would account for the main lease and the sublease separately, and classify the sublease based on the right-of-use asset given rise by the main lease. If the master lease is short-term in nature and exempted from lease recognition, the sub-lease shall be classified as operating lease.

If the agreement contains lease and non-lease components, the Company uses IFRS 15 to allocate the consideration in the contract.

(XII) Intangible assets

1. Recognition and measurement

Other intangible assets of limited useful life acquired by the Company are carried at cost less accumulated amortization and cumulative impairment.

2. Subsequent expenses

Subsequent expenses are capitalized only if they are able to increase future economic benefits of certain assets. All other expenses are recognized through profit and loss when incurred.

3. Amortization

Amortization is calculated using the straight-line approach, in which the cost of asset net of residual value is divided by estimated useful life and recognized through profit and loss from the time the intangible asset reaches its usable state.

The Company's intangible assets represent cost of computer software, which is estimated to have a useful life of 5 years for both the current and comparative periods.

The Company reviews its amortization method, useful life, and residual value estimates for intangible assets on each reporting date. Changes are made as deemed necessary and appropriate.

(XIII) Impairment on non-financial assets

The Company evaluates non-financial assets (excluding inventory and deferred income tax assets) for signs of impairment in the book value on each reporting date. Assets that

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exhibit any of the signs will have recoverable amount estimated.

For the purpose of impairment testing, assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets are determined as a smallest identified asset group.

Recoverable amount is determined as fair value less disposal cost or the utilization value, whichever the higher. Utilization value is assessed by discounting projected cash flows to the present value using the pre-tax discount rate. This discount rate reflects the time value that the market has currently priced for the given currency, and risks that are specific to the given asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit falls below its book value, the difference is recognized as impairment loss.

Impairment losses are immediately recognized through current profit and loss against a reduction to the book value of goodwill that has been allocated to the cash-generating unit; any remaining amount of impairment will then be taken to reduce book values of other assets within the unit on a pro-rated basis (i.e. proportionally based on book value weight of each asset).

(XIV) Income recognition

1. Revenue from contracts with customers

Income is measured as the amount of consideration the Company expects to receive for the delivery of merchandise or service. The Company recognizes income when control of merchandise or service has been transferred to customers and the contractual obligations fulfilled. Detailed explanation is as follows:

(1) Sale of merchandise

The Company manufactures and sells various types of steel pipe and cold-rolled steel sheet and recognizes revenues upon transfer of product control. Product control is deemed to have transferred upon delivery, at a time when customer is able to exercise full discretion over the use of sales channel and selling price and no unfulfilled obligations exist that may otherwise affect customer's acceptance of the product. Delivery is deemed to have taken place when products are shipped to the designated location where all risks of obsolescence and loss are assumed by the customer, and that the customer accepts the products according to sales contract, thereby voiding the acceptance clause, or under any other circumstances where the Company has objective evidence to prove having satisfied all inspection criteria.

The Company recognizes accounts receivable at the time merchandise is delivered,

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

as the Company has unconditional rights to collect consideration at this point.

(2) Financial component

The Company expects no more than one year between the time merchandise is transferred to customers and the time payment is received for such merchandise for all its customers. As a result, no time value adjustment is made to the transaction price.

2. Cost of contracts with customers

(1) Additional costs of contract establishment

Additional costs incurred to establish contract with customers are recognized as assets if the Company expects to recover them on a later date. Additional costs of contract establishment refer to costs that the Company incurs specifically to establish contract with a customer, which would not have incurred otherwise if contract is not established. Contract acquisition costs that incur regardless of whether contract is awarded are expensed at the time incurred, except in cases where the Company is able to recover such cost from customer regardless of whether contract is awarded.

The Company adopts the compromised approach outlined in the standards, and expenses additional cost of contract acquisition at the time incurred if such cost is to be recognized as asset and amortized over a period of less than one year.

(2) Cost of fulfilling contractual obligations

Costs incurred for fulfilling contracts with customers that do not fall within the scope of alternative standards (i.e. IAS - "Inventories," IAS 16 - "Property, Plant and Equipment" or IAS 38 - "Intangible Assets") are recognized as assets only if the cost is directly related to the contract (or identifiable anticipated contract) in question, has the ability to generate or enhance resources that can be used to satisfy (or continually satisfy) contractual obligations in the future, and is expected to be recoverable.

General and administrative costs, any raw materials used for contract fulfillment but are not reflected in contract price, cost of labor or other resources, costs associated with fulfillment (or partial fulfillment) of contractual obligation, and costs that cannot be distinguished between unfulfilled and fulfilled (or partially fulfilled) contractual obligation are expensed at the time incurred.

(XV) Government subsidies

When the Company is able to receive relevant government subsidies, conditional subsidies are recognized as other income. For other asset-related subsidies, when the Company can be reasonably sure that it will comply with the conditions attached to the government subsidy and will receive the subsidy, it shall be recognized as deferred income at fair value. The deferred income is recognized as other income on a systematic basis.

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Government subsidies to compensate expenses or losses incurred by the Company are recognized as profit or loss on a systematic basis and with related expenses at the same time.

(XVI) Employee benefits

1. Defined contribution plan

Contributions to the defined contribution plan are expensed over the duration of employees' service.

2. Defined benefit plan

The Company calculates net obligation of defined benefit plan by discounting future benefit payouts that employees have earned in current or previous periods of employment to the present value, and deducting the fair value of any pension fund asset.

Defined benefit obligations are estimated by certified actuaries on a yearly basis using the Projected Unit Credit Method. If the calculated result is favorable to the Company, the amount of assets recognized shall not exceed the present value of future economic benefits, whether they are realized through refund of plan contributions or decrease of future contributions. Present value of economic benefits is calculated after taking into consideration all minimum contribution requirements.

Remeasurement of net defined benefit liabilities, including actuarial gains/losses, return on plan assets (excluding interest), and changes in the effect of the asset ceiling (excluding interest), are immediately recognized through other comprehensive income and accumulated in retained earnings. The Company determines net interest expenses (income) on net defined benefit liabilities (assets) using the balance of net defined benefit liabilities (assets) and discount rate as at the beginning of the reporting period. Net interest expense and other expenses associated with defined benefit plan are recognized through profit and loss.

When the plan is amended or curtailed, any change in benefit that arises in relation to service cost in previous periods or curtailment gains/losses is immediately recognized through profit and loss. The Company will recognize gain or loss on settlement of defined benefit plan, if any.

3. Short-term employee benefits

Short-term employee benefit obligations are expensed at the time service is rendered. These amounts are recognized as liability when the Company becomes legally obligated or is deemed obligated to pay employees for past services rendered, and that such obligations can be estimated reliably.

(XVII) Income taxes

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Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(XVIII)

Income tax expense comprises current income tax and deferred income tax. Current income tax and deferred income tax are recognized through profit and loss, except for amounts that arise in relation to business combination and items that are recognized directly under equity or other comprehensive income.

Current income tax includes all income taxes refundable/payable for the current year, which is calculated based on current year's taxable income (or loss), plus any adjustment to income tax payable/refundable in previous years. This amount represents the best estimate of taxes that the Company expects to pay or collect given the statutory tax rate or substantively enacted tax rate prevailing on the reporting date, and reflects uncertainties (if any) concerning income tax.

Deferred income tax represents the tax impact of temporary differences between asset/liability figures presented for financial reporting purpose and asset/liability figures used for taxation basis. No deferred income tax is recognized on temporary differences that arise under the following circumstances:

1. Initial recognition of assets or liabilities for transactions unrelated to business combination, provided that accounting profit and taxable income (loss) are unaffected at the time of transaction;
2. Temporary differences arising from investment in subsidiaries, associated companies, and joint ventures, where the Company has control over the timing at which temporary difference is reversed and that the temporary difference is unlikely to be reversed in the foreseeable future; and
3. Taxable temporary differences arising from initial recognition of goodwill.

Deferred income tax is calculated using tax rate that the Company expects to be effective at the time the temporary difference is reversed. In this financial report, the statutory tax rate or effective tax rate as at the reporting date was used for calculation.

Deferred income tax assets and deferred income tax liabilities are offset against each other only when the following conditions are met:

1. When the Company is entitled to offset current income tax assets against current income tax liabilities; and
2. The deferred income tax assets and deferred income tax liabilities arise in relation to income taxes imposed by the same tax authority, and the tax-paying entities meet any of the following conditions :
 - (1) The tax-paying entities are one and the same; or
 - (2) The tax-paying entities are different, but all of them have the intention to settle current income tax assets against current income tax liabilities on a netted basis on every future date when material amounts of deferred income tax asset/liability are

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- (3) due to be recovered/paid, or to realize assets and repay liabilities at the same time.

Unused tax losses and tax credits can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against. Deferred tax assets are evaluated on each reporting date. Tax benefits that are not likely to be realized will be reduced down to the realizable amount, and the Company may reverse the amount it had reduced when it becomes likely to generate sufficient taxable income.

(XIX) Earnings per share

Earnings attributable to the Company's common shareholders are presented in basic and diluted earnings per share. Basic earnings per share is calculated by dividing the amount of profits attributable to the Company's common shareholders with the weighted average number of outstanding common shares for the given period. Diluted earnings per share is calculated after adjusting the amount of profits attributable to the Company's common shareholders and weighted average number of common shares for the dilutive effect of potential common shares. Potential common shares with dilutive effect are intended as share-based payment for employee remuneration.

(XX) Segment information

An operating segment is a section of the Company that generates income and incurs expenses as part of its activities (including income and expenses from transacting with other sections of the Company). Operating results of all segments are reviewed regularly by the Company's main decision maker for resource allocation and performance evaluation. All operating segments are individually capable of producing financial information.

V. Sources of uncertainty to significant accounting judgments, estimates, and assumptions

When preparing financial statements in compliance with the Preparation Regulations, the management is required to make judgments, estimates, and assumptions in accordance with FSC-approved IFRS. These judgments, estimates, and assumptions may affect adoption of accounting policies and amounts of asset, liability, income, and expense reported. The actual results may differ from estimates.

The management constantly reviews its estimates and assumptions. Impacts from changes in accounting estimate are recognized in the year the changes take place and in future years when impacts materialize.

Uncertainty of the following assumptions and estimates have material risk of causing a significant adjustment to the carrying amount of assets and liabilities in the following fiscal year, and reflect the impact of the COVID-19 pandemic. The relevant information is as follows:

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(I) Impairment assessment for property, plant and equipment

When assessing asset impairment, the Company relies upon the information provided by valuers and the management, and determines the recoverable amount as the higher between fair value less disposal cost and the utilization value. Any change in estimate given rise by change of economic circumstances or corporate strategies may result in significant provisioning or reversal of impairment losses in the future. For detailed information on impairment of property, plant, and equipment, please see Note VI(VII)

(II) Inventory valuation

Due to the fact that inventory is measured at the lower of cost and net realizable value, the Company would assess inventory on the reporting date for any decrease in sales value due to normal wear, obsolescence, or absence of market demand, and reduce inventory cost to net realizable value accordingly. This inventory valuation is made by estimating product demand within a specific period of time in the future, which may give rise to significant changes due to rapid development of the industry. For details on inventory valuation, please refer to Note VI (V).

(III) Impairment assessment of investment real estate

When assessing asset impairment, the Company uses information prepared by the management and determines the recoverable amount as the higher between fair value less disposal cost and the utilization value. Any change in estimate given rise by change of economic circumstances or government policies may result in significant provisioning or reversal of impairment losses in the future. For detailed information on impairment of investment properties, please see Note VI (IX).

VI. Notes to major accounts

(I) Cash and cash equivalents

	<u>2020.12.31</u>	<u>2019.12.31</u>
Reserve cash	\$ 252,607	318,503
Demand deposit	262,452,932	324,960,264
Check deposit	<u>12,664,776</u>	<u>9,389,296</u>
Cash and cash equivalents presented in the cash flow statement	<u>\$ 275,370,315</u>	<u>334,668,063</u>

For disclosure of exchange rate risk, exchange rate sensitivity analysis, and credit risk associated with the Company's financial assets, please see Note VI (XXIII).

(II) Financial assets at fair value through other comprehensive income

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

	<u>2020.12.31</u>	<u>2019.12.31</u>
Equity instruments at fair value through other comprehensive income:		
TWSE/TPEX listed shares:		
China Steel Chemical	\$ 281,015,000	98,000,000
Formosa Sumco Technology	8,640,000	67,860,000
Lelon Electronics	-	8,790,000
ASE Technology Holding	16,260,000	-
Hon Hai Precision Industry	18,400,000	-
ChainQui Construction	1,719,372	1,960,168
Development		
Asia Pacific Telecom	53,530,000	41,415,000
Asia Optical	88,680,000	-
Zhen Ding Technology	5,700,000	-
Holding-KY		
Keystone Microtech	9,360,000	-
Sun Max-KY	-	18,976,651

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Yageo	51,800,000	4,370,000
Cathay Financial Holdings	-	9,361,000
Kuo Yang	-	2,512,500
FocalTech	-	69,020,571
LuxNet	-	8,462,952
Darfon	-	4,405,000
Evergreen International	7,634,250	28,700,000
Giga solar	6,120,000	13,250,000
Phoenix Silicon International	-	-
CHPT	7,640,000	-
Sunspring Metal	5,040,000	5,540,000
Global Wafers	-	-
Wonderful Hi Tech	4,620,099	4,449,954
Win Semiconductors	3,460,000	14,700,000
HTC	12,300,000	3,845,000
Taiwan Semiconductor	53,000,000	-
Manufacturing		
Largan Precision	63,900,000	-
Eternal Materials	21,930,000	-
Subtotal	<u>720,748,721</u>	<u>405,618,796</u>
Non-listed domestic and foreign companies:		
Universal Venture Capital	9,478,000	9,687,839
Investment		
KHH Arena Corporation	81,551,250	73,301,250
ENRESTEC	289,332,707	207,064,454
CSGT Metals	40,779,800	30,627,964
How Weih Holding	560,878,673	539,649,988
Sunward Refractories	-	13,632,263
Subtotal	<u>982,020,430</u>	<u>873,963,758</u>
Total	<u>\$ 1,702,769,151</u>	<u>1,279,582,554</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Current	\$ 716,128,622	401,168,842
Non-current	<u>986,640,529</u>	<u>878,413,712</u>
	<u>\$ 1,702,769,151</u>	<u>1,279,582,554</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

This category of equity instruments are held as strategic long-term investments and not for trading, and therefore are designated to be measured at fair value through other comprehensive income.

The Company recognized dividend income totaling NTD 56,669,166 in 2020 and NTD 35,340,259 in 2019 from equity instruments at fair value through other comprehensive income mentioned above.

The Company sold equity instruments measured at fair value through other comprehensive income out of concern for changes in investment strategy in 2020 and 2019; fair values of the disposed investments were assessed at NTD 1,637,157,689 and NTD 1,156,041,432 at the time of disposal and cumulative gains amounting to NTD 75,697,941 and NTD 4,821,675 have been reclassified from other equity items into retained earnings for the respective years.

For market risk information, please refer to Note VI (XXII).

None of the above financial assets was pledged as collateral.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(III) Notes and accounts receivable

	<u>2020.12.31</u>	<u>2019.12.31</u>
Notes receivable - arising from business activities	\$ -	355,604
Accounts receivable - at cost after amortization	105,316,666	78,635,924
Less: loss provisions	-	-
	<u>\$ 105,316,666</u>	<u>78,991,528</u>

The Company adopted the simplified approach to estimate expected credit loss on all notes and accounts receivable, which involved measuring expected credit loss for the duration of its receivables. To facilitate this approach, notes and accounts receivable were divided into several groups using common credit risk characteristics that assess customers' ability to pay contractual sum at maturity. This approach incorporates the use of forward-looking information. Expected credit loss analysis for notes and accounts receivable is explained below:

	<u>2020.12.31</u>		
	Book value of notes and accounts receivable	Weighted average expected credit loss rate	Provision for expected credit loss over the remaining duration
Not overdue	\$ 105,316,666	-	-
Overdue	-	-	-
	<u>\$ 105,316,666</u>		<u>-</u>

	<u>2019.12.31</u>		
	Book value of notes and accounts receivable	Weighted average expected credit loss rate	Provision for expected credit loss over the remaining duration
Not overdue	\$ 78,991,528	-	-
Overdue	-	-	-
	<u>\$ 78,991,528</u>		<u>-</u>

Changes in loss provision on notes receivable and accounts receivable is shown below:

	<u>2020</u>	<u>2019</u>
Opening balance	\$ -	-
Closing balance	<u>\$ -</u>	<u>-</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

The Company held no collateral over the above mentioned balances.

(IV) Other receivables and notes

1. Other accounts receivable	<u>2020.12.31</u>	<u>2019.12.31</u>
Other receivables - proceeds from disposal of shares	\$ 16,332,066	4,507,964
Other receivables - purchase discounts	430,521	191,196
Other receivables - taxes refundable	29,315	248,119
Other receivables - others	1,505,071	1,155,522
Guarantee deposits paid	9,466,537	8,069,050
Less: loss provisions	<u>470,460</u>	<u>470,460</u>
	<u>\$ 27,293,050</u>	<u>13,701,391</u>
Presented as net other receivables	\$ 17,826,513	5,632,341
Presented as guarantee deposits paid	<u>9,466,537</u>	<u>8,069,050</u>
	<u>\$ 27,293,050</u>	<u>13,701,391</u>

Others mainly comprise proceeds from the sale of scraps.

2. Other notes receivable	<u>2020.12.31</u>	<u>2019.12.31</u>
Other notes receivable - rent proceeds	\$ 200,000	200,000
Other notes receivable - proceeds from sale of land	-	50,000,000
Less: loss provisions	<u>-</u>	<u>-</u>
	<u>\$ 200,000</u>	<u>50,200,000</u>

The Company made a decision to sell investment property (land) in 2017; balance of proceeds receivable from the sale under the contract as at December 31, 2019, is presented in other notes receivable.

For more information on credit risk, please refer to Note 6 (22).

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(V) Inventories

	<u>2020.12.31</u>	<u>2019.12.31</u>
Raw materials and merchandise	\$ 157,527,523	194,250,942
Work-in-progress	63,456,809	44,698,026
Finished goods	245,803,449	230,003,994
Inventory in transit	1,458,881	11,145,886
Scraps	6,004	122,809
	<u>\$ 468,252,666</u>	<u>480,221,657</u>

Detailed breakdown of sales cost:

	<u>2020</u>	<u>2019</u>
Reclassified into sales costs and expenses	\$ 925,865,403	1,114,622,882
Inventory devaluation loss (gain from price recovery)	(38,350,723)	5,212,132
Unallocated manufacturing overheads	58,105,125	36,845,321
Others	(5,131,265)	(10,215,609)
	<u>\$ 940,488,540</u>	<u>1,146,464,726</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

None of the Company's inventory was pledged as collateral.

(VI) Investments accounted for using equity method

The Company holds 38.32% of the voting shares of KHC Steel International Corp. Although the remaining 61.68% of KHC Steel International Corp.'s shares are not concentrated in specific shareholders, the Company is still unable to obtain more than half of the board seats of KHC Steel International Corp. and also failed to obtain more than half of the voting rights of the shareholders attending the shareholders meeting. Therefore, it is determined that the Company has only a significant influence on KHC Steel International Corp.

The Company holds 45.79% of the voting shares of Hsieh Chang Hsing Trading Co., Ltd. Although the remaining 54.21% of Hsieh Chang Hsing Trading Co., Ltd.'s shares are not concentrated in specific shareholders, the Company is still unable to obtain more than half of the board seats of Hsieh Chang Hsing Trading Co., Ltd. and also failed to obtain more than half of the voting rights of the shareholders attending the shareholders meeting. Therefore, it is determined that the Company has only a significant influence on Hsieh Chang Hsing Trading Co., Ltd.

Due to the Company's purchase of equity rights in Sunward Refractories Co., Ltd. in 2020 for a total of NTD 2,762,812, raising its shareholding ratio to 20% from 16.10% previously, therefore, the Company has a significant influence on Sunward Refractories Co., Ltd. but does not have control.

The Company's accounting treatment is based on the equity method of financial assets measured at fair value through other comprehensive gains and losses. Therefore, the Company recognized and disposed of financial asset losses of NTD 48,986,001 measured at fair value through other comprehensive gains and losses, transferring to retained earnings from other equity.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Associated companies accounted using the equity method as at the reporting date:

	<u>2020.12.31</u>	<u>2019.12.31</u>
KHC Steel International Corp.	\$ 130,888,282	85,349,100
Hsieh Chang Hsing Trading Co., Ltd.	225,593,900	147,646,117
Sunward Refractories Co., Ltd.	14,104,103	-
	<u>\$ 370,586,285</u>	<u>232,995,217</u>

1. Associated companies

The Company's share of gains (losses) from associated companies is summarized below:

	<u>2020</u>	<u>2019</u>
KHC Steel International Corp.	\$ (1,065,990)	(406,923)
Hsieh Chang Hsing Trading Co., Ltd.	(56,326)	(67,319)
Sunward Refractories Co., Ltd.	384,103	-
	<u>\$ (738,213)</u>	<u>(474,242)</u>

The Company's share of other comprehensive income from associated companies is summarized below:

	<u>2020</u>	<u>2019</u>
KHC Steel International Corp.	\$ 39,671,628	(1,562,957)
Hsieh Chang Hsing Trading Co., Ltd.	78,004,109	-
Sunward Refractories Co., Ltd.	-	-
	<u>\$ 117,675,737</u>	<u>(1,562,957)</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Financial information of associated companies is summarized below; the following information has not been adjusted for the Company's ownership percentage:

(1) Summary financial information of KHC Steel International Corp.

	<u>2020.12.31</u>	<u>2019.12.31</u>
Current assets	\$ 34,052,052	9,519,828
Non-current assets	<u>312,969,288</u>	<u>215,386,638</u>
	<u>\$ 347,021,340</u>	<u>224,906,466</u>
Current liabilities	\$ 5,273,520	1,997,846
Non-current liabilities	<u>181,323</u>	<u>181,323</u>
	<u>\$ 5,454,843</u>	<u>2,179,169</u>
	<u>2020</u>	<u>2019</u>
Operating revenue	<u>\$ -</u>	<u>-</u>
Current net loss	\$ (2,781,810)	(1,061,908)
Other comprehensive income	<u>103,527,212</u>	<u>(4,078,698)</u>
Total comprehensive income	<u>\$ 100,745,402</u>	<u>(5,140,606)</u>

(2) Summary financial information of Hsieh Chang Hsing Trading Co., Ltd.

	<u>2020.12.31</u>	<u>2019.12.31</u>
Current assets	\$ 1,157,078	1,330,087
Non-current assets	<u>491,549,594</u>	<u>321,197,750</u>
	<u>\$ 492,706,672</u>	<u>322,527,837</u>
Current liabilities	\$ 36,000	86,000
Non-current liabilities	<u>-</u>	<u>-</u>
	<u>\$ 36,000</u>	<u>86,000</u>
	<u>2020</u>	<u>2019</u>
Operating revenue	<u>\$ -</u>	<u>-</u>
Current net loss	\$ (123,009)	(147,015)
Other comprehensive income	<u>170,351,844</u>	<u>-</u>
Total comprehensive income	<u>\$ 170,228,835</u>	<u>(147,015)</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Others</u>	<u>Total</u>
(3) Summary financial information of Sunward Refractories Co., Ltd.					
				<u>2020.12.31</u>	
Current assets			\$	181,990,841	
Non-current assets				<u>206,844,785</u>	
			\$	<u>388,835,626</u>	
Current liabilities			\$	506,391,466	
Non-current liabilities				<u>3,481,583</u>	
			\$	<u>509,873,049</u>	
				<u>2020</u>	
Operating revenue			\$	<u>208,411,033</u>	
Current net income			\$	375,053,138	
Other comprehensive income				-	
Total comprehensive income			\$	<u>375,053,138</u>	
Share of net assets attributable to the Company as of the end of the period			\$	(24,207,485)	
Add: Goodwill				<u>38,311,588</u>	
Book value of net assets attributable to the Company as of the end of the period			\$	<u>14,104,103</u>	

2. Collateral

None of the Company's equity-accounted investments was pledged as collateral.

(VII) Property, plant, and equipment

Changes in cost, accumulated depreciation, and impairment of the Company's property, plant, and equipment are explained below:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Others</u>	<u>Total</u>
Cost or deemed cost:					
Balance as of January 1, 2020	\$ 1,106,417,035	1,446,436,138	2,208,627,918	246,810,140	5,008,291,231
Additions	-	-	8,208,739	4,074,552	12,283,291
Disposals	-	-	(810,400)	-	(810,400)
Reclassification	-	-	2,195,000	(2,195,000)	-
Balance as of December 31, 2020	<u>\$ 1,106,417,035</u>	<u>1,446,436,138</u>	<u>2,218,221,257</u>	<u>248,689,692</u>	<u>5,019,764,122</u>
Balance as of January 1, 2019	\$ 1,106,417,035	1,446,436,138	2,196,602,036	255,499,600	5,004,954,809
Additions	-	-	5,581,000	4,737,855	10,318,855
Disposals	-	-	(3,082,433)	(3,900,000)	(6,982,433)
Reclassification	-	-	9,527,315	(9,527,315)	-
Balance as of December 31, 2019	<u>\$ 1,106,417,035</u>	<u>1,446,436,138</u>	<u>2,208,627,918</u>	<u>246,810,140</u>	<u>5,008,291,231</u>
Accumulated depreciation and impairment:					

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

	Land	Buildings	Machinery	Others	Total
Balance as of January 1, 2020	\$ -	1,105,461,184	2,093,437,499	230,849,661	3,429,748,344
Depreciation	-	18,213,135	28,483,351	4,242,323	50,938,809
Disposals	-	-	(810,400)	-	(810,400)
Balance as of December 31, 2020	<u><u>\$ -</u></u>	<u><u>1,123,674,319</u></u>	<u><u>2,121,110,450</u></u>	<u><u>235,091,984</u></u>	<u><u>3,479,876,753</u></u>
Balance as of January 1, 2019	\$ -	1,087,132,738	2,061,410,446	229,420,065	3,377,963,249
Depreciation	-	18,328,446	34,851,835	5,329,596	58,509,877
Disposals	-	-	(2,824,782)	(3,900,000)	(6,724,782)
Balance as of December 31, 2019	<u><u>\$ -</u></u>	<u><u>1,105,461,184</u></u>	<u><u>2,093,437,499</u></u>	<u><u>230,849,661</u></u>	<u><u>3,429,748,344</u></u>
Book value:					
December 31, 2020	<u><u>\$ 1,106,417,035</u></u>	<u><u>322,761,819</u></u>	<u><u>97,110,807</u></u>	<u><u>13,597,708</u></u>	<u><u>1,539,887,369</u></u>
January 1, 2019	<u><u>\$ 1,106,417,035</u></u>	<u><u>359,303,400</u></u>	<u><u>135,191,590</u></u>	<u><u>26,079,535</u></u>	<u><u>1,626,991,560</u></u>
December 31, 2019	<u><u>\$ 1,106,417,035</u></u>	<u><u>340,974,954</u></u>	<u><u>115,190,419</u></u>	<u><u>15,960,479</u></u>	<u><u>1,578,542,887</u></u>

Please refer to Note VIII for details of property, plant, and equipment pledged as collateral.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(VIII) Right-of-use asset

For the Company's right-of-use assets recognized by leased houses and buildings and their costs, depreciation and deduction or reversal of impairment losses, details of any changes thereof are listed as follows:

	<u>Buildings</u>
Cost of right-of-use asset:	
Balance as of January 1, 2020 (i.e., balance as of December 31)	<u>\$ 19,741,680</u>
Balance as of December 31, 2019 (i.e., balance as of December 31)	<u>\$ 19,741,680</u>
Accumulated depreciation and impairment losses:	
Balance as of January 1, 2020	\$ 3,290,280
Provision for depreciation	<u>3,290,280</u>
Balance as of December 31, 2020	<u>\$ 6,580,560</u>
Balance as of January 1, 2019	\$ -
Provision for depreciation	<u>3,290,280</u>
Balance as of December 31, 2019	<u>\$ 3,290,280</u>
Book value:	
December 31, 2020	<u>\$ 13,161,120</u>
January 1, 2019	<u>\$ 19,741,680</u>
December 31, 2019	<u>\$ 16,451,400</u>

(IX) Investment property

Changes in the Company's investment properties are detailed below:

	<u>Land and improvement</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance as of January 1, 2020	\$ 1,038,553,654	8,477,500	1,047,031,154
Additions	<u>1,084,364,449</u>	<u>16,527,035</u>	<u>1,100,891,484</u>
Balance as of December 31, 2020	<u>\$ 2,122,918,103</u>	<u>25,004,535</u>	<u>2,147,922,638</u>
Balance as of January 1, 2019	\$ 1,039,342,645	8,477,500	1,047,820,145
Disposals	<u>(788,991)</u>	<u>-</u>	<u>(788,991)</u>
Balance as of December 31, 2019	<u>\$ 1,038,553,654</u>	<u>8,477,500</u>	<u>1,047,031,154</u>
Accumulated depreciation and impairment losses:			
Balance as of January 1, 2020	\$ -	1,813,266	1,813,266
Depreciation	<u>-</u>	<u>1,317,754</u>	<u>1,317,754</u>
Balance as of December 31, 2020	<u>\$ -</u>	<u>3,131,020</u>	<u>3,131,020</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

	Land and improvement	Buildings	Total
Balance as of January 1, 2019	\$ -	722,847	722,847
Depreciation	-	1,090,419	1,090,419
Balance as of December 31, 2019	<u>\$ -</u>	<u>1,813,266</u>	<u>1,813,266</u>
Book value:			
December 31, 2020	<u>\$ 2,122,918,103</u>	<u>21,873,515</u>	<u>2,144,791,618</u>
January 1, 2019	<u>\$ 1,039,342,645</u>	<u>7,754,653</u>	<u>1,047,097,298</u>
December 31, 2019	<u>\$ 1,038,553,654</u>	<u>6,664,234</u>	<u>1,045,217,888</u>
Fair value:			
December 31, 2020			<u>\$ 4,457,572,255</u>
January 1, 2019			<u>\$ 3,153,069,323</u>
December 31, 2019			<u>\$ 2,861,892,553</u>

Investment property includes land that has been leased out as carpark without contingent rent. Please refer to Note VI(XIV) for details (including rental income and direct operating expenses incurred).

For the Company's purchase of land and buildings from related parties in 2020, please refer to Note VII for details.

Investment properties outstanding as at December 31, 2020 and 2019, are measured at fair value on a recurring basis. The Company assesses fair value in its sole capacity using the comparative approach and the cost approach. These fair value assessment techniques make use of level 3 inputs.

Please refer to Note VIII for details of investment property pledged as collateral.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(X) Other current assets

Details of the Company's other current assets are explained below:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Prepaid insurance premiums	\$ 116,107	171,364
Supplies inventory count	13,671,824	14,292,712
Prepaid purchases	5,101	34,896,566
Tax credit	552,761	1,341,198
Others	217,703	176,074
	<u><u>\$ 14,563,496</u></u>	<u><u>50,877,914</u></u>

(XI) Short-term loan

Details regarding the Company's short-term loan are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Loans under L/C	\$ 322,722,585	338,131,396
Secured bank loan	2,500,000,000	2,060,000,000
Total	<u><u>\$ 2,822,722,585</u></u>	<u><u>2,398,131,396</u></u>
Unused limit	<u><u>\$ 627,277,415</u></u>	<u><u>851,868,604</u></u>
Interest rate range	<u><u>0.83%~1.50%</u></u>	<u><u>1.72%~3.66%</u></u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

For details on bank loans secured by the Company's assets, please see Note VIII.

(XII) Other current liabilities

Details of the Company's other current liabilities are explained below:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Unearned revenues	\$ 190,475	190,475
Sales proceeds in advance - contractual liabilities	2,679,466	1,651,896
Others	114,269	108,799
	<u><u>\$ 2,984,210</u></u>	<u><u>1,951,170</u></u>

(XIII) Long term borrowings

Details, conditions, and terms of long-term loans of the Company are as follows:

<u>2020.12.31</u>			
<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
	<u>range</u>	<u>date</u>	
Secured bank loan	NTD	1.8%	119.10.23
Less: Portion due within one year			\$ 700,000,000
Total			<u><u>\$ 700,000,000</u></u>
Unused limit			<u><u>\$ -</u></u>

- For details on bank loans secured by the Company's assets, please see Note VIII.
- The Company and the financial institution agree that the first three years of the loan period is a grace period. During the grace period, only interest needs to be paid, and no principal is required to be repaid.

(XIV) Operating lease

- As a lessee

The Company rents office space from related parties in the form of operating lease; please refer to Note VII for details.

- As a lessor

The Company leases out its investment properties and some machinery. Since almost all risks and rewards belonging to the ownership of the underlying asset have not been transferred and paid, these lease contracts are classified as operating leases. For details please refer to Note VI(IX), Investment Properties.

Rental income from investment properties amounted to NTD 8,386,776 in 2020 and NTD 4,026,932 in 2019, both of which were presented in operating revenues. Maintenance and servicing expenses incurred on investment properties amounted to NTD 6,546,940 in 2020 and NTD 5,833,958 in 2019, both of which were presented in operating costs.

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(XV) Employee benefits

1. Defined benefit plan

Reconciliation between present value of defined benefit obligations and fair value of plan assets:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Present value of defined benefit obligations	\$ 126,725,675	139,148,896
Fair value of plan assets	<u>(84,331,416)</u>	<u>(96,033,720)</u>
Net defined benefit liabilities	<u>\$ 42,394,259</u>	<u>43,115,176</u>

Contributions for defined benefit plan are made to a dedicated pension fund account opened with Bank of Taiwan. For retirees who opted for the pension scheme mentioned in the Labor Standards Act, the amount of pension benefit is calculated based on average salary for the six months preceding their retirement and the number of basis points accumulated over the duration of their service.

(1) Composition of plan assets

Pension fund contributions that the Company has made in accordance with the Labor Standards Act are collectively managed by the Bureau of Labor Funds (BLF), Ministry of Labor. Pursuant to "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund," plan assets can only be allocated to investments that offer annual yields higher than the 2-year time deposit rate quoted by local banks.

As of the reporting date, balance of the Company's labor pension reserve account at Bank of Taiwan totaled NTD 84,331,416. Please visit the BLF website for more details such as fund yield and allocation of fund assets.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(2) Changes in present value of defined benefit obligations

Changes in present value of defined benefit obligations for 2020 and 2019 are explained below:

	<u>2020</u>	<u>2019</u>
Defined benefit obligations as at January 1	\$ 139,148,896	140,042,607
Service cost and interest in the current period	2,490,716	2,797,873
Remeasurement of net defined benefit liabilities (assets)		
- Actuarial gains/losses due to adjustment by experience	(2,587,863)	(211,262)
- Actuarial gains/losses due to change of financial assumption	3,881,810	1,482,466
Amount of direct payment	<u>(16,207,884)</u>	<u>(4,962,788)</u>
Defined benefit obligations as at December 31	<u><u>\$ 126,725,675</u></u>	<u><u>139,148,896</u></u>

(3) Changes in the fair value of pension plan assets

Changes in the fair value of defined benefit plan assets in 2020 and 2019 are explained below:

	<u>2020</u>	<u>2019</u>
Fair value of plan assets as at January 1	\$ 96,033,720	95,870,438
Remeasurement of net defined benefit liabilities (assets)		
- Return on plan assets (excluding current period interest)	3,008,749	3,463,094
Amount contributed to the plan	562,875	611,562
Expected return on plan assets	933,956	1,051,414
Benefits paid from plan	<u>(16,207,884)</u>	<u>(4,962,788)</u>
Fair value of plan assets as at December 31	<u><u>\$ 84,331,416</u></u>	<u><u>96,033,720</u></u>

(4) Expenses recognized in profit and loss

Details of expenses recognized for 2020 and 2019 are presented below:

	<u>2020</u>	<u>2019</u>
Current period service costs	\$ 1,128,436	1,253,152

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Net interest on net defined benefit liabilities	<u>428,324</u>	<u>493,307</u>
	<u>\$ 1,556,760</u>	<u>1,746,459</u>
Operating costs	\$ 1,171,034	1,306,717
Management expenses	<u>385,726</u>	<u>439,742</u>
	<u>\$ 1,556,760</u>	<u>1,746,459</u>

(5) Re-measurement of net defined benefit obligations recognized in other comprehensive income

Cumulative remeasurement of net defined benefit obligations recognized in other comprehensive income:

	<u>2020</u>	<u>2019</u>
Cumulative Balance as of January 1	\$ (33,114,551)	(35,306,441)
Amount recognized in the current period	<u>1,714,802</u>	<u>2,191,890</u>
Cumulative Balance as of December 31	<u>\$ (31,399,749)</u>	<u>(33,114,551)</u>

(6) Actuarial assumptions

Key actuarial assumptions that the Company had made to determine the present value of defined benefit obligations as at the reporting date are as follows

	<u>2020.12.31</u>	<u>2019.12.31</u>
Discount rate	0.625%	1.000%
Future salary increase	1.000%	1.000%

The Company expects to contribute NTD 538,728 to the defined benefit plan within one year from the 2020 reporting date.

The defined benefit plan has a weighted average duration of 10.86 years.

(7) Sensitivity analysis

The following shows impact of changes in actuarial assumption on the present value of defined benefit obligations as at December 31, 2020 and 2019:

	Effect of (gains) losses to defined benefit obligations	
	<u>Increase</u>	<u>Decrease</u>
December 31, 2020		
Discount rate (change by 0.25%)	\$ (2,609,078)	2,696,809
Future salary increase (change by 0.25%)	2,587,127	(2,516,130)
December 31, 2019		
Discount rate (change by 0.25%)	(2,940,574)	3,040,100
Future salary increase (change by 0.25%)	2,927,677	(2,846,384)

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

The above sensitivity analysis assumes changes to one variable at a time while keeping all other variables constant. In reality, however, multiple assumptions may change at the same time and are related to each other. The sensitivity analysis was conducted using the same method as how net pension liabilities are presented in the balance sheet.

Methodology and assumption for current period's sensitivity analysis are consistent with those of the previous period.

2. Defined contribution plan

The Company's defined contribution plan has been created in accordance with the Labor Pension Act, where the Company contributes an amount equal to 6% of employees' salaries each month to employees' pension accounts held with the Bureau of Labor Insurance. Under this plan, the Company would be freed of pension obligations (whether statutory or inferred) once it has contributed this amount to the Bureau of Labor Insurance.

Pension expenses recognized for the Company's defined contribution plan in 2020 and 2019 amounted to NTD 4,426,167 and NTD 4,824,030, respectively and have been contributed to the Bureau of Labor Insurance.

3. Short-term employee benefits

Below are details of employee benefit liabilities:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Paid leave of absence (presented as other payables)	<u>\$ 6,309,792</u>	<u>5,777,466</u>

(XVI) Income taxes

1. Below are details of the Company's income tax expenses:

	<u>2020</u>	<u>2019</u>
Income tax expense (benefit) for the current period -- Incurred in the current period	\$ 1,709,159	(5)
Deferred income tax expense	-	-
Income tax expense (benefit)	<u>\$ 1,709,159</u>	<u>(5)</u>

The Company had no income tax expense recognized through equity or other comprehensive income in 2020 and 2019.

Reconciliation of income tax expense and pre-tax profit (loss) for 2020 and 2019 is explained below:

	<u>2020</u>	<u>2019</u>
Pre-tax loss	<u>\$ (31,084,756)</u>	<u>(124,106,035)</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Income tax calculated by applying local tax rate of the country where the Company is located	\$ (6,216,951)	(24,821,207)
Taxes refundable from previous years	-	(5)
Non-deductible expenses	197,797	344,616
Exempt income	(4,212,891)	(6,333,689)
Effect of investment losses recognized using the equity method	147,642	94,848
Current tax losses not recognized as deferred income tax asset	23,881,736	42,486,155
Changes in temporary difference not recognized as deferred income tax asset	(18,010,224)	(18,104,412)
Dividend income not eligible for loss deduction	4,212,891	6,333,689
Additional tax amount on undistributed surplus earnings	<u>1,709,159</u>	<u>-</u>
Income tax expense (benefit)	<u><u>\$ 1,709,159</u></u>	<u><u>(5)</u></u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

2. Deferred income tax assets and liabilities

(1) Items not recognized as deferred income tax asset

The following items were not recognized as deferred income tax asset:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Deductible temporary differences	\$ 86,349,878	104,358,102
Tax losses	923,477,909	987,471,548
	<u><u>\$ 1,009,827,787</u></u>	<u><u>1,091,829,650</u></u>

Tax losses, as defined in the Income Tax Act, are losses certified by the tax authority in the last 10 years that can be taken to reduce current year's taxable income. The Company had assessed the amount of deductible losses and deductible temporary differences as at December 31, 2020 by estimating its ability to generate taxable income in future years. Since the Company is not very likely to offset deductible losses against taxable income, the Company has decided not to recognize deferred income tax asset but will do so if revenues, profits and taxable income increase in the future.

Tax losses not recognized as deferred income tax asset and expiry as of December 31, 2020 are as follows:

<u>Year of loss</u>	<u>Losses not yet deducted</u>	<u>Final year available for deduction</u>
2011	\$ 716,594,865	2021
2012	834,177,590	2022
2013	630,414,477	2023
2014	408,627,351	2024
2015	412,763,244	2025
2016	454,038,427	2026
2017	300,896,195	2027
2018	528,132,372	2028
2019	212,336,342	2029
2020	119,408,684	2030
Total	<u><u>\$ 4,617,389,547</u></u>	

(2) Recognized deferred income tax liabilities

Changes in deferred income tax liabilities in 2020 and 2019 are explained below:

	<u>Land value increment tax</u>
Deferred income tax liabilities:	
Balance as of January 1, 2020	\$ 210,632,330
Debit (credit) to profit and loss	-
Balance as of December 31, 2020	<u><u>\$ 210,632,330</u></u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Balance as of January 1, 2019	\$ 210,632,330
Debit (credit) to profit and loss	-
Balance as of December 31, 2019	<u>\$ 210,632,330</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(XVII) Capital and other equity items

1. Common share capital

The Company had authorized capital of NTD 5,800,000,000 as at December 31, 2020 and 2019, available in 580,000,000 shares at a par value of NTD 10. A total of 200,852,293 common shares had been issued and 200,852,293 shares remained outstanding net of treasury stock on both two dates. All issued shares were fully paid up.

2. Capital reserve

The following is a breakdown of the Company's capital reserve:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Treasury stock	<u>\$ 75,159,101</u>	<u>75,159,101</u>

According to The Company Act, balances of realized capital reserve can be distributed in shares or cash back to shareholders at the current shareholding percentage after reimbursing cumulative losses. The term "realized capital reserve" mentioned above includes shares issued at premium and gains from gifts. Pursuant to Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital reserves converted into share capital is capped at 10% of paid-up capital per year.

3. Retained earnings

According to the Company's Articles of Incorporation, earnings concluded in a year are first subject to taxation and reimbursement of previous losses, followed by a 10% provision for statutory reserves. However, no further provision of statutory reserve is required if the Company has accumulated statutory reserves to an amount equal to paid-up capital. The residual balance can then be paid out in cash dividends, and any earnings remaining may be added to undistributed earnings carried from previous years and distributed as stock dividends, subject to board of directors' proposal and shareholders' resolution in a shareholder meeting. Shareholders' dividends are paid in appropriate percentage of cash and shares, with cash portion representing no less than 50%.

(1) Statutory reserve

The Company Act stipulates that, subject to resolution of a shareholder meeting, companies with no cumulative losses may distribute statutory reserve in cash or in shares; however, only the amount of statutory reserve that exceeds paid-up capital by more than 25% can be distributed.

(2) Special reserve

Pursuant to Letter No. Jin-Guan-Zheng-Fa-1010012865 issued by the Financial Supervisory Commission on April 6, 2012, the Company is required to make provisions

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

for special reserve out of current net income and undistributed earnings for the difference between net other contra equity items incurred in the current year and balance of special reserves carried from previous years. Other contra equity items attributable to previous years are subject to additional provisioning of special reserve out of undistributed earnings, which cannot be distributed. If contra equity items are reversed on a later date, the Company may also reverse a matching amount from its special reserves and distribute it to shareholders.

During the annual general meetings of shareholders held on June 19, 2020 and June 17, 2019, resolutions were passed to reverse NTD 192,966,809 and provide for NTD 151,809,959 of special reserve, respectively.

(3) Profit distribution

Appropriation of 2019 and 2018 earnings was passed during the shareholder meetings held on June 19, 2020 and June 17, 2019, respectively and no dividends were resolved in either year.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

4. Other equity items (net, after tax)

	Investments at fair value through other comprehensive income
Balance as of January 1, 2020	\$ (81,209,398)
Unrealized gains (losses) on financial assets at fair value through other comprehensive income:	
The Company	240,892,281
Associated companies	117,675,737
Disposal of equity instruments at fair value through other comprehensive income:	
The Company	
Associated companies	<u>(6,933,544)</u>
Balance as of December 31, 2020	<u>\$ 243,713,136</u>
	Investments at fair value through other comprehensive income
Balance as of January 1, 2019	\$ (274,176,207)
Unrealized gains (losses) on financial assets at fair value through other comprehensive income:	
The Company	200,523,491
Associated companies	(1,562,957)
Disposal of equity instruments at fair value through other comprehensive income:	
The Company	
Associated companies	<u>(1,172,050)</u>
Balance as of December 31, 2019	<u>\$ (81,209,398)</u>

(XVIII) Earnings per share

Calculation of basic and diluted earnings per share for 2020 and 2019 is explained below:

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

	<u>2020</u>	<u>2019</u>
Basic and diluted earnings per share		
Net profit (loss) attributable to common shareholders of the Company	<u>\$ (32,793,915)</u>	<u>(124,106,030)</u>
The weighted average number of ordinary shares outstanding (unit: shares)	<u>200,852,293</u>	<u>200,852,293</u>
	<u>\$ (0.16)</u>	<u>(0.62)</u>

Potential common shares were not included in the calculation of weighted average outstanding shares in 2020 and 2019; this exclusion carried an anti-dilutive effect.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(XIX) Revenue from contracts with customers

	<u>2020</u>	<u>2019</u>
Sale of merchandise	\$ 954,123,645	1,138,109,910
Rent income from investment property	<u>8,386,776</u>	<u>4,026,932</u>
	<u>\$ 962,510,421</u>	<u>1,142,136,842</u>

1. Breakdown of income

	<u>2020</u>		
	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Total</u>
Main regions and markets:			
Taiwan	\$ 878,542,298	70,329,146	948,871,444
North America	6,256,068	-	6,256,068
Northeast Asia	<u>7,382,909</u>	<u>-</u>	<u>7,382,909</u>
	<u>\$ 892,181,275</u>	<u>70,329,146</u>	<u>962,510,421</u>

Key products/services:

Steel pipes	\$ 892,181,275	-	892,181,275
Steel coils	-	61,942,370	61,942,370
Rental income	<u>-</u>	<u>8,386,776</u>	<u>8,386,776</u>
	<u>\$ 892,181,275</u>	<u>70,329,146</u>	<u>962,510,421</u>

	<u>2019</u>		
	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Total</u>
Main regions and markets:			
Taiwan	\$ 799,334,548	77,441,879	876,776,427
North America	241,966,662	-	241,966,662
Northeast	<u>23,393,753</u>	<u>-</u>	<u>23,393,753</u>
Total	<u>\$ 1,064,694,963</u>	<u>77,441,879</u>	<u>1,142,136,842</u>

Key products/services:

Steel pipes	\$ 1,064,694,963	-	1,064,694,963
Steel coils	-	73,414,947	73,414,947
Rental income	<u>-</u>	<u>4,026,932</u>	<u>4,026,932</u>
Total	<u>\$ 1,064,694,963</u>	<u>77,441,879</u>	<u>1,142,136,842</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

2. Contract balance

	<u>2020.12.31</u>	<u>2019.12.31</u>
Notes and accounts receivable	\$ 105,316,666	78,991,528
Less: loss provisions	<u>-</u>	<u>-</u>
Total	<u>\$ 105,316,666</u>	<u>78,991,528</u>
Contractual liabilities - sales proceeds in advance	<u>\$ 2,679,466</u>	<u>1,651,896</u>

For detailed disclosure on notes and accounts receivable and impairment thereof, please see Note VI(III).

NTD 1,351,029 and NTD 17,582,483 of opening contractual liabilities as at January 1, 2020 and 2019, were later recognized as income for 2020 and 2019, respectively.

Changes in contract liability were mainly attributed to differences between the timing at which the Company is deemed to have fulfilled its obligations by delivering merchandise or service to customers and the timing at which payment is collected from customers.

(XX) Remuneration of employees and directors

Pursuant to the Articles of Incorporation, profits concluded from a financial year are subject to employee remuneration of no less than 0.5% and director remuneration of no more than 5%. However, profits must first be taken to offset against cumulative losses if any.

The Company reported pre-tax losses in 2020 and 2019, hence no remuneration was provided for employees or directors. Details of employee/director remuneration for 2020 and 2019 can be found on the Market Observation Post System.

(XXI) Non-operating revenue and expenses

1. Interest income

Details of interest income recognized in 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest from bank deposits	\$ 91,975	147,787
Other interest income	<u>41,600</u>	<u>41,600</u>
	<u>\$ 133,575</u>	<u>189,387</u>

2. Other income

Details of other income recognized in 2020 and 2019:

<u>2020</u>	<u>2019</u>
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Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Rental income	\$	228,967	228,967
Dividend income		56,669,166	35,340,259
Other income - others		7,085,245	5,541,144
Income from government subsidies		<u>20,906,507</u>	<u>-</u>
	\$	<u>84,889,885</u>	<u>41,110,370</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

3. Other gains and losses

Details of other gains and losses incurred in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Net gain (loss) on currency exchange	\$ (546,786)	2,317,480
Tax and others	<u>(5,012,527)</u>	<u>(2,618,647)</u>
	<u><u>\$ (5,559,313)</u></u>	<u><u>(301,167)</u></u>

4. Financial cost

Details of financial costs recognized in 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest expense - interest on bank borrowings	<u><u>\$ (41,189,719)</u></u>	<u><u>(45,285,276)</u></u>

(XXII) Financial instruments

1. Credit risk

(1) Credit risk exposure

For financial assets, the book value represents the maximum credit risk exposure.

(2) Credit risk concentration

There was no significant concentration of sales to any single customer and the Company sells its products to diversified locations. As a result, there was no significant concentration of credit risk in accounts and notes receivable. The Company also monitors customers' financial position on a regular basis as a means to reduce credit risk.

(3) Credit risk of receivables

For credit risk information on notes receivable and accounts receivable, please refer to Note VI (III). Other financial assets carried at cost after amortization include other notes receivable, other receivables, and guarantee deposits paid.

The following chart has been prepared based on 12-month expected credit loss or expected credit loss over remaining duration, and shows loss provisions and the state of credit impairment in the above mentioned financial assets carried at cost after amortization:

2020.12.31			
At cost after amortization			
12-month expected credit loss	Expected losses over duration - not impaired	Expected losses over duration - impaired	Total

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Other notes and accounts receivable	\$ -	18,026,513	470,460	18,496,973
Guarantee deposits paid	9,466,537	-	-	9,466,537
Loss provisions	-	-	(470,460)	(470,460)
Cost after amortization	<u>\$ 9,466,537</u>	<u>18,026,513</u>	<u>-</u>	<u>27,493,050</u>
Book value	<u>\$ 9,466,537</u>	<u>18,026,513</u>	<u>-</u>	<u>27,493,050</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

2019.12.31				
At cost after amortization				
	12-month expected credit loss	Expected losses over duration - not impaired	Expected losses over duration - impaired	Total
Other notes and accounts receivable	\$ -	55,832,341	470,460	56,302,801
Guarantee deposits paid	8,069,050	-	-	8,069,050
Loss provisions	-	-	(470,460)	(470,460)
Cost after amortization	<u>\$ 8,069,050</u>	<u>55,832,341</u>	<u>-</u>	<u>63,901,391</u>
Book value	<u>\$ 8,069,050</u>	<u>55,832,341</u>	<u>-</u>	<u>63,901,391</u>

Changes in loss provision on financial assets carried at cost after amortization are explained below:

2020				
	12-month expected credit loss	Credit loss over duration - not credit-impai red	Credit loss over duration - credit-impai red	Total
Opening balance	\$ -	-	470,460	470,460
Closing balance	<u>\$ -</u>	<u>-</u>	<u>470,460</u>	<u>470,460</u>

2019				
	12-month expected credit loss	Credit loss over duration - not credit-impai red	Credit loss over duration - credit-impai red	Total
Opening balance	\$ -	-	470,460	470,460
Closing balance	<u>\$ -</u>	<u>-</u>	<u>470,460</u>	<u>470,460</u>

2. Liquidity risk

The following shows the expiry dates of financial liabilities, including estimated interest but excluding the effect of net agreements.

	Book value	Contractual cash flow	Below 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2020							
Non-derivative instruments							
Short-term loans (floating rate)	\$ 2,822,722,585	(2,851,609,879)	(775,318,783)	(2,076,291,096)	-	-	-

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Notes payable (non-interest bearing)	20,279,699	(20,279,699)	(20,279,699)	-	-	-	-
Other notes payable (non-interest bearing)	7,560,858	(7,560,858)	(7,560,858)	-	-	-	-
Accounts payable (non-interest bearing)	21,732,568	(21,732,568)	(21,732,568)	-	-	-	-
Other payables (non-interest bearing)	54,980,378	(54,980,378)	(54,980,378)	-	-	-	-
Guarantee deposits paid (non-interest bearing)	5,040,000	(5,040,000)	-	(40,000)	-	(5,000,000)	-
Long-term loan (floating rate)	700,000,000	(779,268,009)	(6,300,000)	(6,300,000)	(12,600,000)	(261,091,863)	(492,976,146)
	<u>\$ 3,632,316,088</u>	<u>(3,740,471,391)</u>	<u>(886,172,286)</u>	<u>(2,082,631,096)</u>	<u>(12,600,000)</u>	<u>(266,091,863)</u>	<u>(492,976,146)</u>

December 31, 2019

Non-derivative instruments

Short-term loans (floating rate)	\$ 2,398,131,396	(2,404,705,760)	(1,752,006,205)	(652,699,555)	-	-	-
Notes payable (non-interest bearing)	11,627,109	(11,627,109)	(11,627,109)	-	-	-	-
Other notes payable (non-interest bearing)	6,888,519	(6,888,519)	(6,888,519)	-	-	-	-
Accounts payable (non-interest bearing)	9,571,278	(9,571,278)	(9,571,278)	-	-	-	-
Other payables (non-interest bearing)	17,374,935	(17,374,935)	(17,374,935)	-	-	-	-
Guarantee deposits paid (non-interest bearing)	40,000	(40,000)	-	-	(40,000)	-	-
	<u>\$ 2,443,633,237</u>	<u>(2,450,207,601)</u>	<u>(1,797,468,046)</u>	<u>(652,699,555)</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

The Company does not expect cash flows in the maturity analysis to occur at any earlier time, or in amounts that differ significantly.

3. Exchange rate risk

(1) Exchange rate risk exposure

The Company had the following financial assets and liabilities that were exposed to significant foreign currency/exchange rate risk:

	2020.12.31			2019.12.31		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 222,133.17	28.48	6,326,353	280,757.97	29.98	8,411,666
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	-	-	-	337,175.34	29.98	10,108,517
JPY	2,297,400	0.2763	634,772	-	-	-

(2) Sensitivity analysis

The exchange rate risk of the Company's monetary instruments mainly comes from foreign currency denominated cash and cash equivalents, accounts receivable and borrowings, etc., resulting in foreign currency exchange gains and losses during conversion. As of December 31, 2020 and 2019, if the New Taiwan Dollar would depreciate or appreciate 4% relative to the U.S. dollar or Japanese yen and all other factors remained unchanged, the net loss after tax for 2020 and 2019 would be a respective increase or decrease of NTD 182,130 and NTD 54,299. Analyses for the two periods were conducted on the same basis.

Since the Company's functional currency is New Taiwan dollars, the foreign currency exchange gains and losses (including realized and unrealized) for 2020 and 2019 were a loss of NTD 546,786 and a gain of NTD 2,317,480, respectively.

4. Interest rate analysis

Interest rate risk exposure concerning the Company's financial liabilities has been explained as part of liquidity risk in this footnote.

The following sensitivity analysis has been prepared based on interest rate risk exposures of non-derivatives as at the reporting date. For liabilities that bear floating interests, the analysis is conducted by assuming that the amount of liabilities outstanding as at the reporting date remained outstanding throughout the entire year. Interest rates are reported to the management by applying a variance of 50 basis points above and below. This variance conforms with the management's reasonable expectation about the possible interest rate range.

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

If interest rate increased/decreased by 50 basis points while other variables remained unchanged, the Company's net income would have increased/decreased by NTD 14,090,890 and NTD 9,592,526 in 2020 and 2019, respectively. This potential change is primarily the result of the Company's floating-interest rate loans.

5. Other price risks

Price of security on reporting date	2020		2019	
	Other comprehensive income after tax	After-tax profit/loss	Other comprehensive income after tax	After-tax profit/loss
Up 10%	<u>\$ 72,074,872</u>	<u>-</u>	<u>40,561,880</u>	<u>-</u>
Down 10%	<u>\$ (72,074,872)</u>	<u>-</u>	<u>(40,561,880)</u>	<u>-</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

6. Fair value information

(1) Category and fair value of financial instruments

Financial liabilities at fair value through profit and loss and financial assets at fair value through other comprehensive income are measured at fair value on a recurring basis. Book value and fair value of financial assets and liabilities are shown below (categorized by level of fair value input; however, the Company is not required to disclose fair value for financial instruments that are not subject to fair value assessment and where the book value resembles the fair value):

	Book value Amount	2020.12.31			
		Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
TWSE/TPEX listed shares	\$ 720,748,721	720,748,721	-	-	720,748,721
Non-listed domestic and foreign shares	982,020,430	-	-	982,020,430	982,020,430
	<u>\$ 1,702,769,151</u>				
Financial assets carried at cost after amortization					
Cash and cash equivalents	\$ 275,370,315	-	-	-	-
Notes and accounts receivable	105,316,666	-	-	-	-
Other notes and accounts receivable	18,026,513	-	-	-	-
Guarantee deposits paid	9,466,537	-	-	-	-
	<u>\$ 408,180,031</u>				
Financial liabilities carried at cost after amortization					
Bank loan	\$ 3,522,722,585	-	-	-	-
Notes and accounts payable	42,012,267	-	-	-	-
Other notes and accounts payable	62,541,236	-	-	-	-
Guarantee deposits received	5,040,000	-	-	-	-
	<u>\$ 3,632,316,088</u>				

	Book value Amount	2019.12.31			
		Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
TWSE/TPEX listed shares	\$ 405,618,796	405,618,796	-	-	405,618,796
Non-listed domestic and foreign shares	873,963,758	-	-	873,963,758	873,963,758
	<u>\$ 1,279,582,554</u>				
Financial assets carried at cost after amortization					
Cash and cash equivalents	\$ 334,668,063	-	-	-	-
Notes and accounts receivable	78,991,528	-	-	-	-
Other notes and accounts receivable	50,200,000	-	-	-	-
Guarantee deposits paid	8,069,050	-	-	-	-
	<u>\$ 471,928,641</u>				
Financial liabilities carried at cost after amortization					
Bank loan	\$ 2,398,131,396	-	-	-	-
Notes and accounts payable	21,198,387	-	-	-	-
Other notes and accounts payable	24,263,454	-	-	-	-
Guarantee deposits received	40,000	-	-	-	-
	<u>\$ 2,443,633,237</u>				

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

- (2) When measuring assets and liabilities, the Company uses observable inputs available on the market wherever possible. Levels of fair value assessment are classified based on the types of input used:

- Level 1: Open market quotation (unadjusted) for the same asset or liability.
- Level 2: Inputs/parameters that are directly observable (i.e. price) or indirectly observable (i.e. inferred from price), other than level 1 inputs (open market quotation).
- Level 3: Market inputs/parameters that are not observable (non-observable parameters).

- (3) Fair value assessment techniques for financial instruments not carried at fair value

The Company is of the opinion that financial instruments not measured at fair value either are close to maturity or have future payments/receipts that closely resemble the book value. For this reason, their fair values are estimated using book value as at the balance sheet date.

- (4) Fair value assessment techniques for financial instruments carried at fair value

(4.1) Non-derivative instruments

Financial instruments that are openly quoted in an active market shall have fair value determined at the openly quoted price. Market prices published on major exchange are used to determine the fair value of public-listed/OTC-traded equity instruments, while market prices of actively traded government bonds published by TPEx are used to determine the fair value of debt instruments that are openly quoted on an active market.

A financial instrument is deemed to be openly quoted on an active market if reliable quotations (that resemble transactions actually and frequently taking place in a fair market) can be obtained from stock exchange, brokers, underwriters, industry associations, pricing institutions, or the authority on a timely and frequent basis. A market is deemed inactive if it fails to satisfy the above conditions. In general, increasing or excessive bid-ask spread and lack of transaction volume are considered signs of inactive market.

Public listed and OTC-traded shares are deemed to have satisfied the standard conditions and hence treated as financial assets with active market. Their fair values are determined based on market quotations.

Fair value of equity instruments without public quotation held on hand is estimated using the market comparable company approach, which takes into account an investee's net equity and price-to-book multiple of comparable TWSE/TPEx listed company

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

inferred from market quotation. This estimate has already been adjusted and discounted for equity security's lack of marketability.

(4.2) Derivative instruments

Fair values are determined using pricing models that are widely accepted among market participants, such as the discounted cash flow model and the options pricing model. Forward exchange contracts and currency swap contracts are generally valued based on counterparties' market quotations.

(5) Change between level 1 and level 2

There had been no change in levels of fair value input when assessing financial instruments in 2020 and 2019.

(6) Reconciliation of Level 3 fair values

	At fair value through other comprehensive income	
	Equity instruments without open quotation	
Balance as of January 1, 2020	\$	873,963,758
Recognized in other comprehensive income		97,737,658
Reclassification		(13,720,000)
Purchase		24,039,014
Balance as of December 31, 2020	\$	982,020,430

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Opening Balance as of January 1, 2019	\$	712,090,293
Recognized in other comprehensive income		71,873,465
Purchase		90,000,000
Balance as of December 31, 2019	\$	873,963,758

(7) Quantitative information of significant and unobservable fair value input (level 3)

Assets that involve the use of level 3 fair value input are financial assets at fair value through other comprehensive income - equity securities.

Assets that have been classified as level 3 fair value input only use one significant and unobservable input.

Quantitative information of significant and unobservable inputs:

Item	Valuation technique	Significant and unobservable input	Relationship between fair value and significant and unobservable input
Financial assets at fair value through other comprehensive income - equity instruments without active market	Market approach	• Discount for lack of liquidity (17.5% for 2020.12.31 and 2019.12.31)	• The higher discount for lack of liquidity, the lower the fair value

(8) Sensitivity of level 3 fair value input to reasonable, possible alternative assumptions

The Company considers its fair value assessment approach of financial instruments to be reasonable, but uses of different valuation model or parameter may lead to different results. For financial instruments classified as level 3 input, impacts to other comprehensive income in the event of a change in valuation parameter are explained below:

Financial assets at fair value through other comprehensive income	Input	Upward/downward variation	Fair value changes reflected in other comprehensive income	
			Favorable variation	Adverse variation
December 31, 2020				
Equity instruments without active market	Discount for lack of liquidity: 17.5%	1%	<u>\$ 11,738,083</u>	<u>(11,738,083)</u>
December 31, 2019				
Equity instruments without active market	Discount for lack of liquidity: 17.5%	1%	<u>\$ 10,592,734</u>	<u>(10,592,734)</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Favorable and adverse variations are determined by how they affect fair value. Fair value is calculated using appropriate valuation technique while incorporating different levels of unobservable input and parameter.

(XXIII) Financial risk management

1. Overview

Use of financial instrument exposes the Company to the following risks:

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

This footnote discloses exposure, assessment, and management goals, policies, and procedures for the above mentioned risks. For further quantitative disclosures, please see notes to the financial statement.

2. Risk management framework

The Company's Treasury Department and Administrative Department are responsible for establishing risk management policies for various business activities. Both the scope and severity of risk exposures are analyzed to facilitate supervision and management of financial risks associated with the Company's operations. Internal auditors, too, play a supervisory role.

The Company's risk management policy has been established to facilitate identification and analysis of the risks encountered. The policy introduces appropriate risk limits and controls, along with risk supervision practices and compliance requirements. The risk management policy is regularly revised to reflect changes in market condition and the Company's operations.

3. Credit risk

Credit risk refers to the risk of financial loss the Company may incur due to its customers or financial instrument counterparties being unable to fulfill contractual obligations. Credit risk mainly arises from customers' accounts and notes receivable and bank deposits.

(1) Accounts, notes, and other receivables

Credit risk exposure of the aforementioned accounts varies from customer to customer. The management also takes into consideration common factors including default risk of customers' industries and countries, as these risks are also likely to affect credit risk. There was no significant concentration of sales to few customers, and the Company was not susceptible to any significant concentration of credit risk.

The Company has established its own credit policy, which requires every new

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

customer to have credit rating analyzed before being awarded standard payment and delivery terms and payment. Sales limits are assigned on a customer-by-customer basis. The limit represents the maximum amount of uncollected sales proceeds one customer may accumulate without additional approval from the Company, and is regularly reviewed. To mitigate credit risk, the Company requires most of its overseas customers to issue letters of credit.

The Company maintains a doubtful debt account that reflects its estimate of possible losses on notes, accounts, and other receivables. The doubtful debt account is used primarily to account for losses arising from the possibility of debts becoming unrecoverable due to financial distress or business-related dispute of certain customers.

(2) Cash in banks

Credit risks associated with bank deposit are assessed and monitored by the Company's Treasury Department. The Company transacts and deals only with banks of strong credit standing, hence there is no material concern in terms of contract fulfillment or credit risk exposure.

4. Liquidity risk

The Company maintains adequate position of cash and cash equivalents to support corporate operations and to mitigate effects of cash flow variation. The management constantly monitors use of bank limits and makes sure that borrowing terms are duly complied.

Bank borrowings are a main source of liquidity to the Company. Unused short-term bank limits as at December 31, 2020 and 2019, totaled NTD 627,277,415 and NTD 851,868,604, respectively.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

5. Market risk

Market risk refers to the effect a change of market price may have on the income or value of financial instruments held on hand, whether it is an exchange rate instrument, interest rate instrument, equity instrument or otherwise. The goal of market risk management is to control market risk exposure within a tolerable range while optimizing investment returns.

(1) Exchange rate risk

The Company is exposed to exchange rate risks arising from sales, purchases, and loans that are denominated in non-functional currencies. NTD represents the Company's main functional currency. The above mentioned transactions are primarily denominated in currencies such as NTD, USD, and JPY.

Furthermore, the Company adopts natural hedge as a general guideline, and hedges foreign currency capital requirements and net positions (being the difference between foreign currency assets and liabilities) depending on the state of the foreign currency market. Currency swaps are among the most common hedging instruments used, and all of which have maturity shorter than one year.

Loan interests accrue in the same currency as the principals borrowed. In general, the Company draws loans in the same currency that matches cash flows from operations, which mainly involve NTD and occasionally USD and JPY. This practice provides effective hedge without use of derivative instruments, hence no hedge accounting is required.

(2) Interest rate risk

Capital borrowed by the Company may give rise to fair value or cash flow volatility due to exchange rate changes. The Company adopts a policy that monitors changes in the borrowing rate against trends of the market interest rate. It manages interest rate risk by borrowing capital through an appropriate combination of floating rate and fixed rate sources.

(3) Equity instrument price risk

Equity instrument price risk refers to future price uncertainty associated with the equity instruments held on hand. The Company manages equity instrument price risk through diversification of investment portfolio and regular update of issuers' financial position.

(XXIV)Capital management

Objectives of the Company's capital management practices are to ensure the ability to sustain operations, deliver shareholder returns, and perform in line with the interests of other

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

stakeholders while maintaining optimal capital structure for minimal funding cost. The Company may maintain or adjust its capital structure by changing the amounts of dividend paid, reducing and refunding share capital back to shareholders, issuing new shares, or liquidating assets against liabilities.

The Company manages capital using debt-to-capital ratio as the primary form of measurement. This ratio is calculated by dividing net liabilities with gross capital. Net liabilities are calculated by deducting cash and cash equivalents from total liabilities, as shown in the balance sheet. Gross capital refers to the sum of all equity components (meaning share capital, capital reserve, retained earnings, other equity items, and treasury stock) plus net liabilities.

Debt-to-capital ratio as at December 31, 2020 and 2019, is as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Total liabilities	\$ 3,890,036,046	2,716,792,651
Less: Cash and cash equivalents	<u>275,370,315</u>	<u>334,668,063</u>
Net liabilities	<u><u>\$ 3,614,665,731</u></u>	<u><u>2,382,124,588</u></u>
Total equity	<u><u>\$ 2,772,157,929</u></u>	<u><u>2,444,669,024</u></u>
Gross capital	<u><u>\$ 6,386,823,660</u></u>	<u><u>4,826,793,612</u></u>
Debt-to-capital ratio	<u><u>56.60%</u></u>	<u><u>49.35%</u></u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

There had been no change to the Company's capital management approach as at December 31, 2020.

(XXV) Non-cash investing and financing activities

Reconciliation of liabilities associated with financing activities is explained below:

			Changes without cash effect	
	2020.1.1	Cash flows	Exchange rate changes	2020.12.31
Short-term loan	\$ 2,398,131,396	1,124,414,391	176,798	3,522,722,585
Long term borrowings	-	700,000,000	-	700,000,000
Total liabilities from financing activities	<u>\$ 2,398,131,396</u>	<u>1,824,414,391</u>	<u>176,798</u>	<u>4,222,722,585</u>

			Changes without cash effect	
	2019.1.1	Cash flows	Exchange rate changes	2019.12.31
Short-term loan	<u>\$ 2,465,293,721</u>	<u>(66,970,135)</u>	<u>(192,190)</u>	<u>2,398,131,396</u>

VII. Related party transactions

(I) Related parties and relationships

Transactions with related parties during the reporting period of the financial statements are as follows:

Name of related party	Relationship with the Company
Kao Hsing Chang Iron & Steel Corp. Employee Welfare Committee	Employee welfare committee of the Company
Kao Hsing Smelting & Chemical Fiber Co., Ltd.	A company managed by key management personnel
ENRESTEC Inc.	A company managed by key management personnel

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Sunward Refractories Co., Ltd.

Associated companies of the Company

(II) Significant transactions with related parties

1. Income from sale of scrap

	<u>2020</u>	<u>2019</u>
Kao Hsing Smelting & Chemical Fiber Co., Ltd.	<u>\$ 6,480,489</u>	<u>11,804,995</u>

Proceeds on scraps sold to related parties are collected 10 days after month-end via promissory note; proceeds on sale of scraps to non-related parties are collected either within 10 days after month-end or in advance before shipment.

2. Leases

- (1) The Company rents office space for use by the headquarters from its employee welfare committee; rent is calculated at NTD 340.4 to NTD 450.8 per ping of space. The lease tenor was initially agreed to start on January 1, 2015 and end on December 31, 2019, and rent for the entire lease tenor was payable in one lump sum at the time contract was signed. In January 2016, the two parties signed a supplementary agreement to include a secondary lease tenor starting from January 1, 2020 until December 31, 2024.

Security deposits placed for the above lease were NTD 4,000,000 as at December 31, 2020 and 2019. As of December 31, 2020 and 2019, the balances of right-of-use assets were NTD 13,161,120 and NTD 16,451,000, respectively.

- (2) The Company leased the plant in Zhuyuan Section, Renwu District, Kaohsiung City to Sunward Refractories Co., Ltd. in November 2020. During the lease period from November 2020 to November 2025, the rental deposit collected is NTD 5,000,000. The rental income recognized in 2020 was NTD 4,051,746. Operating income is reported in the consolidated income statement. As of December 31, 2020, the receivables arising from the aforementioned transactions have been received.

3. Amounts received in subsequent period

Details of related party receivables are shown below:

<u>Account category</u>	<u>Type of related party</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Receivables	A company managed by key management personnel	<u>\$ 475,141</u>	<u>1,923,334</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

4. Others

- (1) The Company purchased non-steel products from Sunward Refractories Co., Ltd.; proceeds prepaid for the purchase amounted to NTD 0 and NTD 33,999,411 as at December 31, 2020 and 2019, both of which were presented under other current

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

assets.

- (2) The Company subscribed to the cash issue of ENRESTEC Inc. in September 2020 for a sum of NTD 21,362,202; all procedures relevant to the change of ownership have been completed. The Company subscribed to the cash issue of ENRESTEC Inc. in May and June 2019 for a sum of NTD 90,000,000; all procedures relevant to the change of ownership have been completed.
- (3) On September 10, 2020, the Board of Directors passed a resolution for the Company to purchase land and buildings from Sunward Refractories Co., Ltd. A contract was subsequently signed to obtain four buildings in Lot 15 and Building 304 located at No. 46, Zhuyuan Section, Renwu District, Kaohsiung City. The total contract price was NTD 1,100,000,000, which was paid as of December 31, 2020.
- (4) For bank loans and their available limits as of December 31, 2020 and 2019, the primary management personnel of the Company served as the joint guarantors.

(III) Transactions involving key management personnel

Compensation to key management personnel includes the following:

	2020	2019
Short-term employee benefits	\$ 9,912,780	9,802,019
Retirement benefits	57,744	50,021
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payment	-	-
	<u>\$ 9,970,524</u>	<u>9,852,040</u>

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

The Company provides vehicles for use by managerial personnel. As at December 31, 2020 and 2019, these vehicles had unimpaired balance of NTD 1,690,498 (NTD 11,270,000 cost less NTD 9,579,502 accumulated depreciation) and NTD 2,817,496 (NTD 11,270,000 cost less NTD 8,452,504 accumulated depreciation). NTD 1,126,998 and NTD 1,878,328 of depreciation expenses were recognized in 2020 and 2019, respectively. The Chairman has been assigned a driver, whose salary is determined according to the Company's Employee Salary Policy.

VIII. Pledged assets

Book value of assets pledged by the Company is explained below:

<u>Name of asset</u>	<u>Collateral</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Property, plant, and equipment	Short-term loans and long-term loans	\$ 1,259,847,975	989,602,824
Investment property	Short-term loan	<u>667,744,054</u>	<u>567,865,227</u>
		<u><u>\$ 1,927,592,029</u></u>	<u><u>1,557,468,051</u></u>

IX. Major contingent liabilities and unrecognized contractual commitments

- (I) As at December 31, 2020 and 2019, the Company had respectively issued NTD 10,550,000 and NTD 87,000,000 of guarantee notes payable for the purchase of supplies.
- (II) As at December 31, 2020 and 2019, the Company had NTD 73,331,779 and NTD 37,707,220 of letters of credit that were issued but unused, respectively.
- (III) As at December 31, 2020 and 2019, the Company had signed sales commitments for NTD 88,569,205 and NTD 88,406,866 and placed performance bonds totaling NTD 5,260,037 and NTD 3,862,550, respectively, that were presented as guarantee deposits paid. Failure to deliver goods as agreed will be subject to penalties calculate at 0.1%-0.3% on the amount of goods undelivered for every day delayed.

X. Losses from major disasters: None.

XI. Major post-balance sheet events: None.

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

XII. Others

(I) Summary of employee benefit, depreciation and amortization expenses by function:

Function By nature	2020			2019		
	Presented as operating cost	Presented as operating expense	Total	Presented as operating cost	Presented as operating expense	Total
Employee benefit expenses						
Salary expenses	78,248,662	34,317,186	112,565,848	83,718,406	34,313,897	118,032,303
Labor/health insurance premium	8,780,116	3,521,435	12,301,551	10,018,594	3,420,512	13,439,106
Pension expense	4,234,349	1,748,578	5,982,927	4,775,407	1,795,082	6,570,489
Directors' compensation	-	4,443,000	4,443,000	-	4,338,000	4,338,000
Other employee benefit expenses	3,368,253	1,342,793	4,711,046	4,485,121	1,688,336	6,173,457
Depreciation	48,309,022	7,237,821	55,546,843	54,791,889	8,098,687	62,890,576
Amortization	-	-	-	-	-	-

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Additional information on employee size and employee benefit expenses for 2020 and 2019 is presented below:

	<u>2020</u>	<u>2019</u>
Employee count	<u>222</u>	<u>229</u>
No. of directors without concurrent position as employee	<u>6</u>	<u>6</u>
Average employee benefit expenses	<u>\$ 627,599</u>	<u>646,706</u>
Average employee salary expenses	<u>\$ 521,138</u>	<u>529,293</u>
Adjustments to average employee salary expenses	<u>(1.54)%</u>	
Supervisor remuneration	<u>\$ -</u>	<u>-</u>

Information on the Company's salary and remuneration policies (including for directors, managers and employees) is as follows:

- I. Employee salary compensation mainly includes basic salary (including principal salary, special environmental allowances, etc.), year-end bonuses, performance bonuses and so on.
 1. Salary refers to salary market conditions, Company operating conditions and organizational structure in setting salary payment standards. Furthermore, it will be adjusted in due course according to market salary dynamics, changes in the overall economy and industrial climate and governmental laws and regulations.
 2. Employee salary and remuneration are based on academic experience, professional knowledge and technological skills, professional experience, and personal performance; they are not differentiated due to age, gender, race, religion, political stance, marital status or union membership.
 3. Bonuses are issued based on the Company's operating performance and employees' personal performances.
 4. Starting salary standards for those with no work experience and for foreign workers shall comply with government regulations.
 5. Pursuant to the Articles of Incorporation, profits concluded from a financial The Company year are subject to employee remuneration of no less than 0.5%. However, profits must first be taken to offset against cumulative losses if any.
- II. Manager's salary remuneration is based on the Company's business strategy, profitability, performance and job contribution, etc. and refers to the salary market level including salaries, job bonus, severance payment, various bonuses, incentives, various allowances, etc. In addition and accordance with to the Company's Articles of Incorporation, if the Company makes a profit during the year, no less than 0.5% shall be allocated as employee

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

compensation. However, profits must first be taken to offset against cumulative losses if any.

- III. In addition to receiving a fixed amount every month, directors' salary and remuneration includes transportation fees for implementing business affairs. The remuneration of the chairman also includes salary, various bonuses, incentives, etc. In addition, and in accordance with the Company's Articles of Incorporation, if the Company makes a profit during the year, no more than 5% shall be allocated as directors' remuneration. However, profits must first be taken to offset against cumulative losses if any.

XIII. Other disclosures

- (I) Information related to significant transactions

Significant transactions in 2020 that require further disclosures under the Preparation Regulations are as follows:

1. Loans to third parties: None.
2. Endorsement/guarantee to third parties: None.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

3. End-of-period holding position of marketable securities (excluding investment in subsidiaries, associated companies and joint ventures):

Holder	Name and type of securities	Relationship with the securities issuer	Account category	Closing amount				Remarks
				Shares	Book value	Shareholding percentage	Fair value	
The Company	Share/China Steel Chemical		Financial assets at fair value through other comprehensive income - current	2,590,000	281,015,000	1.09%	281,015,000	
The Company	Share/HTC		Financial assets at fair value through other comprehensive income - current	400,000	12,300,000	0.05%	12,300,000	
The Company	Share/ChainQui Construction Development		Financial assets at fair value through other comprehensive income - current	92,939	1,719,372	0.04%	1,719,372	
The Company	Share/Win Semiconductors		Financial assets at fair value through other comprehensive income - current	10,000	3,460,000	-	3,460,000	
The Company	Share/Asia Pacific Telecom		Financial assets at fair value through other comprehensive income - current	5,300,000	53,530,000	0.14%	53,530,000	
The Company	Stocks/Asia Optical		Financial assets at fair value through other comprehensive income - current	1,200,000	88,680,000	0.43%	88,680,000	
The Company	Share/Evergreen International		Financial assets at fair value through other comprehensive income - current	377,000	7,634,250	0.04%	7,634,250	
The Company	Share/Giga solar		Financial assets at fair value through other comprehensive income - current	30,000	6,120,000	0.05%	6,120,000	
The Company	Stocks/CHPT		Financial assets at fair value through other comprehensive income - current	10,000	7,640,000	0.03%	7,640,000	
The Company	Share/Sunspring Metal		Financial assets at fair value through other comprehensive income - current	200,000	5,040,000	0.12%	5,040,000	
The Company	Share/Formosa Sumco Technology		Financial assets at fair value through other comprehensive income - current	64,000	8,640,000	0.02%	8,640,000	
The Company	Share/Yageo		Financial assets at fair value through other comprehensive income - current	100,000	51,800,000	0.02%	51,800,000	
The Company	Stocks/Zhen Ding Technology Holding - KY		Financial assets at fair value through other comprehensive income - current	50,000	5,700,000	0.01%	5,700,000	
The Company	Stocks/Keystone Microtech		Financial assets at fair value through other comprehensive income - current	30,000	9,360,000	0.11%	9,360,000	
The Company	Stocks/ ASE Technology Holding		Financial assets at fair value through other comprehensive income - current	200,000	16,260,000	-	16,260,000	

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

The Company	Stocks/Taiwan Semiconductor Manufacturing		Financial assets at fair value through other comprehensive income - current	100,000	53,000,000	-	53,000,000	
The Company	Stock/Hon Hai Precision Industry		Financial assets at fair value through other comprehensive income - current	200,000	18,400,000	-	18,400,000	
The Company	Stocks/Eternal Materials		Financial assets at fair value through other comprehensive income - current	600,000	21,930,000	0.05%	21,930,000	

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

The Company	Stocks/Largan Precision		Financial assets at fair value through other comprehensive income - current	20,000	63,900,000	0.01%	63,900,000	
The Company	Stocks/Chunghwa Picture Tubes		Financial assets at fair value through other comprehensive income - non-current	71,210	-	-	-	
The Company	Stocks/Wonderful Hi Tech		Financial assets at fair value through other comprehensive income - non-current	261,762	4,620,099	0.19%	4,620,099	
The Company	Share/Finance and Trading Co., Ltd.		Financial assets at fair value through profit and loss - non-current	200,000	-	0.57%	-	
The Company	Share/Gui Hong Co., Ltd.		Financial assets at fair value through profit and loss - non-current	165,000	-	0.03%	-	
The Company	Share/Yen Te Machine Industrial Co Ltd.		Financial assets at fair value through profit and loss - non-current	17,000	-	18.89%	-	
The Company	Share/Universal Venture Capital Investment Crop.		Financial assets at fair value through other comprehensive income - non-current	1,400,000	9,478,000	1.16%	9,478,000	
The Company	Share/KHH Arena Corporation		Financial assets at fair value through other comprehensive income - non-current	5,000,000	81,551,250	2.00%	81,551,250	
The Company	Stocks/ENRESTEC Inc.	The Company is a director of the securities issuer	Financial assets at fair value through other comprehensive income - non-current	19,101,651	289,332,707	18.71%	289,332,707	
The Company	Share/CSGT Metals Vietnam Joint Stock Company		Financial assets at fair value through other comprehensive income - non-current	1,328,940	40,779,800	6.00%	40,779,800	
The Company	Share/How Weih Holding (Cayman) Co. Ltd.		Financial assets at fair value through other comprehensive income - non-current	12,700,000	560,878,673	18.68%	560,878,673	

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

4. Cumulative purchase or sale of any single marketable security that amounts to NTD 300 million or more than 20% of paid-up capital: None.
5. Acquisition of real estate amounting to NTD 300 million or more than 20% of paid-up capital:

Acquired company	Name of property	Transaction date or date of occurrence	Transaction amount	Price status	Transaction counterparty	Relationship with the Company	If the transaction object is a related person, previous transfers of data				Reference basis for price determination	Purpose of acquisition and usage	Other stipulated matters
							Possessor	Relationship with issuer	Transfer date	Amount			
The Company	Land and features	2020.9.24	1,100,000,000	Already paid	Sunward Refractories Co., Ltd.	The Company is an institutional director of the securities issuer	-	-	Between 1969 and 1979	Approximately NTD 510,614 thousand	Real estate appraisal report	Diversified management of industrial land, planned for lease	-

6. Disposal of real estate amounting to NTD 300 million or more than 20% of paid up capital: None.
7. Sales and purchases with related parties amounting to NTD 100 million or more than 20% of paid up capital: None.
8. Related party accounts receivable amounting to NTD 100 million or more than 20% of paid-up capital: None.
9. Derivative transactions: None.

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(II) Information on business investments:

Information about the Company's business investments in 2020 (excluding Mainland investees):

Name of investor	Name of investee	Location	Main business activities	Sum of initial investment		Period-end holding position			Current period profit/loss of the investee	Investment gains/losses recognized in the current period	Remarks
				End of current period	End of previous year	Shares	Percentage	Book value			
The Company	Hsieh Chang Hsing Trading Co., Ltd.	Gushan District, Kaohsiung City	Holding of various production and banking businesses	171,728,510	171,728,510	17,172,851	45.79%	225,593,900	(123,009)	(56,326)	
The Company	KHC Steel International Corp.	Gushan District, Kaohsiung City	Trading of steel pipes and steel sheets	105,800,000	105,800,000	7,280,000	38.32%	130,888,282	(2,781,810)	(1,065,990)	
The Company	Sunward Refractories Co., Ltd.	Renwu District, Kaohsiung City	Ceramic products and refractory material manufacturing	62,706,001	60,029,189	68,600	20.00%	14,104,103	375,053,138	384,103	

(III) Information relating to investments in the Mainland: None.

(IV) Information on principal shareholders:

Unit: Shares

Name	Shares	Number of shares held	Percentage of shareholding
Huida Investment Co., Ltd.		40,999,312	20.41%
Lu Tai Rong		27,551,329	13.71%
Hsieh Chang Hsing Trading Co., Ltd.		26,007,915	12.94%
Lu Ho-Lin		16,426,010	8.17%
KHC Steel International Corp.		16,355,000	8.14%

The Company has applied to Taiwan Depository and Clearing Corporation to obtain the information listed in this table to explain the following matters:

- (1) Information of major shareholders in this table has been established by the Taiwan Depository and Clearing Corporation on the last business day of each quarter, calculating information of shareholders holding more than 5% of the Company's common stock that has been delivered with non-physical registration (including treasury stocks). As for the share capital recorded in the Company's financial statements and the Company's actual completed non-physical registration of the number of shares delivered, there may be differences or discrepancies due to different calculation bases.
- (2) In the case of the above information, if a shareholder delivers shares to a trust, it is disclosed in the individual sub-accounts for trustees who open special trust accounts. As for shareholders' declarations of insider equity holdings exceeding 10% in accordance with the Securities and Exchange Act, such shareholdings include

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

personal shareholdings plus the shares delivered to a trust and have the right to use the trust property, and so on. For information on insider equity declarations, please refer to the Market Observation Post System.

XIV. Segment information

- (I) Basis of disclosure and reconciliation of profit, asset, and liability information for reporting segments

The management allocates resources and evaluates segment performance based on pre-tax segment profits (excluding extraordinary gains/losses and exchange gains/losses), as shown on internal management reports verified by the main operational decision maker. Due to the fact that income tax, extraordinary gains/losses, and exchange gains/losses are managed at the group level, the Company does not allocate income tax expenses (benefits), extraordinary gains/losses, and exchange gains/losses to reporting segments. The reported amounts are consistent with the amounts used by the management for decision-making.

Accounting policies adopted by various operating segments are consistent with those described in Note IV - "Summary of significant accounting policies."

Disclosure and reconciliation of segment information:

	Steel Pipe Department	Others	Reconciliation and elimination	Total
2020				
Revenues:				
Revenues from external customers	\$ 892,181,275	61,942,370	8,386,776	962,510,421
Inter-segment revenues	-	-	-	-
Total revenues	<u>\$ 892,181,275</u>	<u>61,942,370</u>	<u>8,386,776</u>	<u>962,510,421</u>
Interest expenses	<u>\$ -</u>	<u>-</u>	<u>(41,189,719)</u>	<u>(41,189,719)</u>
Depreciation and amortization	<u>\$ 47,023,029</u>	<u>288,207</u>	<u>8,235,607</u>	<u>55,546,843</u>
Share of equity-accounted associated companies	<u>\$ -</u>	<u>-</u>	<u>(738,213)</u>	<u>(738,213)</u>
Profit/loss of reported segment	<u>\$ (48,044,412)</u>	<u>(21,902,506)</u>	<u>38,862,162</u>	<u>(31,084,756)</u>
Assets:				

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Equity-accounted investments	\$ -	-	370,586,285	370,586,285
Capital spending for non-current assets	\$ 28,810,326	-	-	28,810,326
Assets of reported segment	\$ 1,434,059,483	16,865,255	5,211,269,237	6,662,193,975
	Steel Pipe Department	Others	Reconciliation and elimination	Total
2019				
Revenues:				
Revenues from external customers	\$ 1,064,694,963	73,414,947	4,026,932	1,142,136,842
Inter-segment revenues	-	-	-	-
Total revenues	\$ 1,064,694,963	73,414,947	4,026,932	1,142,136,842
Interest expenses	\$ -	-	(45,285,576)	(45,285,576)
Depreciation and amortization	\$ 53,979,618	41,820	8,869,138	62,890,576
Share of equity-accounted associated companies	\$ -	-	(474,242)	(474,242)
Profit/loss of reported segment	\$ (104,494,134)	(16,725,461)	(2,886,440)	(124,106,035)
Assets:				
Equity-accounted investments	\$ -	-	232,995,217	232,995,217
Capital spending for non-current assets	\$ 10,318,855	-	-	10,318,855
Assets of reported segment	\$ 1,483,128,993	22,050,870	3,656,281,812	5,161,461,675

Based on unaudited version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Significant reconciliation of information between the reporting segments mentioned above:

1. Unallocated profit/loss of reported segment:

	<u>2020</u>	<u>2019</u>
Gain on disposal of investment property	\$ -	4,206,009
Loss on disposal of property, plant, and equipment	-	(257,651)
Financial costs	(41,189,719)	(45,285,576)
Others	80,051,881	38,450,778
Total	<u><u>\$ 38,862,162</u></u>	<u><u>(2,886,440)</u></u>

2. Assets not attributable to reported segment:

	<u>2020</u>	<u>2019</u>
Cash and bank deposits	\$ 275,280,315	334,578,063
Equity-accounted investments	370,586,285	232,995,217
Property, plant, and equipment	622,154,499	625,650,040
Right-of-use asset	13,161,120	16,451,400
Investment property	2,144,791,618	1,045,217,888
Financial assets at fair value through other comprehensive income	1,702,769,151	1,279,582,554
Others	82,526,249	121,806,650
Total	<u><u>\$ 5,211,269,237</u></u>	<u><u>3,656,281,812</u></u>

(II) Regional disclosure

Disclosure of regional information is as follows. Income location is determined based on customers' geographic presence, whereas location of non-current assets is determined based on the asset's physical presence.

<u>Location</u>	<u>2020</u>	<u>2019</u>
Revenues from external customers:		
Taiwan	\$ 948,871,444	876,776,427
America	6,256,068	241,966,662
Northeast Asia	7,382,909	23,393,753
	<u><u>\$ 962,510,421</u></u>	<u><u>1,142,136,842</u></u>

<u>Location</u>	<u>109.12.31</u>	<u>108.12.31</u>
Non-current assets:		
Taiwan	<u><u>\$ 3,697,840,107</u></u>	<u><u>2,640,212,175</u></u>

Non-current assets include property, plant, and equipment, investment property, and right-of-use asset, but exclude non-current financial instruments.

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

(III) Information on major customers

Customer	2020	2019
Nakosin Enterprise Co., Ltd.	\$ 325,105,617	257,946,619
Long An Hardware Co., Ltd.	143,842,264	143,264,204
Gir Gai Trading Co., Ltd.	77,994,674	40,573,981
	<u>\$ 546,942,555</u>	<u>441,784,804</u>

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Kao Hsing Chang Iron & Steel Corp.

Schedule of cash and cash equivalents

December 31, 2020

Unit: NTD

Item	Summary	Amount
Cash dividends	Reserve cash	\$ 252,607
Cash in banks	Check deposit	12,664,776
	Demand deposit	256,126,579
	Foreign currency deposits (USD 222,133.17, exchange rate 28.48)	<u>6,326,353</u>
Total		<u><u>\$ 275,370,315</u></u>

Schedule of financial assets at fair value through other comprehensive income - current

Financial instrument designations	Summary	Number of		Total	Acquisition cost	Fair value		Provision of guarantee or collateral
		shares/numb er of units	Face value			Unit price	Total	
Taiwan Semiconductor Manufacturing	Listed shares	100,000	\$ 10	1,000,000	43,550,538	530.00	53,000,000	None
Eternal Materials	Listed shares	600,000	10	6,000,000	20,883,001	36.55	21,930,000	None
China Steel Chemical	Listed shares	2,590,000	10	25,900,000	284,990,581	108.50	281,015,000	None
Largan Precision	Listed shares	20,000	10	200,000	67,527,553	3,195.00	63,900,000	None

Based on unadutied version of transaction from the Chinese edition.

Notes to Financial Statements of Kao Hsing Chang Iron & Steel Corp. (continued)

Sunspring Metal	Listed shares	200,000	10	2,000,000	11,600,993	25.20	5,040,000	None
Yageo	Listed shares	100,000	10	1,000,000	46,489,557	518.00	51,800,000	None
ASE Technology Holding	Listed shares	200,000	10	2,000,000	16,249,217	81.30	16,260,000	None
Hon Hai Precision Industry	Listed shares	200,000	10	2,000,000	18,291,925	92.00	18,400,000	None
Keystone Microtech	TPEX listed shares	30,000	10	300,000	9,565,435	312.00	9,360,000	None
Zhen Ding Technology Holding-KY	Listed shares	50,000	10	500,000	5,891,571	114.00	5,700,000	None
HTC	Listed shares	400,000	10	4,000,000	14,646,508	30.75	12,300,000	None
Win Semiconductors	TPEX listed shares	50,000	10	500,000	3,386,529	346.00	3,460,000	None
Formosa Sumco Technology	Listed shares	64,000	10	640,000	8,600,944	135.00	8,640,000	None
ChainQui Construction Development	Listed shares	92,939	10	929,390	3,351,786	18.50	1,719,372	None
Asia Pacific Telecom	Listed shares	5,300,000	10	53,000,000	66,305,906	10.10	53,530,000	None
Giga solar	TPEX listed shares	30,000	10	300,000	6,068,581	204.00	6,120,000	None
CHPT	TPEX listed shares	10,000	10	100,000	7,267,403	764.00	7,640,000	None
Asia Optical	Listed shares	1,200,000	10	12,000,000	96,924,433	73.90	88,680,000	None
Evergreen International	Listed shares	377,000	10	3,770,000	<u>7,213,190</u>	20.25	<u>7,634,250</u>	None
Total					<u>\$ 738,805,651</u>		<u>716,128,622</u>	

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other notes receivable

December 31, 2020

Unit: NTD

counter party	Summary	Amount
Mr. Hsu Pei-Kai	Rental income	<u>\$ 200,000</u>

Schedule of net accounts receivable

Customer name	Summary	Amount
Chang Hui Chuan Co., Ltd.	Business	\$ 5,340,697
Nakosin Enterprise Co., Ltd.	Business	42,311,370
Long An Hardware Co., Ltd.	Business	10,302,788
Kiin's Corporation	Business	11,046,777
Shun Feng Enterprise Co., Ltd.	Business	5,743,566
Gir Gai Trading Co., Ltd.	Business	5,729,341
Chyi Sion Steel Enterprise Co., Ltd.	Business	6,192,201
Others (If the balance of each account does not reach 5% of the accounts receivable, it is reported together)	Business	<u>18,649,926</u>
Total		<u>\$ 105,316,666</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other net receivables

December 31, 2020

Unit: NTD

Item	Summary	Amount
Related party:		
Income receivable from sale of scrap		\$ 475,141
Non-related party:		
Business tax refund receivable		29,315
Income receivable from sale of scrap		460,712
Receivables from sale of shares		16,332,066
Receivable purchase discounts		430,521
Receivables from scaffolding		470,460
Others		<u>98,758</u>
Total		18,296,973
Less: Allowance for bad debts		<u>470,460</u>
Net		<u><u>\$ 17,826,513</u></u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.**Schedule of inventories****December 31, 2020****Unit: NTD**

Item	Amount	
	Cost	Net realizable value
Finished goods	\$ 252,843,339	268,594,757
Less: loss provisions	<u>7,039,890</u>	
Subtotal	<u>245,803,449</u>	
Work-in-progress	64,863,595	64,358,958
Less: loss provisions	<u>1,406,786</u>	
Subtotal	<u>63,456,809</u>	
Raw materials	109,696,880	114,530,521
Less: loss provisions	<u>909,114</u>	
Subtotal	<u>108,787,766</u>	
Materials	48,760,900	52,314,871
Less: loss provisions	<u>21,143</u>	
Subtotal	<u>48,739,757</u>	
Inventory in transit	1,458,881	1,458,881
Scraps	<u>6,004</u>	6,004
Total	<u><u>\$ 468,252,666</u></u>	

Schedule of other current assets

For information concerning other current assets please refer to Note 6 (10)

Based on unaudited version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

**Financial assets measured at fair value through other comprehensive
gains and losses - schedule of non-current changes**

December 31, 2020

Unit: NTD

	<u>Beginning of period</u>		<u>Increase in the period</u>		<u>Decrease in the period</u>		<u>Closing amount</u>		Provision of guarante e or pledge
Designation	Shares	Fair value	Shares	Amount	Shares	Amount	Shares	Fair value	
Universal Venture Capital Investment Corporation	1,400,000 \$	9,687,839	-	-	-	209,839 (Note 1)	1,400,000	9,478,000	None
Sunward Refractories Co., Ltd.	5,521,594	13,632,263	1,338,406	87,736 (Note 3)	6,860,000	13,720,000	-	-	None
Hanwei Arena Development Co., Ltd.	5,000,000	73,301,250	-	8,250,000 (Note 1)	-	-	5,000,000	81,551,250	None
CSGT Metals Vietnam Joint Stock Company	1,328,940	30,627,964	-	10,151,836 (Note 1)	-	-	1,328,940	40,779,800	None
ENRESTEC Inc.	17,914,862	207,064,454	1,186,789	82,268,253 (Note 2)	-	-	19,101,651	289,332,707	None
How Weih Holding (Cayman) Co. Ltd.	12,700,000	539,649,988	-	21,228,685 (Note 1)	-	-	12,700,000	560,878,673	None

Based on unadutied version of transaction from the Chinese edition.

Chunghwa Picture Tubes	71,210	-	-	-	-	-	71,210	-	None
Wonderful Hi Tech	261,762	<u>4,449,954</u>	-	<u>170,145</u>	(Note 1)	-	<u>261,762</u>	<u>4,620,099</u>	None
Total		<u>\$ 878,413,712</u>		<u>122,156,655</u>		<u>13,929,839</u>		<u>986,640,529</u>	

Note 1: This is the number of changes in the evaluation of the current period.

Note 2: This is the current period of cash capital increase of NTD 21,362,202 and current evaluation changes of NTD 60,906,051.

Note 3: This is the purchase of NTD 2,676,812 of equity in the current period and the amount of changes in the evaluation of the current period (NTD 2,589,075).

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of changes in investments accounted for using equity method

January 1 to December 31, 2020

Unit: NTD

Designation	Opening balance		Increase in the period		Decrease in the period		Closing balance			Market price or net equity value		Provision of
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of shareholding	Amount	Unit		guarantee or pledge
										price	Total price	
eh Chang Hsing Trading Co., Ltd.	67,319	\$ 147,646,117	-	78,004,109 (Note 1)	-	56,326 (Note 1)	17,172,851	45.79%	225,593,900	13.14	225,593,900	None
C Steel International Corp.	797,830	85,349,100	-	46,605,172 (Note 2)	-	1,065,990 (Note 2)	7,280,000	38.32%	130,888,282	17.98	130,888,282	None
rward Refractories Co., Ltd.	-	-	6,860,000	14,104,103 (Note 3)	6,791,400 (Note 4)	-	68,600	20.00%	14,104,103	205.60	14,104,103	None
Total		\$ 232,995,217		138,713,384		1,122,316			370,586,285		370,586,285	

Note 1: This is the investment loss recognized in the current period of NTD (56,326), and the proportional unrealized profit of the invested company's financial assets recognized is NTD 78,004,109.

Note 2: This is the investment loss recognized in the current period of NTD (1,065,990), and the proportional unrealized profit of the invested company's financial assets recognized is NTD 39,671,628 and disposal of stock interest is NTD 6,933,544.

Note 3: This is the investment benefit recognized in the current period of NTD 384,103 and the transfer of NTD 13,720,000 from financial assets measured at fair value through other comprehensive gains and losses.

Note 4: Capital was reduced by the investee company in the current period to make up for the loss.

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
**Schedule of changes in property, plant, and
equipment**

January 1 to December 31, 2020

Unit: NTD

For information about changes in property, plant and equipment, please refer to Note VI (VII).

**Schedule of changes in accumulated
depreciation of property, plant and
equipment**

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Buildings	\$ 941,240,029	18,213,135	-	959,453,164
Machinery	1,276,911,150	28,483,351	810,400	1,304,584,101
Others	133,709,178	4,242,323	-	137,951,501
Total	<u>\$ 2,351,860,357</u>	<u>50,938,809</u>	<u>810,400</u>	<u>2,401,988,766</u>

**Schedule of accumulated impairment
changes of property, plant and equipment**

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Buildings	\$ 164,221,155	-	-	164,221,155
Machinery	816,526,349	-	-	816,526,349
Others	97,140,483	-	-	97,140,483
Total	<u>\$ 1,077,887,987</u>	<u>-</u>	<u>-</u>	<u>1,077,887,987</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.
Schedule of changes in invested real estate
January 1 to December 31, 2020

Unit: NTD

For information about changes in invested real estate, please refer to Note VI (IX).

**Schedule of changes in accumulated
depreciation of invested real estate**

For information about changes in invested real estate, please refer to Note VI (IX).

Schedule of guarantee deposits paid
December 31, 2020

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Guarantee deposits paid	Bid deposit	\$ 5,260,037
	Lease deposit and security deposit	4,000,000
	Others	<u>206,500</u>
		<u>\$ 9,466,537</u>
Total		

Based on unaudited version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of short-term loans

December 31, 2020

Unit: NTD

Loan type	Explanat ion	Closing balance		Contract period	Interest rate range	Financing amount		Mortgage or collateral
Loans under L/C	Changhua Bank	\$ 192,104,039		Within one year	1.47%	Total amount	1,400,000,000	Land
Loans under L/C	Huatai Bank	50,649,353		Within one year	1.45 %~1.50 %	Total amount	1,380,000,000	Land
Loans under L/C	Bank of Taiwan	31,147,185		Within one year	1.48%	Total amount	150,000,000	Land
Loans under L/C	JihSun Bank	48,822,008		Within one year	1.50%	Total amount	520,000,000	Land
Secured loans	Huatai Bank	1,250,000,000		Within one year	1.45%	Total amount	1,380,000,000	Land
Secured loans	Changhua Bank	800,000,000		Within one year	1.50%	Total amount	1,400,000,000	Land
Secured loans	JihSun Bank	400,000,000		Within one year	1.50%	Total amount	520,000,000	Land
Secured loans	Bank of Taiwan	<u>50,000,000</u>		Within one year	1.48%	Total amount	150,000,000	Land
Total		<u>\$ 2,822,722,585</u>						

Schedule of bills payable

Supplier	Summary	Amount
I Hong Hot-Galvanization Industrial Co., Ltd.	Business	\$ 8,709,045
Perfect Engineering Co., Ltd.	Business	1,660,050
Weitai Industrial Inspection Co., Ltd.	Business	1,253,574
Others (If the balance of each account does not reach 5% of bills payable, it is reported together)	Business	<u>8,657,030</u>
Total		<u>\$ 20,279,699</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other bills payable

December 31, 2020

Unit: NTD

Payment counterparty	Summary	Amount
Each shareholder	Capital reduction and refund of shares	\$ 5,855,158
Jinchang Environmental Engineering Co., Ltd.	Funds for equipment	892,500
Others (If the balance of each account does not reach 5% of other bills payable, it is reported together)		<u>813,200</u>
Total		<u>\$ 7,560,858</u>

Schedule of accounts payable

Supplier	Summary	Amount
Shang Chen Steel Co., Ltd.	Business	\$ 5,867,742
I Hong Hot-Galvanization Industrial Co., Ltd.	Business	10,219,234
Kounan Steel Co., Ltd.	Business	2,090,692
Weitai Industrial Inspection Co., Ltd.	Business	1,772,211
Others (If the balance of each account does not reach 5% of the accounts payable, it is reported together)	Business	<u>1,782,689</u>
Total		<u>\$ 21,732,568</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other payables

December 31, 2020

Unit: NTD

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and bonus		\$ 9,587,519
Paid leave		6,309,792
Utility bills		2,119,158
Tax		2,761,454
Stock delivery payment		14,627,812
Freight and customs declaration fee		2,071,442
Cargo allowance		1,994,613
Funds for equipment		2,152,500
Pension		758,597
Repair costs		1,560,557
Labor health insurance		1,018,331
Interest		2,492,677
Other		<u>7,525,926</u>
Total		<u>\$ 54,980,378</u>

Schedule of other current liabilities

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Contract liabilities	Sales proceeds in advance	\$ 2,679,466
Unearned revenues	Rent in advance	190,475
Collection	Self-paid pensions	<u>114,269</u>
Total		<u>\$ 2,984,210</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of long-term loans

December 31, 2020

Unit: NTD

Creditor	Summary	Amount			Contract period	Interest rate	Mortgage or guarantee
		Due within	Due after	Total			
		one year	one year or more				
Changhua Bank	Secured loans	\$ -	700,000,000	700,000,000	2020.10.23~2030.10.23	1.8%	Land

Please refer to Note VI (XIII) for related information on the long-term loan schedule.

Schedule of deferred income tax liabilities

Item	Summary	Amount
Land revaluation value-added tax provision	Property, plant and equipment — Land	\$ 138,600,366
	Investment property	72,031,964
Total		<u>\$ 210,632,330</u>

Schedule of guarantee deposits received

Item	Summary	Amount
Guarantee deposits received	Land lease deposit	<u>\$ 5,040,000</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of net operating income

January 1 to December 31, 2020

Unit: NTD

Item	Quantity (kg)	Amount
Steel pipes	29,342,732	\$ 876,016,062
Hot rolled steel coil	3,673,535	58,515,651
Zinc products	280,338	15,095,275
Others	263,330	4,467,704
Rental income		8,386,776
Processing income		<u>28,953</u>
Total		<u>\$ 962,510,421</u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of operating costs

January 1 to December 31, 2020

Unit: NTD

<u>Item</u>	<u>Amount</u>
Direct raw materials	
Beginning stock	\$ 149,575,570
Plus: Feedstock this period	522,012,147
Less: Ending inventory	<u>(109,696,880)</u>
Direct raw materials consumed in this period	561,890,837
Direct labor	59,063,757
Manufacturing expenses	285,066,103
Unallocated manufacturing overheads	<u>(58,105,125)</u>
Manufacturing costs	847,915,572
Work in progress at the beginning of the period	52,123,849
Plus: Outsourcing	10,016,501
Less: Inventory losses	(44,528)
Self-use	(23,615)
Work in progress at the end of the period	<u>(64,863,595)</u>
Cost of finished goods for the current period	845,124,184
Finished goods at beginning of period	261,064,108
Plus: Outsourcing	71,232,038
Less: Inventory losses	(11,410)
Self-use	(227,954)
Finished goods at end of period	<u>(252,843,339)</u>
Cost of goods sold before adjustment	924,337,627
Cost of goods sold plus (minus) adjustment	
Income from sale of scrap	(11,754,638)
Net loss	55,938
Recovery benefits from sluggish inventory and falling prices	(38,350,723)
Unallocated manufacturing overheads	58,105,125
Others	<u>1,527,791</u>
Adjusted cost of goods sold	933,921,120
Processing costs	20,480
Leasing costs	<u>6,546,940</u>
Operating costs	<u><u>\$ 940,488,540</u></u>

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of selling expenses

January 1 to December 31, 2020

Unit: NTD

Item	Summary	Amount
Salary	Employee salary and bonus	\$ 8,017,624
Shipping expense	Sales freight expense	11,746,215
Others	Rent, utilities, pension, labor and health insurance, entertainment expenses, etc.	<u>5,915,367</u>
Total		<u><u>\$ 25,679,206</u></u>

Schedule of management expenses

Item	Summary	Amount
Salary	Employee salary, overtime pay and bonus	\$ 30,187,562
Entertainment expenses	Entertainment expenses	7,947,740
Labor expenses	Public expenses for services such as lawyers and accountants	2,048,000
Utility bills	Utility bills for office premises	2,093,070
Tax	Housing tax and land value tax, etc.	4,460,553
Pension	Employee pensions	1,294,790
Others	Stationery printing, training expenses, post and telecommunications expenses, travel expenses and repair expenses, etc.	<u>16,931,931</u>
Total		<u><u>\$ 64,963,646</u></u>

Based on unaudited version of transaction from the Chinese edition.

Schedule of non-operating income and expenses

For information on non-operating income and expenses, please refer to Note VI (XXI).

Based on unaudited version of transaction from the Chinese edition.