

**Hsin Kuang Steel Company Limited and  
Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2020 and 2019 and  
Independent Auditors' Report**

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The entities that are required to be included in the combined financial statements of Hsin Kuang Steel Company Limited as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10 “Consolidated Financial Statements”. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Hsin Kuang Steel Company Limited and subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

HSIN KUANG STEEL COMPANY LIMITED

By

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ALEXANDER SU  
Chairman

March 16, 2021

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Hsin Kuang Steel Company Limited

### **Opinion**

We have audited the accompanying consolidated financial statements of Hsin Kuang Steel Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the consolidated financial statements of the Group for the year ended December 31, 2020 are as follows:

#### Revenue recognition

The Group mainly engages in the sale, cutting, slitting, steel structure processing and logistics of various steel products. The Group's operating revenue for the year ended December 31, 2020 was NT\$9,852,311 thousand, an increase of 16% compared to the previous year, which was higher than the steel industry average. Customers with significant sales amount showing a growth trend have a significant impact on the financial statements; therefore, we identified the actual occurrence of the aforementioned sales transaction as a key audit matter.

Refer to Notes 4, and 23 to the consolidated financial statements for the accounting policies and related disclosures on revenue recognition.

We performed the following audit procedures in respect of the aforementioned revenue:

1. We obtained an understanding and tested the design and operating effectiveness of key controls over revenue recognition.
2. We selected samples from the sales ledger of the aforementioned revenue and verified against shipping reports and accounts receivable collections as evidence to ensure the existence of the transactions.
3. We analyzed the reasons and rationalities of the increase in sales from major customers.

#### **Other Matters**

We have also audited the parent company only financial statements of Hsin Kuang Steel Company Limited as of and for the years ended December 31, 2020 and 2019, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Sheng-Hsiung Yao and Jui-Na Chang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2021

Notice to Readers

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

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

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 709,443	4	\$ 1,099,161	7
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	1,956,292	10	1,349,571	8
Financial assets at amortized cost - current (Notes 4, 9 and 31)	80,159	-	61,113	-
Notes receivable from related parties (Notes 4, 5, 10 and 30)	36,699	-	44,465	-
Notes receivable from unrelated parties (Notes 4, 5, 10 and 31)	1,372,375	7	1,044,987	7
Trade receivables from related parties (Notes 4, 5, 10 and 30)	14,168	-	13,847	-
Trade receivables from unrelated parties (Notes 4, 5 and 10)	1,992,990	10	1,353,763	9
Prepayments	177,780	1	147,754	1
Inventories (Notes 4, 5 and 11)	3,849,230	19	3,435,128	21
Other current assets - other (Note 16)	29,165	-	47,827	-
Total current assets	<u>10,218,301</u>	<u>51</u>	<u>8,597,616</u>	<u>53</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	28,772	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 31)	2,666,221	14	1,767,897	11
Investments accounted for using the equity method (Notes 4 and 13)	578,258	3	575,743	4
Contract assets - non-current (Note 23)	2,762	-	-	-
Property, plant and equipment (Notes 4, 14 and 31)	5,294,370	27	3,887,599	24
Investment properties (Notes 4, 15 and 31)	963,590	5	984,659	6
Deferred tax assets (Notes 4 and 25)	64,565	-	47,405	-
Other non-current assets (Notes 5, 10 and 16)	76,434	-	226,972	2
Total non-current assets	<u>9,674,972</u>	<u>49</u>	<u>7,490,275</u>	<u>47</u>
<b>TOTAL</b>	<u>\$ 19,893,273</u>	<u>100</u>	<u>\$ 16,087,891</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 4 and 17)	\$ 5,441,820	27	\$ 4,743,264	29
Short-term bills payable (Notes 4 and 17)	179,879	1	469,737	3
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	118,652	1	41,855	-
Contract liabilities - current (Note 23)	212,678	1	149,488	1
Notes payable to unrelated parties (Notes 4 and 19)	391,119	2	263,903	2
Notes payable to related parties (Notes 4, 19 and 30)	505	-	608	-
Trade payables to unrelated parties (Notes 4 and 19)	155,018	1	48,280	-
Trade payables to related parties (Notes 4, 19 and 30)	62	-	-	-
Other payables (Notes 20 and 30)	274,791	1	110,636	1
Current tax liabilities (Notes 4 and 25)	84,877	-	11,182	-
Current portion of long-term borrowings and bonds payable (Notes 4, 17 and 18)	399,081	2	420,532	3
Other current liabilities - other	8,763	-	4,999	-
Total current liabilities	<u>7,267,245</u>	<u>36</u>	<u>6,264,484</u>	<u>39</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 4 and 17)	2,049,781	11	1,057,603	7
Long-term bills payable (Notes 4 and 17)	2,398,937	12	1,898,531	12
Provisions - non-current (Notes 4 and 13)	3,570	-	3,570	-
Deferred tax liabilities (Notes 4 and 25)	16,380	-	12,201	-
Net defined benefit liabilities - non-current (Notes 4 and 21)	25,695	-	27,048	-
Other non-current liabilities - other	30,235	-	13,668	-
Total non-current liabilities	<u>4,524,598</u>	<u>23</u>	<u>3,012,621</u>	<u>19</u>
Total liabilities	<u>11,791,843</u>	<u>59</u>	<u>9,277,105</u>	<u>58</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 22)</b>				
Share capital	3,082,226	16	3,106,877	19
Capital surplus	823,197	4	817,716	5
Retained earnings				
Legal reserve	869,380	4	858,883	6
Special reserve	108,259	1	43,567	-
Unappropriated earnings	2,065,739	10	1,565,297	10
Total retained earnings	3,043,378	15	2,467,747	16
Other equity	722,653	4	(108,260)	(1)
Total equity attributable to owners of the Company	7,671,454	39	6,284,080	39
<b>NON-CONTROLLING INTERESTS</b>	429,976	2	526,706	3
Total equity	<u>8,101,430</u>	<u>41</u>	<u>6,810,786</u>	<u>42</u>
<b>TOTAL</b>	<u>\$ 19,893,273</u>	<u>100</u>	<u>\$ 16,087,891</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 9,527,287	97	\$ 8,331,608	98
Other operating revenue	<u>325,024</u>	<u>3</u>	<u>146,177</u>	<u>2</u>
Total operating revenue	<u>9,852,311</u>	<u>100</u>	<u>8,477,785</u>	<u>100</u>
OPERATING COSTS				
Cost of goods sold (Notes 11, 24 and 30)	(8,810,213)	(90)	(8,253,950)	(97)
Other operating costs (Note 30)	<u>(229,402)</u>	<u>(2)</u>	<u>(47,274)</u>	<u>(1)</u>
Total operating costs	<u>(9,039,615)</u>	<u>(92)</u>	<u>(8,301,224)</u>	<u>(98)</u>
GROSS PROFIT	812,696	8	176,561	2
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	(1,264)	-	(682)	-
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	<u>682</u>	<u>-</u>	<u>900</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>812,114</u>	<u>8</u>	<u>176,779</u>	<u>2</u>
OPERATING EXPENSES				
Selling and marketing expenses (Note 24)	(207,334)	(2)	(159,341)	(2)
General and administrative expenses (Notes 24 and 30)	(135,054)	(1)	(80,309)	(1)
Expected credit gain/(loss) (Note 10)	<u>12</u>	<u>-</u>	<u>(35,029)</u>	<u>-</u>
Total operating expenses	<u>(342,376)</u>	<u>(3)</u>	<u>(274,679)</u>	<u>(3)</u>
PROFIT/(LOSS) FROM OPERATIONS	<u>469,738</u>	<u>5</u>	<u>(97,900)</u>	<u>(1)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 24 and 30)				
Interest income	496	-	1,008	-
Other income	69,491	-	80,936	1
Other gains and losses	492,724	5	301,719	4
Finance costs	(126,914)	(1)	(167,484)	(2)
Share of profit or loss of associates and joint ventures	<u>7,488</u>	<u>-</u>	<u>6,178</u>	<u>-</u>
Total non-operating income and expenses	<u>443,285</u>	<u>4</u>	<u>222,357</u>	<u>3</u>

(Continued)



# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 913,023	9	\$ 124,457	2
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(67,290)</u>	<u>-</u>	<u>(6,341)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>845,733</u>	<u>9</u>	<u>118,116</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME/(LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(225)	-	(631)	-
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	<u>836,244</u>	<u>8</u>	<u>(62,108)</u>	<u>(1)</u>
	<u>836,019</u>	<u>8</u>	<u>(62,739)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	<u>(5,344)</u>	<u>-</u>	<u>(2,591)</u>	<u>-</u>
Other comprehensive income/(loss) for the year, net of income tax	<u>830,675</u>	<u>8</u>	<u>(65,330)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,676,408</u>	<u>17</u>	<u>\$ 52,786</u>	<u>1</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 829,113	9	\$ 120,674	1
Non-controlling interests	<u>16,620</u>	<u>-</u>	<u>(2,558)</u>	<u>-</u>
	<u>\$ 845,733</u>	<u>9</u>	<u>\$ 118,116</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,659,801	17	\$ 55,351	1
Non-controlling interests	<u>16,607</u>	<u>-</u>	<u>(2,565)</u>	<u>-</u>
	<u>\$ 1,676,408</u>	<u>17</u>	<u>\$ 52,786</u>	<u>1</u>
EARNINGS PER SHARE (Note 26)				
From continuing operations				
Basic	<u>\$ 2.69</u>		<u>\$ 0.39</u>	
Diluted	<u>\$ 2.60</u>		<u>\$ 0.39</u>	

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

## HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
	Share Capital		Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
	Number of Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income				
BALANCE AT JANUARY 1, 2019	310,688	\$ 3,106,877	\$ 818,309	\$ 761,010	\$ -	\$ 2,067,794	\$ 2,214	\$ (45,782)	\$ -	\$ 6,710,422	\$ 524,707	\$ 7,235,129
Appropriation of 2018 earnings												
Legal reserve	-	-	-	97,873	-	(97,873)	-	-	-	-	-	-
Special reserve	-	-	-	-	43,567	(43,567)	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(466,032)	-	-	-	(466,032)	-	(466,032)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(16,296)	(16,296)
Changes in percentage of ownership interests in subsidiaries	-	-	(593)	-	-	(1,302)	-	-	-	(1,895)	1,895	-
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(13,766)	-	-	-	(13,766)	-	(13,766)
Net profit for the year ended December 31, 2019	-	-	-	-	-	120,674	-	-	-	120,674	(2,558)	118,116
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(631)	(2,584)	(62,108)	-	(65,323)	(7)	(65,330)
Total comprehensive income/(loss) for the year ended December 31, 2019	-	-	-	-	-	120,043	(2,584)	(62,108)	-	55,351	(2,565)	52,786
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	-	18,965	18,965
BALANCE AT DECEMBER 31, 2019	310,688	3,106,877	817,716	858,883	43,567	1,565,297	(370)	(107,890)	-	6,284,080	526,706	6,810,786
Appropriation of 2019 earnings												
Legal reserve	-	-	-	10,497	-	(10,497)	-	-	-	-	-	-
Special reserve	-	-	-	-	64,692	(64,692)	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(248,550)	-	-	-	(248,550)	-	(248,550)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(5,371)	(5,371)
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	-	(18,459)	-	-	-	(18,459)	18,459	-
Convertible bonds converted to ordinary shares	1,035	10,349	21,493	-	-	-	-	-	-	31,842	-	31,842
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(81,767)	(81,767)	-	(81,767)
Cancelation of treasury shares	(3,500)	(35,000)	(16,012)	-	-	(30,755)	-	-	81,767	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	44,507	-	-	-	44,507	-	44,507
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2020	-	-	-	-	-	829,113	-	-	-	829,113	16,620	845,733
Other comprehensive income/(loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	(225)	(5,331)	836,244	-	830,688	(13)	830,675
Total comprehensive income/(loss) for the year ended December 31, 2020	-	-	-	-	-	828,888	(5,331)	836,244	-	1,659,801	16,607	1,676,408
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(126,425)	(126,425)
BALANCE AT DECEMBER 31, 2020	308,223	\$ 3,082,226	\$ 823,197	\$ 869,380	\$ 108,259	\$ 2,065,739	\$ (5,701)	\$ 728,354	\$ -	\$ 7,671,454	\$ 429,976	\$ 8,101,430

The accompanying notes are an integral part of the consolidated financial statements.

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 913,023	\$ 124,457
Adjustments for:		
Depreciation expense	159,179	108,256
Amortization expense	5,305	2,931
Expected credit loss (reversed)/recognized on trade receivables	(12)	35,029
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(406,646)	(88,666)
Finance costs	126,914	167,484
Interest income	(496)	(1,008)
Dividend income	(58,272)	(78,136)
Loss on disposal of property, plant and equipment	3,497	811
Loss on disposal of investment properties	887	-
Share of profit of associates and joint ventures	(7,488)	(6,178)
Reversal of write-downs of inventories	(99,714)	(14,415)
Unrealized gain on transactions with associates	1,264	682
Realized gain on transactions with associates	(682)	(900)
Net gain on foreign currency exchange	(13,616)	(66,025)
Decrease in net defined benefit liabilities	(1,633)	(1,486)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(123,402)	121,299
Contract assets	(2,762)	-
Notes receivable	(319,622)	231,191
Trade receivables	(645,407)	(134,093)
Other receivables	2,539	-
Inventories	(314,388)	636,321
Prepayments	(30,026)	10,473
Other current assets	26,129	(27,743)
Notes payable	127,113	(385,751)
Trade payables	106,504	(132,316)
Other payables	167,007	(57,475)
Contract liabilities	63,190	6,457
Current liabilities	<u>3,764</u>	<u>1,701</u>
Cash (used in)/generated from operations	(317,851)	452,900
Interest received	496	1,008
Dividends received	58,177	78,136
Income tax paid	<u>(15,098)</u>	<u>(120,826)</u>
Net cash (used in)/generated from operating activities	<u>(274,276)</u>	<u>411,218</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at fair value through other comprehensive income	(109,089)	(12,000)

(Continued)

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Proceeds from sale of financial assets at fair value through other comprehensive income	\$ 84,033	\$ 228,386
Purchase of financial assets at fair value through profit or loss	(27,853)	-
Proceeds from capital reduction and return of shares from financial assets at fair value through other comprehensive income	2,985	8,121
Purchase of financial assets at amortized cost	(19,046)	-
Proceeds from sale of financial assets at amortized cost	-	145,805
Payments for property, plant and equipment	(1,263,315)	(206,400)
Proceeds from disposal of property, plant and equipment	3,127	7,043
Payments for investment properties	403	1,400
Proceeds from disposal of investment properties	(577)	(3,513)
Increase in other non-current assets	(5,857)	(6,769)
Increase in prepayments for equipment	(136,861)	(334,784)
Dividends received from investees	3,860	3,204
(Increase)/decrease in refundable deposits	<u>(950)</u>	<u>11,870</u>
Net cash used in investing activities	<u>(1,469,140)</u>	<u>(157,637)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	16,183,152	15,039,975
Repayments of short-term borrowings	(15,464,813)	(17,192,060)
(Decrease)/increase in short-term bills payable	(290,000)	40,000
Proceeds from long-term borrowings	992,178	936,243
Repayments of long-term borrowings	-	(796,026)
Proceeds from long-term bills payable	500,000	1,900,000
Increase in guarantee deposits received	16,567	-
Interest paid	(119,621)	(177,084)
Dividends paid to non-controlling interests	(5,371)	(16,296)
Dividends paid to owners of the Company	(248,550)	(466,032)
Payments for buy-back of ordinary shares	(81,767)	-
(Decrease) increase in non-controlling interests	<u>(126,425)</u>	<u>18,965</u>
Net cash generated from (used in) financing activities	<u>1,355,350</u>	<u>(712,315)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES</b>		
	<u>(1,652)</u>	<u>(1,065)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(389,718)	(459,799)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>1,099,161</u>	<u>1,558,960</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 709,443</u>	<u>\$ 1,099,161</u>

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Hsin Kuang Steel Company Limited (the “Company”) was incorporated in January 1967. The original paid-in-capital was NT\$200 thousand, and ordinary shares were issued subsequently for promoting business expansion and a sound financial structure. The Company’s share was approved to be listed on the Taipei Exchange in April 1997 and was approved to transfer to the Taiwan Stock Exchange (TWSE) in August 2000. The Company’s shares have been listed on the TWSE since September 2000 under the approval of the Financial Supervisory Commission (FSC) of the Republic of China.

The Company and its subsidiaries (collectively referred to as the “Group”) mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, round steel bar, stainless steel, alloy steel, special steel and SuperDyma.

The consolidated entities were as follows:

Hsin Yuan Investment Co., Ltd. was incorporated on September 22, 1998. The entity mainly engages in investment in various kinds of businesses including manufacturing, securities investment, banking and insurance, etc.

Hsin Ho Fa Metal Co., Ltd. was incorporated on January 28, 2003. The entity engages in the sale of metal products for architecture.

Sinpao Investment Co., Ltd. was incorporated in British Virgin Island (B.V.I.) in 2001. The entity is a holding company of overseas investments.

APEX Wind Power Equipment Manufacturing Company Limited was incorporated on November 10, 2009. The entity mainly engages in the manufacture and sale of metal products and energy related equipment.

Hsin Ching International Co., Ltd. was incorporated on December 18, 2015. The entity mainly engages in leasing and warehousing.

Hsin Hua Steel Industry Co., Ltd. was incorporated on July 25, 2019. The entity mainly engages in processing and manufacturing of metal structures, steel pipe and steel bridge.

Hsin Cheng Logistics Development Co., Ltd. was incorporated on August 19, 2019. The entity mainly engages in leasing and warehousing.

The consolidated financial statements are presented in the Group’s functional currency, the New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 16, 2021.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

#### Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group adopted the amendments starting from January 1, 2020. The threshold of materiality that could influence users has been changed to “could reasonably be expected to influence”. Accordingly, disclosures in the consolidated financial statements do not include immaterial information that may obscure material information.

- b. The IFRSs endorsed by the FSC for application starting from 2021

<b>New IFRSs</b>	<b>Effective Date Announced by IASB</b>
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9” Amendment to IFRS 16 “Covid-19-Related Rent Concessions”	Effective immediately upon promulgation by the IASB June 1, 2020

#### Amendment to IFRS 16 “Covid-19 - Related Rent Concessions”

The amendment stipulates that, when the Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 and the Group meets the specified requirements, the Group may elect to apply the practical expedient and recognize the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occur, and make a corresponding adjustment to the lease liability.

The Group did not have rent negotiations in 2020; however, if such negotiations will occur in 2021, the Group will elect to apply the practical expedient.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated.

2) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 “Financial Instruments: Presentation”, the aforementioned terms would not affect the classification of the liability.

3) Annual Improvements to IFRS Standards 2018-2020

Several standards, including IFRS 9 “Financial Instruments”, were amended in the annual improvements. IFRS 9 requires the comparison of the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, with that of the cash flows under the original financial liability when there is an exchange or modification of debt instruments. The new terms and the original terms are substantially different if the difference between those discounted present values is at least 10%. The amendments to IFRS 9 clarify that the only fees that should be included in the above assessment are those fees paid or received between the borrower and the lender.

4) Amendments to IFRS 3 “Reference to the Conceptual Framework”

The amendments replace the references to the Conceptual Framework of IFRS 3 and specify that the acquirer shall apply IFRIC 21 “Levies” to determine whether the event that gives rise to a liability for a levy has occurred at the acquisition date.

5) Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before Intended Use”

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of those items is measured in accordance with IAS 2 “Inventories”. Any proceeds from selling those items and the cost of those items are recognized in profit or loss in accordance with applicable standards.

The amendments are applicable only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021. The Group will restate its comparative information when it initially applies the aforementioned amendments.

6) Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”

The amendments specify that when assessing whether a contract is onerous, the “cost of fulfilling a contract” includes both the incremental costs of fulfilling that contract (for example, direct labor and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of depreciation for an item of property, plant and equipment used in fulfilling the contract).

The Group will recognize the cumulative effect of the initial application of the amendments in the retained earnings at the date of the initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.



b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

The Group is engaged in the construction business, which has an operating cycle of over 1 year. The normal operating cycle applies when considering the classification of the Group's construction-related assets and liabilities.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e., its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12 and Table 6 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on:

- 1) Foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- 2) Transactions entered into in order to hedge certain foreign currency risks; and
- 3) Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary item denominated in a foreign currency and measured at historical cost is stated at the reporting currency as originally translated from the foreign currency.

For the purpose of presenting consolidated financial statements, the functional currencies of foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, finished goods and work in process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

g. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of the equity of associates and joint ventures.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When the Group transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group's consolidated financial statements only to the extent that interests in the associate and the joint venture are not related to the Group.

#### h. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such a financial assets are recognized in other income; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 29.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

Financial assets are credit impaired when one or more of the following events have occurred: Issuers and borrowers are in severe financial difficulty, breach of contract, or it becoming probable that the borrower will enter bankruptcy or undergo a financial restructuring, or the disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

### iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

### b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), operating lease receivables as well as contract assets.

The Group always recognizes lifetime expected credit losses (ECLs) for trade receivables, operating lease receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 90 days past due, unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by reduction in their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and sum of consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.



### 3) Financial liabilities

#### a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

- Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities is held for trading.

Financial liabilities held for trading are stated at fair value, and any interest paid on such financial liabilities is recognized in finance costs; any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses. Fair value is determined in the manner described in Note 29.

#### b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

### 4) Convertible bonds

The component parts of compound instruments (i.e., convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

### 5) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g., financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

#### l. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

#### Contingent liabilities acquired in investments in associates and joint ventures

Contingent liabilities acquired in investments in associates and joint ventures are initially measured at fair value at the acquisition date, when the fair value of the present obligation resulting from past events can be reliably measured. At the end of subsequent reporting periods, such contingent liabilities are measured at their amortized amount. However, if the present obligation amount is assessed to have a probable outflow of resources, the contingent liabilities shall be measured at the higher of the present obligation amount and the amortized amount.

#### m. Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts entered into with the same customer (or related parties of the customer) at or near the same time, those contracts are accounted for as a single contract if the goods or services promised in the contracts are a single performance obligation.

For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

##### 1) Revenue from the sale of goods

Revenue from the sale of goods comes from the process of cutting and stamping with wholesale and retail of various steel products. Sales of goods are recognized as revenue when the goods are delivered to the customer's designated location, the customer has the right to set the price and use of the goods and has the primary responsibility for resale. Advance receipts for pre-determined sales price contracts are recognized as contract liabilities before the products have been delivered to the customer.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the cutting process of steel products. Revenue from a contract to provide services is recognized when services are rendered.

3) Construction contract revenue

Customers control properties while the construction is in progress; thus, the Group recognizes revenue over time. The Group measures the progress on the basis of costs incurred relative to the total expected costs as there is a direct relationship between the costs incurred and the progress of satisfying the performance obligations. Contract assets are recognized during the construction and are reclassified to trade receivables at the point at which the customer is invoiced. If the milestone payments exceed the revenue recognized to date, then the Group recognizes contract liabilities for the difference. Certain payments, which are retained by the customer as specified in the contract, are intended to ensure that the Group adequately completes all of its contractual obligations. Such retention receivables are recognized as contract assets until the Group satisfies its performance obligations.

When the outcome of a performance obligation cannot be reasonably measured, contract revenue is recognized only to the extent of contract costs incurred in satisfying the performance obligation for which recovery is expected.

n. Leasing

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

Lease payments are recognized as expenses on a straight-line basis over the lease terms for short-term leases and low-value asset leases accounted for applying the recognition exemption.

o. Borrowing costs

Borrowing costs directly attributable to an acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carry forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the investments in the associate or joint venture.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

### **Key Sources of Estimation Uncertainty**

#### a. Estimated impairment of financial assets

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

As of December 31, 2020 and 2019, the total amount of notes receivable, trade receivables and overdue receivables was NT\$3,419,232 thousand and NT\$2,460,062 thousand, respectively, which were the net amount after deducting the allowance for impairment loss of NT\$76,676 thousand and NT\$76,688 thousand, respectively.

b. Write-down of inventories

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

## 6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2020	2019
Cash on hand	\$ 996	\$ 1,165
Checking accounts and demand deposits	688,447	1,097,996
Cash equivalents (investments with original maturities of 3 months or less)		
Time deposits	<u>20,000</u>	<u>-</u>
	<u>\$ 709,443</u>	<u>\$ 1,099,161</u>

The market rate intervals of cash in the bank at the end of the reporting period were as follows:

	<u>December 31</u>	
	2020	2019
Bank balance	0.001%-0.35 %	0.001%-0.38%

As of December 31, 2020 and 2019, pledged time deposits were NT\$80,159 thousand and NT\$61,113 thousand, respectively, and were classified as financial assets at amortized cost (refer to Note 9).

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2020	2019
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Domestic listed shares	\$ 1,830,237	\$ 1,198,487
Mutual funds	125,600	151,084
Derivative financial assets (not under hedge accounting)		
Convertible options (Note 18)	<u>455</u>	<u>-</u>
	<u>\$ 1,956,292</u>	<u>\$ 1,349,571</u>

(Continued)

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Financial assets at FVTPL - non-current</u>		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Domestic unlisted shares	\$ <u>28,772</u>	\$ <u>-</u>
<u>Financial liabilities at FVTPL - current</u>		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts (a)	\$ 118,652	\$ 34,214
Convertible options (Note 18)	<u>-</u>	<u>7,641</u>
	<u>\$ 118,652</u>	<u>\$ 41,855</u>
		(Concluded)

- a. At the end of the year, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amounts (In Thousands)</b>
<u>December 31, 2020</u>			
Buy	NTD/USD	2021.01-2021.11	NTD3,039,790/USD107,000
Sell	USD/NTD	2021.05	NTD60,378/USD2,121
<u>December 31, 2019</u>			
Buy	NTD/USD	2020.01-2020.12	NTD2,045,395/USD67,530

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

- b. Refer to Note 31 for information relating to financial assets at fair value through profit or loss pledged as security.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Non-current</u>		
Investments in equity instruments	<u>\$ 2,666,221</u>	<u>\$ 1,767,897</u>

## Investments in Equity Instruments at FVTOCI

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Non-current</u>		
Domestic investments		
Listed shares and emerging market shares		
Ordinary shares - China Steel Corporation	\$ 1,259,796	\$ 1,216,531
Ordinary shares - Century Wind Power Co., Ltd.	985,300	174,000
Unlisted shares		
Ordinary shares - Duo Yuan Corporation	50,000	9,000
Ordinary shares - Envirolink Corporation	17,500	17,500
Ordinary shares - Dah Chung Bills Finance Corporation	5,506	5,506
Ordinary shares - Linkou Entertainment Corporation	4,600	4,600
Ordinary shares - Shin Ji Technology Corporation	3,450	3,450
Ordinary shares - Hua Mian Corporation	1,500	1,500
Ordinary shares - Yuan Jing Corporation	1,215	1,519
Ordinary shares - Shang Yang Technology Corporation	141	2,822
	<u>2,329,008</u>	<u>1,436,428</u>
Foreign investments		
Unlisted shares		
Ordinary shares - China Steel and Nippon Steel Vietnam Joint Stock Company	251,772	241,529
Ordinary shares - Century International Co., Ltd.	85,441	89,940
	<u>337,213</u>	<u>331,469</u>
	<u>\$ 2,666,221</u>	<u>\$ 1,767,897</u>

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

Refer to Note 31 for information relating to financial assets at FVTOCI pledged as security.

## **9. FINANCIAL ASSETS AT AMORTIZED COST**

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Current</u>		
Domestic investments		
Pledged time deposits	<u>\$ 80,159</u>	<u>\$ 61,113</u>

- The ranges of interest rates for pledged time deposits were 0.15%-0.53% and 0.25%-0.77% per annum as of December 31, 2020 and 2019, respectively.
- Refer to Note 31 for information relating to investments in financial assets at amortized cost pledged as security.



## 10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OVERDUE RECEIVABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Notes receivable</u>		
Operating - unrelated parties	\$ 1,374,153	\$ 1,046,765
Operating - related parties	36,699	44,465
Less: Allowance for impairment loss	<u>(1,778)</u>	<u>(1,778)</u>
	<u>\$ 1,409,074</u>	<u>\$ 1,089,452</u>
<u>Trade receivables</u>		
At amortized cost - unrelated parties	\$ 1,994,529	\$ 1,355,302
At amortized cost - related parties	14,168	13,847
Less: Allowance for impairment loss	<u>(1,539)</u>	<u>(1,539)</u>
	<u>\$ 2,007,158</u>	<u>\$ 1,367,610</u>
<u>Overdue receivables (presented under other non-current assets)</u>		
Overdue receivables	\$ 76,359	\$ 76,371
Less: Allowance for impairment loss	<u>(73,359)</u>	<u>(73,371)</u>
	<u>\$ 3,000</u>	<u>\$ 3,000</u>

### a. Notes receivable and trade receivables

The average credit period of sales of goods was 90-150 days. No interest was charged on trade receivables. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix approach considering the past default experience of the debtor and an analysis of the debtor's current financial position. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and trade receivables based on the Group's provision matrix.

December 31, 2020

	Not Past Due	Less than 30 Days	31 Days to 1 Year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate	0.05%	0.00%	30.58%	0.00%	0.00%	
Gross carrying amount	\$ 3,414,364	\$ -	\$ 5,185	\$ -	\$ -	\$ 3,419,549
Loss allowance (Lifetime ECL)	<u>(1,576)</u>	<u>-</u>	<u>(1,741)</u>	<u>-</u>	<u>-</u>	<u>(3,317)</u>
Amortized cost	<u>\$ 3,412,788</u>	<u>\$ -</u>	<u>\$ 3,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,416,232</u>

December 31, 2019

	Not Past Due	Less than 30 Days	31 Days to 1 Year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate	0.11%	85.27%	0.00%	0.00%	0.00%	
Gross carrying amount	\$ 2,459,707	\$ 672	\$ -	\$ -	\$ -	\$ 2,460,379
Loss allowance (Lifetime ECL)	<u>(2,744)</u>	<u>(573)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,317)</u>
Amortized cost	<u>\$ 2,465,963</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,457,062</u>

The movements of the loss allowance of notes receivable and trade receivables were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 3,317	\$ 5,420
Add: Net remeasurement of loss allowance	-	18,565
Less: Transferred to overdue receivables	-	(19,017)
Less: Amounts written off	<u>-</u>	<u>(1,651)</u>
Balance at December 31	<u>\$ 3,317</u>	<u>\$ 3,317</u>

Compared to January 1, 2020 and 2019, the increase in loss allowance of NT\$0 thousand and NT\$18,565 thousand at December 31, 2020 and 2019, respectively, resulted from the changes in the gross carrying amounts of notes receivables and trade receivables, which increased by NT\$959,170 thousand and decreased by NT\$131,329 thousand, respectively.

Refer to Note 31 for information relating to notes receivable pledged as security.

b. Overdue receivables

Overdue receivable balances that were past due but for which no allowance for impairment loss was recognized were NT\$3,000 thousand and NT\$3,000 thousand as of December 31, 2020 and 2019, respectively, which are disclosed in the aging analysis below. The Group did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts were still considered recoverable. The Group holds collateral or other credit enhancements for these balances. In addition, the Group did not have the legal right to off-set the overdue receivables with trade payables from the same counterparty.

The aging of overdue receivables that were past due but not impaired was as follows:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Up to 90 days	\$ -	\$ -
90-365 days	-	-
Over 365 days	<u>3,000</u>	<u>3,000</u>
	<u>\$ 3,000</u>	<u>\$ 3,000</u>

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the loss allowance of overdue receivables were as follows:

	<u>For the Year Ended December 31</u>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 73,371	\$ 37,890
Add: Impairment losses transferred from trade receivables	-	19,017
Add: Net remeasurement of loss allowance	405	16,464
Less: Net remeasurement of loss allowance	<u>(417)</u>	<u>-</u>
Balance at December 31	<u>\$ 73,359</u>	<u>\$ 73,371</u>

The Group recognized an impairment loss on overdue receivables amounting to NT\$73,359 thousand and NT\$73,371 thousand as of December 31, 2020 and 2019, respectively. These amounts mainly related to customers that the Group was pursuing legal claims. Impairment losses recognized is the difference between the carrying amount of overdue receivables and its recoverable amount. The Group held chattel pledged as collateral over these balances.

## 11. INVENTORIES

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Raw materials	\$ 3,081,711	\$ 3,006,525
Finished goods	366,451	401,801
Work in process	32,854	-
Raw materials in transit	<u>368,214</u>	<u>26,802</u>
	<u>\$ 3,849,230</u>	<u>\$ 3,435,128</u>

The nature of the cost of goods sold is as follows:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Cost of inventories sold	\$ 8,909,927	\$ 8,268,365
Inventory write-downs (reversed)	<u>(99,714)</u>	<u>(14,415)</u>
	<u>\$ 8,810,213</u>	<u>\$ 8,253,950</u>

As of December 31, 2020 and 2019, the allowance for inventory write-down was NT\$4,811 thousand and NT\$104,525 thousand, respectively.

Inventory write-downs (reversed) resulted from the fluctuation in the market price of the steel market.

## 12. SUBSIDIARIES

### Subsidiaries Included in the Consolidated Financial Statements

Investor	Investee	Nature of Activities	Proportion of Ownership (%)	
			December 31 2020	December 31 2019
Hsin Kuang Steel Corporation	Hsin Yuan Investment Co., Ltd.	Investment	100.00	100.00
Hsin Kuang Steel Corporation	Hsin Ho Fa Metal Co., Ltd.	Sale of metal products for architecture	83.37	83.37
Hsin Kuang Steel Corporation	Sinpao Investment Co., Ltd.	Investment	99.82	99.82
Hsin Kuang Steel Corporation	APEX Wind Power Equipment Manufacturing Company Limited	Manufacture of metal structures, architectural components and energy related equipment	66.71	53.51
Hsin Kuang Steel Corporation	Hsin Ching International Co., Ltd.	Leasing and warehousing	60.00	60.00
Hsin Kuang Steel Corporation	Hsin Cheng Logistics Development Co., Ltd.	Leasing and warehousing	100.00	100.00
Hsin Yuan Investment Co., Ltd.	APEX Wind Power Equipment Manufacturing Company Limited	Manufacture of metal structures, architectural components and energy related equipment	7.56	3.35
Hsin Yuan Investment Co., Ltd.	Hsin Hua Steel Industry Co., Ltd.	Process and manufacture of metal structures, architectural components and steel products	100.00	100.00
Hsin Ho Fa Metal Co., Ltd.	APEX Wind Power Equipment Manufacturing Company Limited	Manufacture of metal structures, architectural components and energy related equipment	2.73	2.73

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2020	2019
Investments in associates	\$ 61,134	\$ 59,480
Investments in joint ventures	<u>517,124</u>	<u>516,263</u>
	<u>\$ 578,258</u>	<u>\$ 575,743</u>

### a. Investments in associates

	December 31	
	2020	2019
Associates that are not individually material	<u>\$ 61,134</u>	<u>\$ 59,480</u>

Name of Subsidiary	Principal Place of Business	Proportion of Ownership and Voting Rights	
		December 31 2020	December 31 2019
Hsin Wei Solar Co., Ltd.	Non-metallic power generation	40.00%	40.00%

Aggregate information of associates that are not individually material is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
The Group's share of:		
Profit from continuing operations	\$ 5,530	\$ 10,680
Other comprehensive income	<u>          -</u>	<u>          -</u>
Total comprehensive income for the year	<u>\$ 5,530</u>	<u>\$ 10,680</u>

Investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited.

b. Investments in joint ventures

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Material joint ventures		
Mason Metal Industry Co., Ltd.	<u>\$ 517,124</u>	<u>\$ 516,263</u>

In order to promote upstream and downstream strategic alliance, strengthen sales and increase the added value of its products, the Group purchased 25,000 thousand ordinary shares of Mason Metal Industry Co., Ltd. at a price of NT\$11.4 per share resulting in a total of 50% of shareholder rights. The total purchase price was NT\$285,077 thousand. The transaction was completed on October 6, 2017. Under the joint venture agreement, the Group can assign three out of six members of the board of directors of Mason Metal Industry Co., Ltd. Therefore, the Group has a significant influence, and joint control with the other company, over Mason Metal Industry Co., Ltd.

Refer to Table 6 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the joint ventures. All the joint ventures are accounted for using the equity method.

The summarized financial information below represents the amount shown in the joint ventures' consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Mason Metal Industry Co., Ltd.

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	<u>\$ 89,574</u>	<u>\$ 230,287</u>
Current assets	\$ 1,011,641	\$ 1,109,898
Non-current assets	310,618	312,631
Current liabilities	(475,441)	(504,860)
Non-current liabilities	<u>(163,537)</u>	<u>(251,674)</u>
Equity	<u>\$ 683,281</u>	<u>\$ 665,995</u>
Proportion of the Group's ownership	50%	50%

(Continued)

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Equity attributable to the Group	\$ 341,640	\$ 332,998
Provisions	3,570	3,570
Gain from bargain purchase	211,110	211,110
Other adjustments	<u>(39,196)</u>	<u>(31,415)</u>
Carrying amount	<u>\$ 517,124</u>	<u>\$ 516,263</u> (Concluded)

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue	<u>\$ 1,711,471</u>	<u>\$ 1,814,044</u>
Depreciation and amortization expense	<u>\$ 9,422</u>	<u>\$ 7,524</u>
Interest income	<u>\$ 61</u>	<u>\$ 128</u>
Interest expense	<u>\$ 3,759</u>	<u>\$ 5,720</u>
Income tax expense	<u>\$ 4,332</u>	<u>\$ 3,382</u>
Net profit	<u>\$ 19,039</u>	<u>\$ 12,761</u>
Total comprehensive income	<u>\$ 19,039</u>	<u>\$ 12,761</u>

#### 14. PROPERTY, PLANT AND EQUIPMENT

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Assets used by the Group	<u>\$ 5,294,370</u>	<u>\$ 3,887,599</u>

##### a. Assets used by the Group

	<b>Freehold Land</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Transportation Equipment</b>	<b>Miscellaneous Equipment</b>	<b>Leased Assets</b>	<b>Property under Construction and Devices Awaiting Inspection</b>	<b>Total</b>
<b>Cost</b>								
Balance at January 1, 2020	\$ 2,513,928	\$ 1,112,588	\$ 849,583	\$ 145,463	\$ 24,889	\$ 22,316	\$ 39,424	\$ 4,708,191
Additions	114	15,324	272,805	17,667	16,268	9,844	1,220,196	1,552,218
Disposals	-	-	(17,496)	(7,338)	-	-	-	(24,834)
Reclassified	<u>43,294</u>	<u>47,270</u>	<u>-</u>	<u>-</u>	<u>4,267</u>	<u>-</u>	<u>(94,831)</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 2,557,336</u>	<u>\$ 1,175,182</u>	<u>\$ 1,104,892</u>	<u>\$ 155,792</u>	<u>\$ 45,424</u>	<u>\$ 32,160</u>	<u>\$ 1,164,789</u>	<u>\$ 6,235,575</u>
<b>Accumulated depreciation and impairment</b>								
Balance at January 1, 2020	\$ -	\$ 270,446	\$ 436,359	\$ 103,517	\$ 9,030	\$ 1,240	\$ -	\$ 820,592
Depreciation expense	-	30,336	89,638	10,204	4,301	4,344	-	138,823
Disposals	-	-	(11,942)	(6,268)	-	-	-	(18,210)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 300,782</u>	<u>\$ 514,055</u>	<u>\$ 107,453</u>	<u>\$ 13,331</u>	<u>\$ 5,584</u>	<u>\$ -</u>	<u>\$ 941,205</u>
Carrying amount at December 31, 2020	<u>\$ 2,557,336</u>	<u>\$ 874,400</u>	<u>\$ 590,837</u>	<u>\$ 48,339</u>	<u>\$ 32,093</u>	<u>\$ 26,576</u>	<u>\$ 1,164,789</u>	<u>\$ 5,294,370</u>

(Continued)

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Leased Assets	Property under Construction and Devices Awaiting Inspection	Total
<u>Cost</u>								
Balance at January 1, 2019	\$ 2,361,477	\$ 1,038,408	\$ 605,048	\$ 134,131	\$ 22,557	\$ -	\$ 97,843	\$ 4,259,464
Additions	2,483	13,427	15,177	12,788	9,126	-	153,399	206,400
Disposals	-	(1,097)	(25,088)	(1,456)	(7,270)	-	-	(34,911)
Reclassified	<u>149,968</u>	<u>61,850</u>	<u>254,446</u>	<u>-</u>	<u>476</u>	<u>22,316</u>	<u>(211,818)</u>	<u>277,238</u>
Balance at December 31, 2019	<u>\$ 2,513,928</u>	<u>\$ 1,112,588</u>	<u>\$ 849,583</u>	<u>\$ 145,463</u>	<u>\$ 24,889</u>	<u>\$ 22,316</u>	<u>\$ 39,424</u>	<u>\$ 4,708,191</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2019	\$ -	\$ 244,938	\$ 407,952	\$ 94,918	\$ 13,082	\$ -	\$ -	\$ 760,890
Depreciation expense	-	27,668	47,363	9,578	2,215	1,240	-	88,064
Disposals	-	(2,160)	(18,956)	(979)	(6,267)	-	-	(28,362)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 270,446</u>	<u>\$ 436,359</u>	<u>\$ 103,517</u>	<u>\$ 9,030</u>	<u>\$ 1,240</u>	<u>\$ -</u>	<u>\$ 820,592</u>
Carrying amount at December 31, 2019	<u>\$ 2,513,928</u>	<u>\$ 842,142</u>	<u>\$ 413,224</u>	<u>\$ 41,946</u>	<u>\$ 15,859</u>	<u>\$ 21,076</u>	<u>\$ 39,424</u>	<u>\$ 3,887,599</u>

(Concluded)

No impairment assessment was performed for the years ended December 31, 2020 and 2019 as there was no indication of impairment.

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

#### Buildings

Main buildings 10-55 years  
Building construction 3-20 years

#### Equipment

Main equipment 5-20 years  
Equipment maintenance 3-8 years

#### Transportation equipment

Truck and automotive 5-8 years  
Stacker 5-9 years  
Automotive accessories 3-5 years

#### Miscellaneous equipment

Computer equipment 3-10 years  
Office equipment and construction 3-10 years

The Group purchased 39,327.92 square meters of land located in Guanyin for operation use from 2005 to 2020. As of December 31, 2020, the carrying amount of the land was NT\$264,156 thousand. The law stipulates that an entity may not have ownership of land which is registered for agricultural purposes. Therefore, the Group held the land through the signing of the real estate trust agreement with an individual.

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 31.

## 15. INVESTMENT PROPERTIES

	<b>Investment Properties - Land</b>	<b>Investment Properties - Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2020	\$ 372,083	\$ 655,057	\$ 1,027,140
Additions	-	577	577
Disposals	-	(2,027)	(2,027)
Balance at December 31, 2020	<u>\$ 372,083</u>	<u>\$ 653,607</u>	<u>\$ 1,025,690</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2020	\$ -	\$ 42,481	\$ 42,481
Depreciation expense	-	20,356	20,356
Disposals	-	(737)	(737)
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 62,100</u>	<u>\$ 62,100</u>
Carrying amount at December 31, 2020	<u>\$ 372,083</u>	<u>\$ 591,507</u>	<u>\$ 963,590</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 372,083	\$ 652,944	\$ 1,025,027
Additions	-	3,513	3,513
Disposals	-	(1,400)	(1,400)
Balance at December 31, 2019	<u>\$ 372,083</u>	<u>\$ 655,057</u>	<u>\$ 1,027,140</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2019	\$ -	\$ 22,339	\$ 22,339
Depreciation expense	-	20,192	20,192
Disposals	-	(50)	(50)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 42,451</u>	<u>\$ 42,451</u>
Carrying amount at December 31, 2019	<u>\$ 372,083</u>	<u>\$ 612,576</u>	<u>\$ 984,659</u>

The investment properties were leased out for 2 to 31 years, without an option to extend. The lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

In addition to the fixed lease payments, the lease contracts also indicates that the lease payments should be adjusted every 2 or 3 years on the basis of the increase in Price Index.



The maturity analysis of lease payments receivable under operating leases of investment properties as of December 31, 2020 and 2019 was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Year 1	\$ 102,103	\$ 63,773
Year 2	84,117	58,758
Year 3	64,927	58,157
Year 4	47,496	58,438
Year 5	32,059	47,496
Year 6 onwards	<u>81,590</u>	<u>113,649</u>
	<u>\$ 412,292</u>	<u>\$ 400,271</u>

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25-55 years
Building construction	6-15 years
Leasehold improvements	5-15 years

The determination of fair value was performed by independent qualified professional appraisers on December 31, 2020 and 2019. The fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value	<u>\$ 1,897,104</u>	<u>\$ 1,868,011</u>

The investment properties pledged as collateral for bank borrowings are set out in Note 31.

## 16. OTHER ASSETS

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Current</u>		
Tax refund receivable	\$ 20,906	\$ 10,999
Temporary payments	5,246	31,368
Other receivables	3,013	5,439
Others	<u>-</u>	<u>21</u>
	<u>\$ 29,165</u>	<u>\$ 47,827</u>
<u>Non-current</u>		
Refundable deposits	\$ 35,326	\$ 34,376
Prepayments for equipment	27,645	179,846
Overdue receivables	3,000	3,000
Others	<u>10,463</u>	<u>9,750</u>
	<u>\$ 76,434</u>	<u>\$ 226,972</u>

## 17. BORROWINGS

### a. Short-term borrowings

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Secured borrowings (Notes 29 and 31)</u>		
Bank loans	\$ 562,500	\$ 1,235,000
Issuance credit payable	<u>1,103,754</u>	<u>778,249</u>
	<u>1,666,254</u>	<u>2,013,249</u>
<u>Unsecured borrowings</u>		
Line of credit borrowings (Note 29)	566,500	340,000
Issuance credit payable	<u>3,209,066</u>	<u>2,390,015</u>
	<u>3,775,566</u>	<u>2,730,015</u>
	<u>\$ 5,441,820</u>	<u>\$ 4,743,264</u>

The range of weighted average effective interest rates on bank loans was 0.77%-1.69% and 1.05%-3.44% per annum as of December 31, 2020 and 2019, respectively.

### b. Short-term bills payable

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Commercial paper (Note 29)	\$ 180,000	\$ 470,000
Less: Unamortized discount on bills payable	<u>(121)</u>	<u>(263)</u>
	<u>\$ 179,879</u>	<u>\$ 469,737</u>

Outstanding short-term bills payable were as follows:

#### December 31, 2020

<b>Promissory Institution</b>	<b>Nominal Amount</b>	<b>Discount Amount</b>	<b>Carrying Amount</b>	<b>Interest Rate</b>	<b>Collateral</b>	<b>Carrying Amount of Collateral</b>
<u>Commercial paper</u>						
A bank	\$ 100,000	\$ 57	\$ 99,943	1.10%	Head office	\$ 17,340
B bank	50,000	32	49,968	1.10%	Check	32,151
C bank	<u>30,000</u>	<u>32</u>	<u>29,968</u>	1.09%	Check	28,857
	<u>\$ 180,000</u>	<u>\$ 121</u>	<u>\$ 179,879</u>			

December 31, 2019

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of Collateral
<u>Commercial paper</u>						
A bank	\$ 50,000	\$ 4	\$ 49,996	1.2%	Check	\$ 38,789
B bank	290,000	211	289,789	1.1%	-	-
C bank	100,000	35	99,965	1.2%	Head office	17,780
D bank	<u>30,000</u>	<u>13</u>	<u>29,987</u>	1.2%	Head office	17,780
	<u>\$ 470,000</u>	<u>\$ 263</u>	<u>\$ 469,737</u>			

c. Long-term borrowings

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Secured borrowings (Notes 29 and 31)</u>		
Syndicated bank loans - Yushan Bank (1)	\$ 1,700,000	\$ 700,000
Bank loans - Chang Hwa Bank Sanchungpu Branch (2)	250,000	250,000
Bank loans - Banking Division of Mega Bank (3)	<u>118,421</u>	<u>128,947</u>
	<u>2,068,421</u>	<u>1,078,947</u>
Less: Current portions	(10,526)	(10,526)
Syndicated loan fees	<u>(8,114)</u>	<u>(10,818)</u>
	<u>(18,640)</u>	<u>(21,344)</u>
Long-term borrowings	<u>\$ 2,049,781</u>	<u>\$ 1,057,603</u>

1) On December 13, 2018, the Group signed a joint credit line contract with Yushan Bank, and such syndicated loan was collateralized by the Group's freehold land and plant (refer to Note 31). The credit line of loan item A is NT\$2,300,000 thousand, and the total credit line of loan items B and C is not more than NT\$2,700,000 thousand. The credit line of loan item A is not allowed to be used as a revolving credit. It shall be used in installments within 24 months from the date of first use, and the overdue credit will be cancelled and may not be used again. The outstanding principal balance that has been used at the expiration date has to be repaid in three installments. The first period is 36 months after the date of first use by repaying 10% of the balance, the second period is 12 months after the first period by repaying 20% of the balance, and the third period is 12 months after the second period by repaying 70% of the balance.

Loan item B is a revolving credit line with a 5-year period from the date of first use. Loan item C is a revolving credit line with a 5-year period from the date of first use of the commercial promissory notes (included in Long-term bills payable) issued by the Group. The revolving credit line of loan items B and C would be reduced at the end of each period, for a total of 3 periods. The first period is 36 months after the date of first use, and then every 12 months thereafter per period. The revolving credit line will be reduced by 10% at the first period, reduced by 20% at the second period, and reduced by 70% at the third period. Each time the credit line is reduced, the amount exceeding the remaining credit line shall be repaid at once.

During the loan period, the current ratio, debt ratio and times interest earned ratio, which shall be calculated based on the annual financial audit report, shall meet the criteria as stipulated in the agreement. If the financial ratios do not meet the criteria, the Group shall remedy within nine months after the end of the fiscal year in order not to be considered as a breach of the agreement. The weighted average effective interest rates was both 1.79% per annum as of December 31, 2020 and 2019.

- 2) In April 2019 and July 2016, the Group acquired bank loans from Chang Hwa Bank Sanchungpu Branch secured by the Group's freehold land (refer to Note 31) in the amount of NT\$250,000 thousand and NT\$185,500 thousand, respectively, which mature in April 2034 and July 2019, respectively. The grace period of NT\$250,000 thousand was 3 years, during which interest shall be paid by 26th of each month. Starting from April 26, 2022, the repayment of principal is divided into 48 equal installments of every 3 months, and each repayment principal shall be paid by 26th of each month, interest on the outstanding balance shall be paid by 26th of each month. The credit period of NT\$185,500 thousand was 3 years, interest shall be paid monthly and principal shall be fully repaid at the maturity date. The loan was repaid in advance in April 2019. The weighted average effective interest rates was 1.11%-1.36% and 1.36% per annum as of December 31, 2020 and 2019, respectively.
- 3) In January 2017, the Group acquired syndicated bank loans from Banking Division of Mega Bank secured by the Group's freehold land (refer to Note 31) in the amount of NT\$150,000 thousand, and will be expired in January 2032. Starting from the January of 2018, the repayment of principal is divided into 57 installments of every 3 months, with the amount of NT\$2,632 thousand per installment. The weighted average effective interest rate was 1.44% and 1.7% per annum as of December 31, 2020 and 2019, respectively.

d. Long-term bills payable

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Commercial paper issued under syndicated bank loans - Yushan Bank	\$ 2,400,000	\$ 1,900,000
Less: Unamortized discount	<u>(1,063)</u>	<u>(1,469)</u>
	<u>\$ 2,398,937</u>	<u>\$ 1,898,531</u>

The Company issued commercial paper under syndicated bank loans - Yushan Bank within terms of 5 years. The weighted average effective interest rate was 1.55%-1.23% and 1.34%-1.35% per annum as of December 31, 2020 and 2019, respectively. Refer to c. long-term borrowings item 1 for more information.

## 18. UNSECURED DOMESTIC CONVERTIBLE BONDS

On November 9, 2017, the Group issued 6 thousand units of 0% NT-denominated unsecured convertible bonds with a 5-year period in Taiwan, for an aggregate principal amount of NT\$601,200 thousand, which was issued at 100.2% of the nominal amount.

Each bond entitles the holder to convert it into ordinary shares of the Group at a conversion price of NT\$36. If the Group increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Regulation Governing the Company's 5th Unsecured Convertible Bond Issuance and Conversion. Conversion may occur at any time between February 10, 2018 and November 9, 2022. The holder can notify the Group 30 days before the expiry of 3 years and 4 years from issuance to request the Group the accrued interest based on the bond's denomination value (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.61% per annum, and the conversion option derivative instruments were measured at FVTPL.

Movements of the host liability instruments were as follows:

	<b>Host Liability Instruments</b>
Proceeds from issuance	\$ 601,200
Equity component	(54,892)
Conversion option derivative instrument	<u>(15,551)</u>
The host liability instrument on the issue date	530,757
Interest charged at the effective interest rate	23,012
Corporate bonds payable converted into ordinary shares	<u>(143,763)</u>
The host liability instrument at end of the year	410,006
Less: Current portions	<u>(410,006)</u>
 Balance at December 31, 2019	 <u>\$ -</u>
 Balance at January 1, 2020	 \$ 410,006
Interest charged at the effective interest rate	9,597
Corporate bonds payable converted into ordinary shares	<u>(31,048)</u>
The host liability instrument at end of the year	388,555
Less: Current portions	<u>(388,555)</u>
 Balance at December 31, 2020	 <u>\$ -</u>

Movements of the conversion option derivative instrument were as follows:

	<b>Conversion Option Derivative Instrument</b>
Balance at January 1, 2019	\$ 8,659
Gain from the change of fair value	<u>(1,018)</u>
 Balance at December 31, 2019	 <u>\$ 7,641</u>
 Balance at January 1, 2020	 \$ (7,641)
Gain from the change of fair value	7,301
Converted into ordinary shares	<u>795</u>
 Balance at December 31, 2020	 <u>\$ 455</u>

## 19. NOTES PAYABLE AND TRADE PAYABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Notes payable</u>		
Operating - unrelated parties	<u>\$ 391,119</u>	<u>\$ 263,903</u>
Operating - related parties	<u>\$ 505</u>	<u>\$ 608</u>
<u>Trade payables</u>		
Operating - unrelated parties	<u>\$ 155,018</u>	<u>\$ 48,280</u>
Operating - related parties	<u>\$ 62</u>	<u>\$ -</u>

## 20. OTHER PAYABLES

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Payables for salaries and bonuses	\$ 126,085	\$ 51,841
Interest payable	10,505	13,357
Other accrued expenses	41,103	37,564
Other payables	<u>97,098</u>	<u>7,874</u>
	<u>\$ 274,791</u>	<u>\$ 110,636</u>

## 21. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

Among the Group, the Company, Hsin Yuan Investment Co., Ltd., Hsin Ho Fa Metal Co., Ltd., APEX Wind Power Equipment Manufacturing Company Limited, Hsin Ching International Co., Ltd. and Hsin Hua Steel Industry Co., Ltd. adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

### b. Defined benefit plan

The defined benefit plans adopted by the Company within the Group in accordance with the Labor Standards Act is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plan were as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Present value of defined benefit obligation	\$ 53,263	\$ 54,757
Fair value of plan assets	<u>(27,568)</u>	<u>(27,709)</u>
Net defined benefit liabilities	<u>\$ 25,695</u>	<u>\$ 27,048</u>

Movements in net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2019	\$ 54,583	\$ (26,839)	\$ 27,744
Service cost			
Current service cost	286	-	286
Net interest expense (income)	<u>478</u>	<u>(257)</u>	<u>221</u>
Recognized in profit or loss	<u>764</u>	<u>(257)</u>	<u>507</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(898)	(898)
Actuarial (gain) loss			
Changes in demographic assumptions	1,177	-	1,177
Changes in financial assumptions	1,078	-	1,078
Experience adjustments	<u>(567)</u>	<u>-</u>	<u>(567)</u>
Recognized in other comprehensive income	<u>1,688</u>	<u>(898)</u>	<u>790</u>
Contributions from the employer	-	(1,993)	(1,993)
Benefits paid	<u>(2,278)</u>	<u>2,278</u>	<u>-</u>
Balance at December 31, 2019	<u>54,757</u>	<u>(27,709)</u>	<u>27,048</u>
Service cost			
Current service cost	227	-	227
Net interest expense (income)	<u>342</u>	<u>(179)</u>	<u>163</u>
Recognized in profit or loss	<u>569</u>	<u>(179)</u>	<u>390</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(942)	(942)
Actuarial (gain) loss			
Changes in demographic assumptions	167	-	167
Changes in financial assumptions	1,046	-	1,046
Experience adjustments	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Recognized in other comprehensive income	<u>1,211</u>	<u>(942)</u>	<u>269</u>
Contributions from the employer	-	(2,012)	(2,012)
Benefits paid	<u>(3,274)</u>	<u>3,274</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 53,263</u>	<u>\$ (27,568)</u>	<u>\$ 25,695</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating costs	<u>\$ 85</u>	<u>\$ 172</u>
Selling and marketing expenses	<u>\$ 247</u>	<u>\$ 260</u>
General and administrative expenses	<u>\$ 58</u>	<u>\$ 75</u>

Through the defined benefit plan under the Labor Standards Act, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rates	0.38%	0.63%
Expected rates of salary increase	1.50%	1.50%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rates		
0.50% increase	<u>\$ (1,047)</u>	<u>\$ (1,108)</u>
0.50% decrease	<u>\$ 1,083</u>	<u>\$ 1,147</u>
Expected rates of salary increase		
0.50% increase	<u>\$ 1,053</u>	<u>\$ 1,118</u>
0.50% decrease	<u>\$ (1,023)</u>	<u>\$ (1,085)</u>



The sensitivity analysis presented above may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in the assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Expected contributions to the plans for the next year	\$ 2,078	\$ 1,970
The average duration of the defined benefit obligation	7.9 years	8.2 years

## 22. EQUITY

### a. Share capital

#### Ordinary shares

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Number of shares authorized (in thousands)	<u>360,000</u>	<u>360,000</u>
Shares authorized	<u>\$ 3,600,000</u>	<u>\$ 3,600,000</u>
Number of shares issued and fully paid (in thousands)	<u>308,223</u>	<u>310,688</u>
Shares issued	<u>\$ 3,082,226</u>	<u>\$ 3,106,877</u>

The shares issued had a par value of NT\$10. Each share entitles the rights to dividends and to vote.

The change in the Company's share capital is mainly due to the cancelation of treasury shares and the exercise of convertible bonds.

### b. Capital surplus

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Share premiums	\$ 749,296	\$ 733,079
Treasury share transactions	-	7,754
<u>May not be used for any purpose (2)</u>		
Employee share options	36,647	36,647
Share warrants	<u>37,254</u>	<u>40,236</u>
	<u>\$ 823,197</u>	<u>\$ 817,716</u>

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

2) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Company's Articles of Incorporation, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit until the legal reserve equals the Company's paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors and supervisors, refer to compensation of employees and remuneration of directors and supervisors in Note 24-g.

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividends policy. The dividends payment principle shall be determined on the basis of the current and forthcoming development plan, considering the investing environment, demanding for funds, domestic and foreign competition, and shareholders' interests. The Company shall, in accordance with the capital budget plan for the following year, determine the most appropriate dividend policy. After the board of directors resolve the distribution plan, such plan will be subject to the resolution in the shareholders' meeting.

The issuance of dividends may be distributed in cash or share dividends. Among the dividends payment, no less than 30% shall be paid in cash.

The legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, NO. 1010047490, and NO. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2019 and 2018 approved in the shareholders' meetings on June 11, 2020 and June 11, 2019, respectively, were as follows:

	<b>Appropriation of Earnings</b>	
	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Legal reserve	<u>\$ 10,497</u>	<u>\$ 97,873</u>
Special reserve	<u>\$ 64,692</u>	<u>\$ 43,567</u>
Cash dividends	<u>\$ 248,550</u>	<u>\$ 466,032</u>
Cash dividends per share (NT\$)	<u>\$ 0.8</u>	<u>\$ 1.5</u>

The appropriation of earnings for 2020 was proposed by the Company's board of directors on March 16, 2021. The appropriation and dividends per share were as follows:

	<b>For 2020</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	<u>\$ 82,418</u>	\$ -
Special reserve	<u>\$ (108,259)</u>	-
Cash dividends	<u>\$ 462,386</u>	1.5
Cash dividends distributed from capital surplus	<u>\$ 154,129</u>	0.5

The appropriation of earnings for 2020 is subject to the resolution in the shareholders' meeting to be held on June 11, 2021.

d. Special reserve

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 43,567	\$ -
Appropriations in respect of debits to other equity items	<u>64,692</u>	<u>43,567</u>
Balance at December 31	<u>\$ 108,259</u>	<u>\$ 43,567</u>

e. Others equity items

1) Exchange differences on translation of the financial statements of foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ (370)	\$ 2,214
Exchange differences on translating the financial statements of foreign operations	<u>(5,331)</u>	<u>(2,584)</u>
Balance at December 31	<u>\$ (5,701)</u>	<u>\$ (370)</u>

2) Unrealized valuation gain (loss) on financial assets at FVTOCI

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ (107,890)	\$ (45,782)
Recognized for the year Unrealized gain (loss) - equity instruments	<u>836,244</u>	<u>(62,108)</u>
Balance at December 31	<u>\$ 728,354</u>	<u>\$ (107,890)</u>

f. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Balance at January 1	\$ 526,706	\$ 524,707
Attributable to non-controlling interests:		
Share of profit (loss) for the year	16,620	(2,558)
Exchange difference on translation of the financial statements of foreign operations	(13)	(7)
Dividends distributed by subsidiaries	(5,371)	(16,296)
Changes in percentage of ownership interests in subsidiaries	18,459	1,895
Changes of non-controlling interests	<u>(126,425)</u>	<u>18,965</u>
Balance at December 31	<u>\$ 429,976</u>	<u>\$ 526,706</u>

f. Treasury shares

	<b>Shares Cancelled (In Thousands of Shares)</b>
Number of shares at January 1, 2020	\$ -
Increase during the year	3,500
Decrease during the year	<u>(3,500)</u>
Number of shares at December 31, 2020	<u>\$ -</u>

**23. REVENUE**

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Revenue from contracts with customers		
Revenue from sales of goods	\$ 9,738,185	\$ 8,335,222
Revenue from processing	189,758	56,668
Rental income	90,973	89,509
Construction contract revenue	<u>44,293</u>	<u>146,177</u>
	<u>\$ 9,852,311</u>	<u>\$ 8,477,785</u>

a. Contract balances

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Trade receivables (Note 10)	<u>\$ 2,018,221</u>	<u>\$ 1,367,610</u>
Contract asset - non-current		
Construction of properties	<u>\$ 2,762</u>	<u>\$ -</u>
Contract liabilities - current		
Sales of goods	\$ 210,970	\$ 149,488
Construction of properties	<u>1,708</u>	<u>-</u>
	<u>\$ 212,678</u>	<u>\$ 149,488</u>

b. Refer to Note 35 for details of revenue.

## 24. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Dividend income		
Financial assets at FVTPL	\$ 32,513	\$ 24,325
Financial assets at FVTOCI	25,759	53,811
Others	<u>11,219</u>	<u>2,800</u>
	<u>\$ 69,491</u>	<u>\$ 80,936</u>

### b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Net loss on disposal of property, plant and equipment	\$ (4,384)	\$ (811)
Fair value changes of financial assets and financial liabilities		
Financial assets/liabilities mandatorily classified as at FVTPL	406,646	88,666
Net foreign exchange gains	<u>90,462</u>	<u>213,864</u>
	<u>\$ 492,724</u>	<u>\$ 301,719</u>

### c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Interest on bank loans	\$ 136,940	\$ 158,675
Interest on bonds payable	9,598	9,669
Less: Amounts included in the cost of qualifying assets	<u>(19,624)</u>	<u>(860)</u>
	<u>\$ 126,914</u>	<u>\$ 167,484</u>

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Capitalized interest	\$ 19,624	\$ 860
Capitalization rate	2.5%	2.5%

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Property, plant and equipment	\$ 138,823	\$ 88,064
Investment properties	20,356	20,192
Long-term prepayments	<u>5,305</u>	<u>2,931</u>
	<u>\$ 164,484</u>	<u>\$ 111,187</u>
 An analysis of depreciation by function		
Operating costs	\$ 145,415	\$ 96,120
Operating expenses	<u>13,764</u>	<u>12,136</u>
	<u>\$ 159,179</u>	<u>\$ 108,256</u>
 An analysis of amortization by function		
Operating costs	\$ 2,822	\$ 1,267
Operating expenses	<u>2,483</u>	<u>1,664</u>
	<u>\$ 5,305</u>	<u>\$ 2,931</u>

e. Operating expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Direct operating expenses of investment properties generating rental income	\$ 39,219	\$ 34,392
Direct operating expenses of investment properties not generating rental income	<u>-</u>	<u>-</u>
	<u>\$ 39,219</u>	<u>\$ 34,392</u>

f. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Short-term benefits	\$ 316,649	\$ 207,127
Post-employment benefits (Note 21)		
Defined contribution plans	7,331	6,016
Defined benefit plans	<u>390</u>	<u>507</u>
	<u>\$ 324,370</u>	<u>\$ 213,650</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 142,636	\$ 114,606
Operating expenses	<u>181,734</u>	<u>99,044</u>
	<u>\$ 324,370</u>	<u>\$ 213,650</u>

g. Compensation of employees and remuneration of directors and supervisors

The Group accrued compensation of employees and remuneration of directors and supervisors at the rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors and supervisors. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2020 and 2019 which have been approved by the Company's board of directors on March 16, 2021 and March 17, 2020, respectively, were as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Compensation of employees	3%	3%
Remuneration of directors and supervisors	3%	3%

Amount

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>Cash</b>	<b>Cash</b>
Compensation of employees	<u>\$ 28,405</u>	<u>\$ 4,199</u>
Remuneration of directors and supervisors	<u>\$ 28,405</u>	<u>\$ 4,199</u>

If there is a change in the amounts after the consolidated financial statements were authorized for issuance, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of compensation of employees and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors for 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gains or losses on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Foreign exchange gains	\$ 156,696	\$ 304,072
Foreign exchange losses	<u>(66,234)</u>	<u>(90,208)</u>
	<u>\$ 90,462</u>	<u>\$ 213,864</u>

## 25. INCOME TAXES

### a. Major components of tax expense recognized in profit or loss

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax		
In respect of the current year	\$ 87,809	\$ 13,424
Income tax on unappropriated earnings	-	24,623
Adjustments for prior years	(8,927)	(7,890)
Others	-	(107)
	<u>78,882</u>	<u>30,050</u>
Deferred tax		
In respect of the current year	<u>(11,592)</u>	<u>(23,709)</u>
Income tax expense recognized in profit or loss	<u>\$ 67,290</u>	<u>\$ 6,341</u>

A reconciliation of accounting profit and income tax expense is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit before income tax	<u>\$ 913,023</u>	<u>\$ 124,457</u>
Income tax expense calculated at the statutory rate	\$ 223,235	\$ 24,891
Non-deductible expenses and non-taxable income	(134,468)	(33,927)
Tax-exempt income	(11,603)	(15,627)
Income tax on unappropriated earnings	-	24,623
Additional income tax under the Alternative Minimum Tax Act	-	7,600
Unrecognized loss carryforwards	1,025	8,001
Loss carryforwards used	(1,688)	(1,791)
Unrecognized deductible temporary differences	(371)	43
Effects of different tax rates of the Group entities operating in other jurisdictions	373	44
Adjustments for prior years' tax	(8,927)	(7,890)
Others	<u>(286)</u>	<u>374</u>
Income tax expense recognized in profit or loss	<u>\$ 67,290</u>	<u>\$ 6,341</u>

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Group only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.



b. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Deferred tax</u>		
In respect of the current year:		
Translation of foreign operations	\$ (1,333)	\$ (647)
Remeasurement on defined benefit plans	<u>(56)</u>	<u>(158)</u>
Total income tax recognized in other comprehensive income	<u>\$ (1,389)</u>	<u>\$ (805)</u>

c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Current tax assets		
Tax refund receivable	<u>\$ 20,906</u>	<u>\$ 10,999</u>
Current tax liabilities		
Income tax payable	<u>\$ 84,877</u>	<u>\$ 11,182</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2020

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Compre- hensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Reversal of write-downs of inventories	\$ 19,832	\$ (19,832)	\$ -	\$ -
FVTPL financial assets	6,844	16,888	-	23,732
Unrealized gross profit	135	19,700	-	19,835
Defined benefit obligation	4,254	(324)	56	3,986
Allowance for impairment loss on receivables	10,272	(2,340)	-	7,932
Property, plant and equipment	162	(162)	-	-
Exchange differences on translation of the financial statements of foreign operations	93	-	1,333	1,426
Loss carryforwards	<u>5,813</u>	<u>1,841</u>	<u>-</u>	<u>7,654</u>
	<u>\$ 47,405</u>	<u>\$ 15,771</u>	<u>\$ 1,389</u>	<u>\$ 64,565</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Convertible bonds	\$ 616	\$ 1,460	\$ -	\$ 2,076
Gains or losses on foreign currency exchange	<u>11,585</u>	<u>2,719</u>	<u>-</u>	<u>14,304</u>
	<u>\$ 12,201</u>	<u>\$ 4,179</u>	<u>\$ -</u>	<u>\$ 16,380</u> (Concluded)

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Reversal of write-downs of inventories	\$ 22,244	\$ (2,412)	\$ -	\$ 19,832
FVTPL financial assets	16	6,828	-	6,844
Gains or losses on foreign currency exchange	1,707	(1,707)	-	-
Unrealized gross profit	759	(624)	-	135
Defined benefit obligation	4,393	(297)	158	4,254
Allowance for impairment loss on receivables	3,137	7,135	-	10,272
Unused loss carryforwards	-	162	-	162
Exchange differences on translation of the financial statements of foreign operations	-	-	93	93
Loss carryforwards	<u>-</u>	<u>5,813</u>	<u>-</u>	<u>5,813</u>
	<u>\$ 32,256</u>	<u>\$ 14,893</u>	<u>\$ 251</u>	<u>\$ 47,405</u>

Deferred tax liabilities

Temporary differences				
FVTPL financial assets	\$ 20,639	\$ (20,639)	\$ -	\$ -
Convertible bonds	412	204	-	616
Gains or losses on foreign currency exchange	68	11,517	-	11,586
Exchange differences on translation of the financial statements of foreign operations	<u>554</u>	<u>-</u>	<u>(554)</u>	<u>-</u>
	<u>\$ 21,673</u>	<u>\$ (8,918)</u>	<u>\$ (554)</u>	<u>\$ 12,201</u>

- e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Loss carryforwards		
Expire in 2020	\$ -	\$ 12,791
Expire in 2021	24,367	24,367
Expire in 2022	12,896	12,896
Expire in 2024	30,498	30,498
Expire in 2025	19,776	19,776
Expire in 2026	4,568	4,568
Expire in 2027	5,921	5,921
Expire in 2028	1,764	1,764
Expire in 2029	37,554	45,154
Expire in 2030	<u>5,123</u>	<u>-</u>
	<u>\$ 142,467</u>	<u>\$ 157,735</u>
Deductible temporary differences		
Unrealized profit or loss of foreign subsidiaries using equity method	\$ (161)	\$ 1,692
Impairment of financial assets measured at FVTOCI	137,439	137,439
Write-downs of inventories	4,810	5,361
Net loss on foreign currency exchange	<u>94</u>	<u>384</u>
	<u>\$ 142,182</u>	<u>\$ 144,876</u>

- f. Income tax assessments

The income tax returns through 2018 and income tax returns on unappropriated earnings through 2017 of the Company and subsidiaries have been assessed by the tax authorities.

## 26. EARNINGS PER SHARE

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Basic earnings per share		
From continuing operations	<u>\$ 2.69</u>	<u>\$ 0.39</u>
Diluted earnings per share		
From continuing operations	<u>\$ 2.60</u>	<u>\$ 0.39</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share from continuing operations are as follows:

Net Profit for the Year

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Earnings used in the computation of basic earnings per share	\$ 829,113	\$ 120,674
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	<u>7,678</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 836,791</u>	<u>\$ 120,674</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Weighted average number of ordinary shares in the computation of basic earnings per share	308,274	310,688
Effect of potentially dilutive ordinary shares:		
Convertible bonds	12,927	-
Compensation of employees	<u>720</u>	<u>133</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>321,921</u>	<u>310,821</u>

The Group may settle compensation or bonuses paid to employees in cash or shares; therefore, the Group assumes that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 27. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In November 2020 and September 2019, the Group acquired additional shares of the subsidiary, APEX Wind Power Equipment Co., Ltd., increasing its interests from 59.59% to 77.00% and from 51.31% to 59.59%, respectively.

The above transactions were accounted for as equity transactions, since there was no impact on the Group's control over the subsidiary.

## 28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged over the past 5 years.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings, other equity and non-controlling interests).

The Group is not subject to any externally imposed capital requirements.

The key management personnel of the Group review the Group's capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

## 29. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments not measured at fair value

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

December 31, 2020

	<b>Carrying Amount</b>	<b>Fair Value</b>
<u>Financial assets</u>		
Financial assets measured at amortized cost:		
Pledged time deposits	\$ 80,159	\$ 80,159
Notes receivable (including related parties)	1,409,074	1,409,074
Trade receivables (including related parties)	2,007,158	2,007,158
Overdue receivables	3,000	3,000
Cash and cash equivalents	709,443	709,443
Refundable deposits	35,326	35,326
<u>Financial liabilities</u>		
Financial liabilities measured at amortized cost:		
Bank borrowings	7,502,127	7,502,127
Short-term bills payable	179,879	179,879
Notes payable, trade payables and other payables (including related parties)	821,493	821,493
Convertible bonds	388,555	388,555
Long-term bills payable	2,398,937	2,398,937

December 31, 2019

	<b>Carrying Amount</b>	<b>Fair Value</b>
<u>Financial assets</u>		
Financial assets measured at amortized cost:		
Time deposits with original maturities of more than 3 months	\$ 61,113	\$ 61,113
Notes receivable (including related parties)	1,089,452	1,089,452
Trade receivables (including related parties)	1,367,610	1,367,610
Overdue receivables	3,000	3,000
Cash and cash equivalents	1,099,161	1,099,161
Refundable deposits	34,376	34,376

Financial liabilities

Financial liabilities measured at amortized cost:		
Bank borrowings	5,811,393	5,811,393
Short-term bills payable	469,737	469,737
Notes payable, trade payables and other payables (including related parties)	423,427	423,427
Convertible bonds	410,006	410,006
Long-term bills payable	1,898,531	1,898,531

The methods and assumptions used by the Group for estimating financial instruments not measured at fair value are as follows:

- 1) The fair value of financial instruments, including cash and cash equivalents, trade receivables, overdue receivables, trade payables, pledged time deposits, refundable deposits, short-term bank borrowings, short-term bills payable and long-term bills payable, is estimated as the carrying amount at the end of the reporting period, because the maturity date is close or the payment amount is close to its carrying amount.
- 2) The fair value of long-term bank borrowings is determined using the discounted cash flow approach. Future cash flows are discounted at a long-term borrowing rate of the Group. The Group estimated the carrying amount of the long-term loans at the end of the reporting period as their fair values.
- 3) The fair value of the liability component of convertible bonds is measured at amortized cost using the effective interest method, and the conversion options component of the convertible bonds is measured at fair value. The fair value of the liability component of the convertible bonds is estimated at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2020

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL</u>				
Domestic listed shares and emerging market shares	\$ 1,830,237	\$ -	\$ -	\$ 1,830,237
Domestic unlisted shares	-	-	28,772	28,772
Mutual funds	125,600	-	-	125,600
Derivative instruments	<u>-</u>	<u>455</u>	<u>-</u>	<u>455</u>
	<u>\$ 1,955,837</u>	<u>\$ 455</u>	<u>\$ 28,772</u>	<u>\$ 1,985,064</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic listed shares and emerging market shares	\$ 2,245,096	\$ -	\$ -	\$ 2,245,096
Domestic unlisted shares	-	-	83,912	83,912
Foreign unlisted shares	<u>-</u>	<u>-</u>	<u>337,213</u>	<u>337,213</u>
	<u>\$ 2,245,096</u>	<u>\$ -</u>	<u>\$ 421,125</u>	<u>\$ 2,666,221</u>
<u>Financial liabilities at FVTPL</u>				
Derivative instruments	<u>\$ -</u>	<u>\$ 118,652</u>	<u>\$ -</u>	<u>\$ 118,652</u>

December 31, 2019

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL</u>				
Domestic listed shares and emerging market shares	\$ 1,198,487	\$ -	\$ -	\$ 1,198,487
Mutual funds	<u>151,084</u>	<u>-</u>	<u>-</u>	<u>151,084</u>
	<u>\$ 1,349,571</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,349,571</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic listed shares	\$ 1,216,531	\$ -	\$ -	\$ 1,216,531
Domestic unlisted shares	-	-	219,897	219,897
Foreign unlisted shares	<u>-</u>	<u>-</u>	<u>331,469</u>	<u>331,469</u>
	<u>\$ 1,216,531</u>	<u>\$ -</u>	<u>\$ 551,366</u>	<u>\$ 1,767,897</u>
<u>Financial liabilities at FVTPL</u>				
Derivatives	<u>\$ -</u>	<u>\$ 41,855</u>	<u>\$ -</u>	<u>\$ 41,855</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2020

Financial Asset	Financial Assets at FVTPL	Financial Assets at FVTOCI	Total
	Equity Instruments	Equity Instruments	
Balance at January 1	\$ -	\$ 551,366	\$ 551,366
Recognized in profit or loss (included in other gains and losses)	919	-	919
Recognized in other comprehensive income (included in unrealized gain (loss) on financial assets at FVTOCI)	-	10,243	10,243
Recognized in other comprehensive income (exchange differences on translation of the financial statements of foreign operations)	-	(4,499)	(4,499)
Purchases	27,853	109,089	136,942
Sales	-	(30,433)	(30,433)
Shares return of investments	-	(2,985)	(2,985)
Transfers out of Level 3	-	(211,656)	(211,656)
Balance at December 31	<u>\$ 28,772</u>	<u>\$ 421,125</u>	<u>\$ 449,897</u>

For the year ended December 31, 2019

Financial Asset	Financial Assets at FVTPL	Financial Assets at FVTOCI	Total
	Equity Instruments	Equity Instruments	
Balance at January 1	\$ -	\$ 610,546	\$ 610,546
Recognized in other comprehensive income (included in unrealized gain (loss) on financial assets at FVTOCI)	-	(60,854)	(60,854)
Recognized in other comprehensive income (exchange differences on translation of the financial statements of foreign operations)	-	(2,205)	(2,205)
Purchases	-	12,000	12,000
Shares return of investments	-	(8,121)	(8,121)
Balance at December 31	<u>\$ -</u>	<u>\$ 551,366</u>	<u>\$ 551,366</u>



3) Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign currency forward contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options is estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of domestic unlisted equity instruments were determined using the market approach. In this approach, the fair value is appraised based on the market selling price of similar items, such as assets, liabilities, or the groups of assets and liabilities. The significant unobservable factors used are described below, an increase in long-term revenue growth rates, long-term pre-tax operating margin, a decrease in the weighted average cost of capital, or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	\$ 1,956,292	\$ 1,349,571
Financial assets at amortized cost (1)	4,244,160	3,654,712
Financial assets at FVTOCI		
Equity instruments	2,666,221	1,767,897
<u>Financial liabilities</u>		
Financial liabilities at FVTPL		
Held for trading	118,652	41,855
Financial liabilities at amortized cost (2)	11,290,991	9,013,094

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, overdue receivables, refundable deposits and pledged time deposits.

2) The balances include financial liabilities at amortized cost, which comprise short-term and long-term loans, short-term and long-term bills payable, notes payable, trade payables, other payables and bonds payable

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payable, trade payables, other payables, bonds payable and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed them primarily to the financial risks of changes in foreign currency exchange rates (see "a. foreign currency risk" below) and interest rates (see "b. interest rate risk" below). The Group entered into a variety of derivative financial instruments to manage their exposure to foreign currency risk and interest rate risk, including:

- a) Foreign exchange forward contracts to hedge the exchange rate risk arising on the import and export of steel plates;
- b) Interest rate swaps to mitigate the risk of rising interest rates.

There has been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

Several subsidiaries of the Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the year are set out in Note 33.

Sensitivity analysis

The Group was mainly exposed to USD, JPY, RMB, and EUR.

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e., the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit below would be negative.

	<b>USD Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss	\$ 26,483 (i)	\$ 19,483 (i)
	<b>JPY Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss	\$ 10 (ii)	\$ 6 (ii)
	<b>EUR Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss	\$ 774 (iii)	\$ 76 (iii)
	<b>RMB Impact</b>	
	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit or loss	\$ 295 (iv)	\$ 271 (iv)

- i. This was mainly attributable to the exposure on outstanding USD letters of credit, trade receivables, trade payables, other payables and bank deposits, which were not hedged at the end of the reporting period.
- ii. This was mainly attributable to the exposure on outstanding JPY bank deposits, which were not hedged at the end of the reporting period.
- iii. This was mainly attributable to the exposure on outstanding EUR letters of credit, other payables and bank deposits, which were not hedged at the end of the reporting period.
- iv. This was mainly attributable to the exposure outstanding on RMB bank deposits, which were not hedged at the end of the reporting period.

The Group's sensitivity to foreign currency increased during the current year mainly due to the increase in purchases which resulted in an increase in USD letters of credit.

In management's opinion, sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Group was exposed to interest rate risk because entities of the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash flow interest rate risk		
Financial assets	\$ 468,329	\$ 967,940
Financial liabilities	10,080,943	8,179,661

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2020 and 2019 would decrease/increase by NT\$87,871 thousand and NT\$75,482 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

c) Other price risk

The Group was exposed to equity price risk through their investments in listed equity securities. The Group have appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2020 and 2019 would have increased/decreased by NT\$19,831 thousand and NT\$13,451 thousand, respectively, as a result of the changes in the fair value of financial assets at FVTPL and held-for-trading investments, respectively, and the pre-tax other comprehensive income for the years ended December 31, 2020 and 2019 would have increased/decreased by NT\$28,815 thousand and NT\$12,216 thousand, respectively, as a result of the changes in the fair value of financial assets at FVTOCI.

The Group's sensitivity to investments in equity securities has not changed significantly from the prior year.

## 2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. At the end of the year, the Group's maximum exposure to credit risk, which may cause a financial loss to the Group due to the failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets which were mainly trade receivables from operating activities.

In order to minimize credit risk, management of the Group have delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group's trade receivables are from a large number customers. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets of the Group at any time during 2020 and 2019.

The Group's concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 97% and 100% of the total trade receivables as of December 31, 2020 and 2019, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

## 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2020 and 2019, the Group had available unutilized bank loan facilities set out in (b) below.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2020 and 2019, the Group had available unutilized short-term bank loan facilities of NT\$2,044,370 thousand and NT\$3,513,020 thousand, respectively.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

To the extent that interest cash flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2020

	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
Non-interest bearing	\$ 242,257	\$ 278,709	\$ 266,067	\$ 63,954	\$ 5,085
Variable interest rate liabilities	<u>1,635,582</u>	<u>3,663,417</u>	<u>2,732,163</u>	<u>1,778,125</u>	<u>271,656</u>
	<u>\$ 1,877,839</u>	<u>\$ 3,942,126</u>	<u>\$ 2,998,230</u>	<u>\$ 1,842,079</u>	<u>\$ 276,741</u>

December 31, 2019

	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
Non-interest bearing	\$ 245,974	\$ 139,036	\$ 36,232	\$ 4,374	\$ 9,642
Variable interest rate liabilities	<u>1,014,719</u>	<u>3,682,411</u>	<u>2,414,401</u>	<u>949,708</u>	<u>118,421</u>
	<u>\$ 1,260,693</u>	<u>\$ 3,821,447</u>	<u>\$ 2,450,633</u>	<u>\$ 954,082</u>	<u>\$ 128,063</u>

The following table details the Group's expected maturities for some of its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

December 31, 2020

	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
Non-interest bearing	\$ 2,018,414	\$ 1,493,101	\$ 244,116	\$ 22,845	\$ 3,034
Variable interest rate assets	<u>407,625</u>	<u>56,161</u>	<u>4,543</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,426,039</u>	<u>\$ 1,549,262</u>	<u>\$ 248,659</u>	<u>\$ 22,845</u>	<u>\$ 3,034</u>

December 31, 2019

	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
Non-interest bearing	\$ 1,408,089	\$ 1,173,941	\$ 78,761	\$ 31,024	\$ 3,000
Variable interest rate assets	<u>912,280</u>	<u>48,133</u>	<u>7,527</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,320,369</u>	<u>\$ 1,222,074</u>	<u>\$ 86,288</u>	<u>\$ 31,024</u>	<u>\$ 3,000</u>

b) Financing facilities

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Secured bank loan facilities which may be extended by mutual agreement:		
Amount used	\$ 7,047,942	\$ 9,361,833
Amount unused	<u>9,066,998</u>	<u>8,031,797</u>
	<u>\$ 16,114,940</u>	<u>\$ 17,393,630</u>

**30. TRANSACTIONS WITH RELATED PARTIES**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationship with the Company:

<u>Related Party</u>	<u>Relationship with the Company</u>
APEX Wind Power Equipment Manufacturing Company, Ltd.	Subsidiary
Mason Metal Industry Co., Ltd.	Joint venture
Hsin Kuang Steel Tian-Cheng Charity Foundation	The Foundation's Chairman is the same person as the representative of a corporate director of the Company

b. Operating revenue

<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Sale of goods</u>		
<u>Joint ventures</u>		
Mason Metal Industry Co., Ltd.	\$ <u>111,773</u>	\$ <u>104,907</u>

c. Purchases of goods

<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Joint ventures</u>		
Mason Metal Industry Co., Ltd.	\$ <u>1,607</u>	\$ <u>5,889</u>

The Group's purchase and payment terms with related parties were comparable to those with unrelated parties.

d. Processing cost

<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Joint ventures</u>		
Mason Metal Industry Co., Ltd.	\$ 5,265	\$ 3,911

e. Other revenue

<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Joint ventures</u>		
Mason Metal Industry Co., Ltd.	\$ 1,200	\$ 1,200

f. Receivables from related parties

<b>Related Party Category/Name</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Joint ventures</u>		
Mason Metal Industry Co., Ltd.	\$ 50,867	\$ 58,312

The outstanding trade receivables from related parties are unsecured. As of December 31, 2020 and 2019, no impairment loss was recognized for trade receivables from the related parties.

g. Payables to related parties

<b>Related Party Category/Name</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Joint ventures</u>		
Mason Metal Industry Co., Ltd.	\$ 598	\$ 608

h. Endorsements and guarantees

<b>Related Party Category/Name</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Subsidiary</u>		
APEX Wind Power Equipment Manufacturing Company., Ltd.		
Amount endorsed	\$ 150,000	\$ -
Amount utilized	-	-
	<u>\$ 150,000</u>	<u>\$ -</u>



i Other transactions with related parties

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2020	2019
Donations	Hsin Kuang Steel Tian-Cheng Charity Foundation	\$ <u>2,000</u>	\$ <u>2,000</u>

j Compensation of key management personnel

The amount of the remuneration of directors and key management personnel were as follows:

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ <u>70,524</u>	\$ <u>23,939</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

### 31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, collateral for construction contracts and lease guarantee deposits:

	December 31	
	2020	2019
Notes receivable	\$ 220,696	\$ 205,173
Financial assets at fair value through profit or loss - current	51,800	-
Pledged time deposits (classified as financial assets at amortized cost)	80,159	61,113
Investments in equity instruments at FVTOCI	235,125	227,050
Freehold land	1,086,863	1,086,863
Buildings, net	605,179	624,735
Investment properties - land	350,861	350,861
Investment properties - buildings	<u>538,245</u>	<u>550,161</u>
	<u>\$ 3,618,928</u>	<u>\$ 3,105,956</u>

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2020 and 2019 were as follows:

#### Significant Commitments

- a. As of December 31, 2020 and 2019, unused letters of credit for purchases of raw materials and machinery and equipment were as follows:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
NTD	\$ 490,051	\$ 402,526
USD	25,535	21,410
EUR	-	1,100
JPY	24,300	-

- b. Unrecognized commitments were as follows:

	<u>December 31</u>	
	<b>2020</b>	<b>2019</b>
Acquisition of property, plant and equipment	<u>\$ 361,071</u>	<u>\$ 117,700</u>

### 33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2020

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 2,402	28.48 (USD:NTD)	\$ 68,457
EUR	110	35.02 (EUR:NTD)	3,852
RMB	6,284	4.377 (RMB:NTD)	27,504
JPY	1,543	0.276 (JPY:NTD)	<u>426</u>
			<u>\$ 100,239</u>
<u>Financial liabilities</u>			
Monetary items			
USD	96,984	28.48 (USD:NTD)	\$ 2,762,121
EUR	119	35.02 (EUR:NTD)	<u>4,171</u>
			<u>\$ 2,766,292</u>

December 31, 2019

	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 637	29.98 (USD:NTD)	\$ 19,321
EUR	226	33.59 (EUR:NTD)	7,590
RMB	6,283	4.305 (RMB:NTD)	27,331
JPY	2,090	0.276 (JPY:NTD)	<u>579</u>
			<u>\$ 54,821</u>

Financial liabilities

Monetary items			
USD	65,854	29.98 (USD:NTD)	<u>\$ 1,967,435</u>

The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

<b>Foreign Currency</b>	<b>For the Year Ended December 31, 2020</b>		<b>For the Year Ended December 31, 2019</b>	
	<b>Exchange Rate</b>	<b>Net Foreign Exchange Gains (Losses)</b>	<b>Exchange Rate</b>	<b>Net Foreign Exchange Gains (Losses)</b>
USD	28.48 (USD:NTD)	\$ 89,499	29.98 (USD:NTD)	\$ 216,834

### 34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions:

- 1) Financing provided to others: (N/A)
- 2) Endorsements/guarantees provided: (Table 1)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 2)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: (N/A)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: (N/A)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: (N/A)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: (Table 4)

- 9) Trading in derivative instruments: (Note 7)
- 10) Other: Intercompany relationships and significant intercompany transactions (Table 5)
- b. Information on investees (Table 6)
- c. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: (N/A)
  - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (N/A)
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year
    - c) The amount of property transactions and the amount of the resultant gains or losses
    - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes
    - e) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds
    - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services
- d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 7)

### **35. SEGMENT INFORMATION**

Information reported to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments were as follows:

- Steel:
  - Direct sales
  - Manufacturing sales
- Rental revenue

a. Segments revenue and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments.

	Steel - Direct Sales	Steel - Manufacturing Sales	Leases	Total
<u>For the year ended December 31, 2020</u>				
Revenue from external customers	\$ 6,412,745	\$ 3,348,593	\$ 90,973	\$ 9,852,311
Inter-segment revenue	<u>464,422</u>	<u>61,970</u>	<u>40,241</u>	<u>566,633</u>
Segment revenue	6,877,167	3,410,563	131,214	10,418,944
Eliminations	<u>(464,422)</u>	<u>(61,970)</u>	<u>(40,241)</u>	<u>(566,633)</u>
Consolidated revenue	<u>\$ 6,412,745</u>	<u>\$ 3,348,593</u>	<u>\$ 90,973</u>	<u>\$ 9,852,311</u>
Segment income	<u>\$ 529,133</u>	<u>\$ 231,227</u>	<u>\$ 51,754</u>	\$ 812,114
Share of profits of associates accounted for using the equity method				7,488
Interest income				496
Other income				11,219
Loss on disposal of property, plant and equipment				(4,384)
Net foreign exchange gains				90,462
Gain on valuation of financial instruments				406,646
Allocation of central administration costs and directors' remunerations				(342,376)
Finance costs				(126,914)
Dividends				<u>58,272</u>
Profit before tax				<u>\$ 913,023</u>
<u>For the year ended December 31, 2019</u>				
Revenue from external customers	\$ 5,261,907	\$ 3,126,369	\$ 89,509	\$ 8,477,785
Inter-segment revenue	<u>45,417</u>	<u>5,709</u>	<u>32,929</u>	<u>84,055</u>
Segment revenue	5,307,324	3,132,078	122,438	8,561,840
Eliminations	<u>(45,417)</u>	<u>(5,709)</u>	<u>(32,929)</u>	<u>(84,055)</u>
Consolidated revenue	<u>\$ 5,261,907</u>	<u>\$ 3,126,369</u>	<u>\$ 89,509</u>	<u>\$ 8,477,785</u>
Segment income	<u>\$ 14,390</u>	<u>\$ 107,272</u>	<u>\$ 55,117</u>	\$ 176,779
Share of profits of associates accounted for using the equity method				6,178
Interest income				1,008
Other income				2,800
Loss on disposal of property, plant and equipment				(811)
Net foreign exchange gains				213,864
Gain on valuation of financial assets				88,666
Allocation of central administration costs and directors' remunerations				(274,679)
Finance costs				(167,484)
Dividends				<u>78,136</u>
Profit before tax				<u>\$ 124,457</u>

Inter-segment revenue was accounted for according to market prices.

Segment profit represents the profit before tax earned by each segment without allocation of central administration costs and directors' remunerations, share of profit of associates, gains or losses recognized on disposal of interests in former associates, lease income, interest income, gains or losses on disposal of property, plant and equipment, gains or losses on disposal of investments, foreign exchange gains or losses, valuation gains or losses on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Segment assets</u>		
From continuing operations		
Steel - direct sales	\$ 10,143,509	\$ 8,160,466
Steel - manufacturing sales	2,583,606	1,776,318
Leases	<u>1,034,084</u>	<u>1,134,743</u>
Total segment assets	13,761,199	11,071,527
Unallocated	<u>6,132,074</u>	<u>5,016,364</u>
Consolidated total assets	<u>\$ 19,893,273</u>	<u>\$ 16,087,891</u>
<u>Segment liabilities</u>		
From continuing operations		
Steel - direct sales	\$ 6,073,233	\$ 4,724,097
Steel - manufacturing sales	1,466,154	950,354
Leases	<u>30,234</u>	<u>20,883</u>
Total segment liabilities	7,569,621	5,695,334
Unallocated	<u>4,222,222</u>	<u>3,581,771</u>
Consolidated total liabilities	<u>\$ 11,791,843</u>	<u>\$ 9,277,105</u>

For the purpose of monitoring segment performance and allocating resources between segments:

- 1) All assets were allocated to reportable segments other than interests in associates accounted for using the equity method, other financial assets, and current and deferred tax assets. Assets used jointly by reportable segments were allocated on the basis of the revenue earned by individual reportable segments; and
- 2) All liabilities were allocated to reportable segments other than borrowings, other financial liabilities, and current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable were allocated in proportion to segment assets.