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高興昌鋼鐵股份有限公司

KAO HSING CHANG IRON & STEEL

CORP.

2020

Annual Report

109 年 年報

Published on May 28, 2021

- Addresses and telephone numbers of the head office, branches and factories/plants:

Designation	Address	Telephone
Headquarters	No. 318, Zhonghua 1st Rd., Gushan Dist., Kaohsiung City	(07)5556111
Taipei Branch	No. 62, Liangzhou St., Taipei City	(02)25530987
Yongan Factory (Cold Rolling Mill)	No. 6, Yonggong 1st Rd, Yongan Industrial Park, Yongan District, Kaohsiung City	(07)6229601
Pingtung Branch (Steel Pipe Factory)	No. 2, Yongxiang Rd., Fangliao Township, Pingnan Industrial Park, Pingtung County	(08)8668800

- Spokesperson

Name: Hsu Pang-Feng

Job Title: Manager, Steel Pipe Department

Tel.: (07) 555-6111

Email: purc02@khc.com.tw

- Deputy Spokesperson

Name: Kuo Chien-Hung

Job Title: Deputy Manager, Logistics Department

Tel.: (07) 555-6111

Email: sale01@khc.com.tw

- Handling of stock transfer agency

Name: Kao Hsing Chang Iron & Steel Corp. Stock Affairs Division

Address: No. 62, Liangzhou St., Taipei City

Tel.: (02) 2553 6052 • 2553 6053

URL: <http://bit.ly/2W3hvVg>

- CPAs for the most recent annual financial reports

Names: Chen Kuo-Tsung, Hsu Chen-Lung

Name: KPMG Taiwan

Address: 12F-6, No. 211, Zhongzheng 4th Road, Qianjin District, Kaohsiung City

Tel.: (07) 213-0888

URL: <http://www.kpmg.com.tw>

- The name of any exchanges where the Company's securities are traded offshore and the method by which to access information on said offshore securities: None.

- Address of the Company's website: <http://www.khc.com.tw>

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- I. Information related to the Company's affiliates
- II. Where the Company has carried out a private placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, disclose the date on which the placement was approved by the Board of Directors or by a Shareholders' Meeting, the amount thus approved, the basis for and reasonableness of the pricing, the manner in which the specified persons were selected, and the reasons why the private placement method was necessary.
- III. Holding or disposal of shares in the Company by the Company's subsidiaries during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report

IV. Other necessary supplementary explanations

- 9 In the most recent year and as of the printing date of the Annual Report, the occurrence of the matters that has a significant impact on shareholders' equity or securities prices as specified in Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act: None.
-

One. Letter to Shareholders

I. Chairman's Remarks:

Dear Shareholders, ladies and gentlemen:

Welcome, everyone, in attending our General Meeting of Shareholders. Here are the reports on our business overview of 2020 and the business plan for this year:

The outbreak of the pandemic in 2020 caused the temporary shutdown of the construction industry, manufacturing industry and sea transportation industry, etc. and also a setback to the demand for steel products indirectly. Notwithstanding, due to the continuing economic recovery in China as of the second half of this year, the steel price has increased sharply and, therefore, the domestic sales of steel products grew more than the first half of this year. For the sales of steel tubes, in consideration of the declining international crude oil price, significant reduction of oil wells in the USA, and the preferential tariff conditions offered by Korea, the export sales of API casing and tubing were almost shut down. For domestic marketing, the demand was driven by the Government's infrastructure projects, repatriation of Taiwanese businessman's capital, electronic factories' expansion projects. Therefore, the order quantity of domestic steel tubes was considered fair, and the sales grew by 11.42% more than last year.

Looking forward to the future, following the launch of a vaccine and vaccination approved by various countries, the pandemic is expected to be mitigated step by step in 2021. The global steel market demand is increasing. The international raw materials and supplies price also keeps rising, thus driving the increase in the steel industry's quotation. The downstream dealers are successively replenishing their inventories. Suppliers engaged in the steel industry are looking forward to the economy in next six months optimistically. For export markets, following the recovery of international crude oil price to USD60 or more per barrel and effective control over the pandemic by vaccine, the steel market is recovering. In 2021, the order for API export is likely to grow. The domestic marketing benefits from domestic leading semi-conductor manufacturers' continuous expansion of capital

expenditure, reconstruction of unsafe and old buildings and urban renewal driving the investment in construction projects, global technology enterprises' increase in investment in Taiwan, and private enterprises' response to the government's green power policy. All of these could help boost the private investment growth momentum. In consideration of the stable pandemic controls and increasing steel price, the order quantity of domestic steel tubes is expected to keep growing in the first half of 2021.

All in all, the Company's overall operating policy adopts prudent operations and takes a cautious but optimistic operating attitude this year. I hope that all shareholders will continue to provide support and encouragement.

Finally, I wish all for shareholders
good health and happy families

Chairman

呂 泰 榮 

II. 2020 annual business results

□ Implementation status of business plan:

Production volume in 2020 was 30,840 tons, a decrease of 23% compared with the production volume of 40,100 tons in 2019;

Sales volume in 2020 was 33,609 tons, a decrease of 15.7% compared with the sales volume of 39,861 tons in 2019.

Operating income for 2020 was NTD962,510 thousand, a decrease of 15.7% compared to 2019 operating income of NTD1,142,137 thousand. After-tax net loss was NTD32,794 thousand, and loss per share was NTD0.16.

III. Analysis of revenues, expenses, and profitability:

Revenues and expenses:

1. Comprehensive income statement for the last two years:

Unit: NTD Thousand

Item	2020	%	2019	%
Operating income	962,510	100	1,142,137	100
Operating costs	940,489	98	1,146,465	100
Gross operating loss	22,021	2	(4,328)	0
Marketing fees	25,679	3	51,077	4
Management expenses	64,964	7	67,888	6
Net operating loss	(68,622)	(8)	(123,293)	(10)
Non-operating revenue and expenses	37,537	5	(813)	0
Profit (loss) before tax	(31,085)	(3)	(124,106)	(10)
Income tax expense	1,709	—	—	—
Net profit (loss) for the period	(32,794)	(3)	(124,106)	(10)

2. For the selling expenses, the decrease in export-related expenses is primarily a result of the drastic decrease in export volume in 2020.

3. Non-operating revenue and expenses: mainly due to

- (1) Dividend revenue for 2020 was NTD56,669 thousand, an increase of NTD21,329 thousand compared with 2019's NTD35,340 thousand.
 - (2) The subsidy granted under the government bailout policy, NTD20,906 thousand, in 2020.
4. The loss after tax for 2020 was NTD32,794 thousand and the loss per share was NTD0.16.

□ Profitability analysis:

Analysis item		2020	
Profitability	Return on assets (%)	0	
	Shareholder return on equity (%)	(1.25)	
	Ratio to paid-in capital (%)	Operating profit (loss)	(3.42)
		Pre-tax profit (loss)	(1.54)
	Net profit rate (%)	(3.41)	
	Earnings per share (NTD)	(0.16)	

IV. Research and development status:

The Company is constantly committed to the renewal of steel pipe equipment, focusing on improving production efficiency, saving energy, preventing pollution, and strengthening work safety to improve product quality. In 2020, the old galvanizing furnace equipment, pipe-making truck, and overhead crane track were replaced with new ones.

V. Impact of external competitive environment, regulatory environment, and overall business environment:

1. According to the IMF World Economic Outlook report dated April 2021, the global economic growth rate referred to in the reported dated January this year was adjusted as 6% in 2021, and 4.4% in 2022. According to the report, despite the uncertainty in pandemic, various countries' economic growth is still expected to be strong. The Worldsteel forecast in April that the global demand for steel products would increase by 5.8%, attaining 1.874 billion tons in 2021, and by 2.7%, attaining 1.925 billion tons in 2022.
2. The relationship between China and the USA remains tense. The trade war causes the global market disorder. The export end-customers' demand becomes unstable due to the tariff and prevailing Protectionism for steel products trading. As a result, the high inventory retained by customers is squeezing the confidence in market demand.
3. In consideration of the mitigating pandemic impact, partial production lines' transfer back to Taiwan and booming demand for emerging technology, Taiwan's export volume grows significantly. The government promotes the green power construction projects strongly and solicits foreign companies for investment in Taiwan. This could help drive domestic demand. Generally, domestic demand and export demand are both growing. As a result, the yearly economic growth range in 2021 appears to be higher than that in 2020. According to the latest forecast by Taiwan Institute of Economic Research, the domestic economic growth rate is 5.03% in 2021, adjusted upward by 0.73% from January 2021.
4. Based on various countries' economic and consumption demand development and figures, China Steel looks forward to the steel market's performance this year

optimistically. The global steel demand has bottomed down due to the pandemic last year. This year, the demand is recovering upon recovery of the people's economic and consumption demand, as the pandemic is under control and vaccination is made available. If the vaccination presents positive effects in the second half of this year, the market economic activities in Europe and the USA are expected to grow more rapidly than now. This can help the demand for various steel products grow. As the pandemic is becoming mitigated globally, the economy and consumption are expected to be inspired and thereby drives the demand for steel materials.

5. In order to achieve the goal, "Carbon Neutral", in 2060, China limited the output volume of steel and cancel or cut export tax refund thereof in order to raise its export quotation. Besides, following the emerging environmental protection awareness all over the world, enterprises' reduction of carbon emission has become a trend. In the future, steel mills will need to continue dealing with the increasing environmental protection costs, such as carbon levy, carbon tax, carbon border tax and water conservation fee, and provide strong supports for the long-term steel price tendency to keep the steel price rising easily but barely falling throughout the year.

VI. Summary of 2021 Business Plan:

The sales volume of steel pipes in 2021 is estimated to be 47,289 tons, an increase of approximately 61% from 29,343 tons in 2020. The sales volume of circulating products is estimated to be 3,640 tons, a decrease of 7% from 3,928 tons in 2020. (This is the 2020 annual budget approved by the Board of Directors on November 10, 2020.)

Looking forward to the future, following the launch of vaccine and vaccination approved by various countries, the pandemic is expected to be mitigated step by step in 2021. Besides, the political uncertainty in Europe and the USA is eliminated. In response to the low-base period factor, international forecast organizations all consider that the global economic and trading growth in 2021 appears to be better than that in 2020. The global steel market demand is increasing. The international raw materials and supplies price also keeps rising, thus driving the increase in the steel industry's quotation. The downstream dealers are successively replenishing their inventories. Suppliers engaged in the steel industry are looking forward to the economy in next six months optimistically.

For export markets, following the recovery of international crude oil price to USD60 or more per barrel and effective control over the pandemic by vaccine, the steel market is recovering. In 2021, the order for API export is likely to grow significantly. The domestic marketing benefits from domestic leading semi-conductor manufacturers' continuous expansion of capital expenditure, reconstruction of unsafe and old buildings and urban renewal driving the investment in construction projects, global technology enterprises' increase in investment in Taiwan, and private enterprises' response to the government's green

power policy, the investment in green power has been increasing, especially the offshore wind farm. All of these could help boost the private investment growth momentum. In consideration of the stable pandemic controls and increasing steel price, the order quantity of domestic steel tubes is expected to keep growing in the first half of 2021. All in all, the Company's overall operating policy adopts prudent operations and takes a cautious but optimistic operating attitude this year.

Two. Company Profile

I. Date of Incorporation

Established on January 15, 1966.

II. Company history

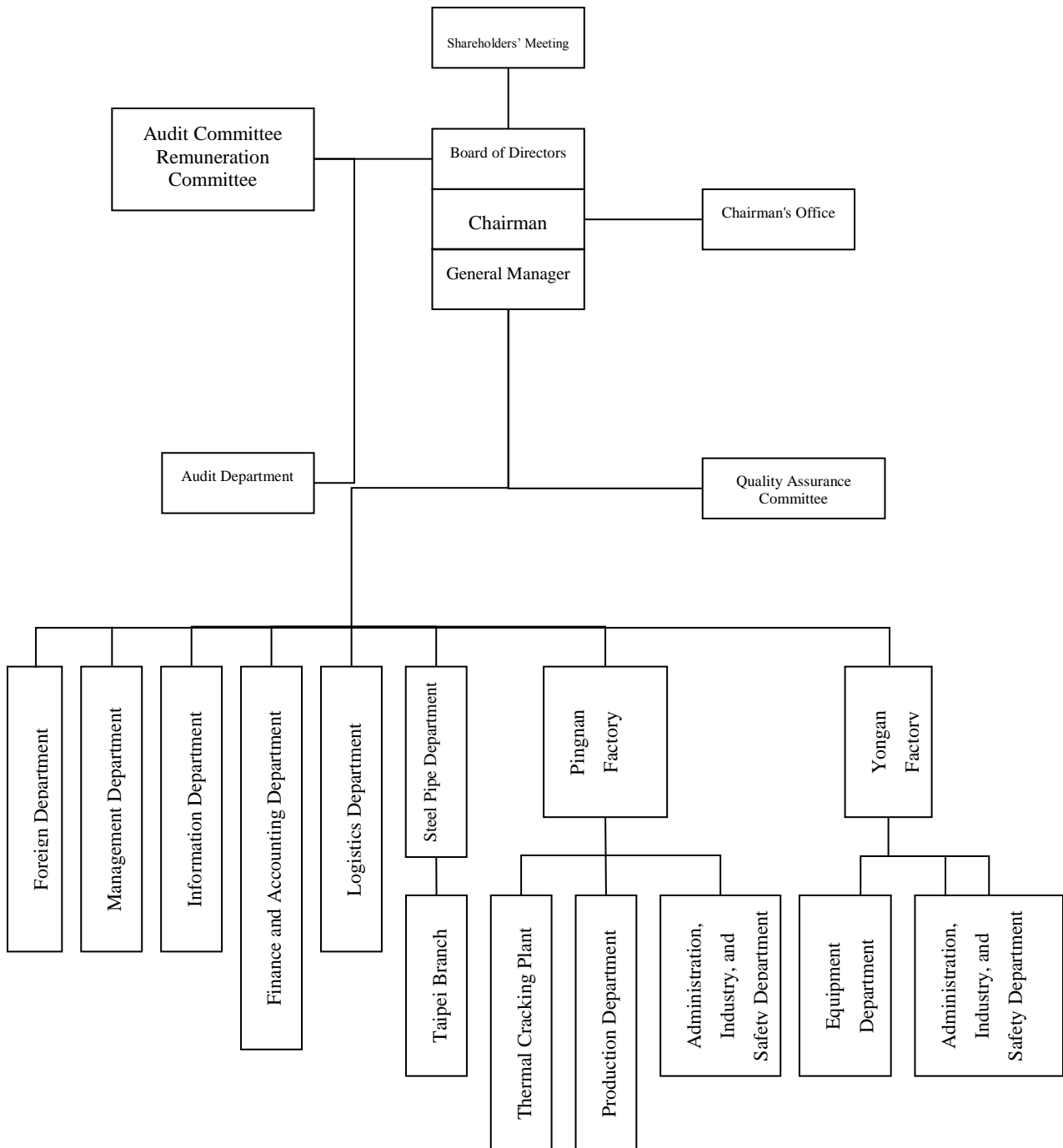
January 1966	The Company was founded in Kaohsiung City with capital of NTD 800,000. It mainly produced steel pipes, steel plates and tinplate. Mr. Lu Te-Hsing was elected Chairman at this time.
June 1998	Won CNS mark for galvanized steel from the Central Bureau of Standards of the Ministry of Economic Affairs.
February 1975	Merged with Kao Hsing Iron & Steel Company with capital of NTD 200 million.
June 1975	The trial of the Zhonghua Cold Pressing Factory was completed and cold rolled steel coil was officially produced.
September 1975	Re-elected directors and supervisors unanimously esteemed Mr. Lu Tse-Shang as Chairman.
June 1977	Establishment of pipe line (6"-16")
October 1981	API Licence obtained for 5L Line Pipe monogram.(No. 0031)
May 1983	The Yongan Factory trial was completed and officially joined the cold-rolled steel coil production.
July 1985	Large-scale SAW submerged arc welding equipment was added to produce 18"-60" steel pipes.
January 1988	6-HI Cold Rolled mill was established at Yung-An Plant.
December 1988	The Company's stock was officially listed with a capital of NTD 1.6 billion.
July 1993	Purchased 32.228 hectares of land in Pingnan Industrial Park for the relocation of the Zhonghua Factory.
January 1996	The steel pipe factory was accredited by the international standard quality assurance system ISO 9001.
May 1996	The cold rolled products of the Yongan Factory were accredited by the international standard quality assurance system ISO 9001.

May 1999	The Yongan Factory passed ISO 14001 certification.
June 2002	Re-elected directors and supervisors unanimously elected Mr. Lu Tai Rong as Chairman.
May 2007	The trial of the cold rolling tension leveler at the Yongan Factory was completed.
May 2007	The Pingnan Factory applied for American Petroleum Institute API-5CT oil well pipe authorization approval.
April 2008	Cold-rolled products of the Yongan Factory obtained ISO 9001, ISO 14001 and OHSAS 18001 certifications.
June 2002	The Yongan Factory suspended production.
December 2003	Cash capital reduction of 35%, bringing paid-in capital after the capital reduction to NTD 2,754,872,930.
January 2005	The steel pipe factory's products obtained JIS, CNS 15506 & OHSAS 18001 certifications.
June 2005	Re-elected directors and supervisors unanimously elected Mr. Lu Tai Rong as Chairman.
March 2008	Treasury share capital reduction of NTD 223,000 thousand, bringing paid-in capital after the capital reduction to NTD 2,008,522,930.
August 2008	Disposed of all machinery and electrical equipment in the Yongan Factory.

Three. Corporate Governance Report

I. Organization system

□ Organization Chart



Business of each major department

Chairman's Office: Assist the Chairman of the Board of Directors in promoting business improvement, review of forwarded documents, implementation of case tracking, and drafting of innovation plans; undertaking the Chairman's Board meetings.

Audit Department: Responsible for the audit of the Company's business units with the purpose of achieving operational effects and efficiency, reliability of financial reporting, and compliance with relevant laws and regulations.

Management Department: Procurement of materials, machinery and equipment, and engineering; personnel, industrial safety, legal affairs, security, operational repair, general affairs, and property management. (Relevant expenses of the Yongan Factory will be included in management expenses from September 2018)

Information Department: The Company's comprehensive computerization promotion, programming, file data maintenance and management.

Finance and Accounting Department: Establishment and compliance of accounting system, accounting cost, accounting and tax treatment, business analysis; control of financial status and stock affairs such as capital scheduling.

Steel Pipe Department: Handle raw materials, outsource procurement business, hot rolling, circulation, steel pipe, scaffolding, thermal cracking, and other product sales, after-sales service credit investigation, and market investigation and analysis.

Logistics Department: Handle steel product sales, after-sales service credit investigation, and market investigation and analysis.

Overseas Department: Handle foreign sales business and assist in the overall planning of logistics procurement business.

Pingnan The management of manufacturing, processing, machinery and other

Factory: equipment of steel pipes and thermal cracking products, R&D design, industrial safety, quality control and quality assurance, etc.

Yongan
Factory: Production suspended from June 2012; in August 2018, all machinery and electrical equipment in the Yongan Factory to be disposed of and the dismantling of the above equipment is scheduled to be completed in August 2019.

II. Information on directors, the General Manager, vice general managers, associate managers, and supervisors of various departments and branches

Director

1. Information on directors

April 26, 2021

Job Title (Note 1)	Nationality or place of registration	Name	Gender	Appointment date	Term of office	Date first appointed (Note 2)	Shares held at the time of appointment		Number of shares currently held		Number of shares currently held by spouse and minor children		Shares held in the name(s) of others		Principal Experience (Education) (Note 3)	Office(s) Concurrently Held in the Company and Other Companies	Spouse or relatives within the second degree of kinship or closer acting as other supervisors, directors, or supervisors			Remarks (Note 4)
							Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership			Title	Name	Relationship with the Company	
Chairman	Taiwan	Lu Tai Rong	Male	2018.6.27	3 years	69.6.30	27,551,329	13.7	27,551,329	13.7	6,053,477	3.01	—	—	Department of Philosophy, Tunghai University	Director, Kao Hsing Industrial Co.	Director	Huang Li-Chun	Brother-in-law	
Director representative	Japan	Pro Imp'x Company Limited Sheng Lu Rong Feng	Male	2018.6.27	3 years	69.6.30	121,621,629,995	0.063.13	121,621,629,995	0.063.13	—	—	—	—	Tokai University	1. General Manager of the Company 2. Director, Xiechang Steel Company				
Director representative	Taiwan	Huida Investment Co., Ltd. Huang Li-Chun	Male	2018.6.27	3 years	97.6.25	36,043,312,22,343	17.9—	40,999,312,22,343	20.41—	5,785,926	2.88	—	—	Mechanical Engineering, Chung Yuan Christian University	1. Chairman, Huida Investment Co., Ltd. 2. Vice General Manager, Kao Hsing Smelting & Chemical Fiber Co., LTD.				
Director representative	Taiwan	You Chang Co., Ltd. Wu Hsien-Ming	Male	2018.6.27	3 years	100.9.27	380,000,65,000	0.190.03	380,000,65,000	0.190.03	—	—	—	—	Faculty of Law, National Taiwan University	Lawyer				
Director representative	Taiwan	You Chang Co., Ltd. Lin Tzu-Hui	Male	2018.6.27	3 years	101.9.24	380,000,4,566	0.19—	380,000,4,566	0.19—	1,544	—	—	—	Department of Accounting, Feng Chia University	Consultant, Finance and Accounting Department of the Company				
Director representative	Taiwan	Hong Well Company Limited Lu En-Chang	Male	2018.6.27	3 years	69.6.30	138,040,599,418	0.070.29	138,040,300,418	0.070.15	—	—	—	—	Waseda University	Former Chairman of the Company	Vice of the Company			

Independent Director	Taiwan	Lin Hsien-Lang	Male	2018.6.27	3 years	107.6.27	—	—	—	—	—	—	—	—	Department of Business, National Taiwan University	Director of Corporate Operation Association/Executive Supervisor of Taiwan Corporate Governance Association				
Independent Director	Taiwan	Chen Chi-Hsiung	Male	2018.6.27	3 years	104.6.23	—	—	—	—	—	—	—	—	Master's Degree, Law Institute of National Chung Hsing University	Served as Judge and President of the Kaohsiung Branch of the Taiwan High Court				
Independent Director	Taiwan	Wu Hsiao-Yen	Female	2018.6.27	3 years	104.6.23	—	—	—	—	—	—	—	—	Master in Law, National Chung Cheng University	1. Director, Chien Yeh Law Office, Kaohsiung Office 2. Independent Director, Shiny Chemical Industrial Co. 3. Director, Yung Chi Paint & Varnish Mfg. Co.				

- Note 1: Institutional shareholders should list the names of the institutional shareholders and their representatives separately (if they are representatives of institutional shareholders, the name of the institutional shareholders should be indicated) and fill in Table 1 below.
- Note 2: It shall show when did he/she/it assume position of director or supervisor for the first time. If it is discontinuous, it shall be described in the note. Lu Tai Rong: 1989.06.16-1996.09.03 discontinuous; Sheng Lu Rong Feng: 1989.06.16-1996.09.03 discontinuous.
- Note 3: If work experience related to position now is in accounting firm or affiliated company in the period shown above, it shall show his/her title and function of position.
- Note 4: If the Company's Chairman and General Manager or equivalent (top manager) are the same person, or spouse or relative within one degree of kinship to the other, the reason, rationality, necessity and relevant information of the corresponding measures should be explained (e.g., the number of independent directors should be increased, more than half of the directors should not be concurrent employees or managers, etc.).

2. Table 1: Major Shareholders of Institutional Shareholders

April 26, 2021

Name of institutional shareholder	Major Shareholders of Institutional Shareholders (Shareholding ratio contributions of the ten largest shareholders)
1. Huida Investment Co., Ltd.	Lu Tai Rong (13%), Liao Ying-Chiung (11%), Lu Ho-Lin (11%), Lu Ho-Ching (10%), Lu Ho-Lin Trust Property Account (8.89%)
2. Pro Imp'ex Company Limited	Lu Na-Mi (37%), Liao Ying-Chiung (24%), Sheng Lu Kuang-Tzu (24%)
3. You Chang Co., Ltd.	Lu Tai Rong (40%), Yang Yen-Ju (20%), Lu Ho-Ching (20%), Lu Ho-Lin (20%)
4. Hong Well Company Limited	Lu En-Chang (40%), Li Ke-Yu (36%)

3. Table 2: Major shareholders of major shareholders who are juridical persons as referred to in Table 1: None.

4. Information on directors

April 26, 2021

Name (Note 1)	Terms	Has at least five years of relevant working experience and the following professional qualifications			Conform to the status of independence (Note 2)												Number of other public companies where he/she/it concurrently serves as an independent director
		Lecturer or above in a department related to business, legal affairs, finance, accounting or area related to the Company's business at a public or private college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience required for business, legal affairs, finance, accounting, or Company business	1	2	3	4	5	6	7	8	9	10	11	12	
Lu Tai Rong			✓						✓			✓		✓	✓		
Sheng Lu Rong Feng			✓						✓			✓	✓	✓			
Huang Li-Chun			✓		✓				✓	✓		✓		✓			
Wu Hsien-Ming		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Lin Tzu-Hui			✓			✓	✓		✓			✓	✓	✓			
Lu En-Chang			✓		✓	✓			✓	✓	✓	✓	✓	✓	✓		
Lin Hsien-Lang		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Chen Chi-Hsiung		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Wu Hsiao-Yen		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note 1: The number of fields is adjusted according to the actual number.

Note 2: For each director or supervisor who meets the following conditions during the two years before and during their tenure of office, please mark "✓" in the space below each condition code.

- Not an employee of the Company or its affiliates.
- Not a director or supervisor of the Company or its affiliates. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- No one percent or more of the total issued shares of the Company are held by him/her or his/her spouse, or minor children or on his/her behalf, or none of their shareholding percentage is among top ten shareholders.
- Not a manager of those listed in or someone having a relationship with those listed in or including a spousal relationship, a second-degree kinship or closer, or an immediate blood relative within three degrees of kinship.
- Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings, or is designated as a representative in accordance with Article 27, Paragraph 1 or 2 of the Company

Act. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)

- Not a director, supervisor, or employee of another company controlled by the same person with more than half of the shares with voting rights on the Company's Board of Directors. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- Not a director, supervisor, or employee of another company or institution whose Chairman, General Manager, or equivalent position is the same person as that of the Company, or the spouse thereof. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- Not a director, supervisor, or manager of a specific company or institution having financial or business dealings with the Company, or a shareholder holding 5% or more of shares. (However, if a specific company or institution holds more than 20% of the total issued shares of the Company but not more than 50%, and the established independent director concurrently serves in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- Not a partner, director, supervisor, manager, or spouse thereof of a company or institution that provides commercial, legal, financial, financial, or accounting related services to the Company or any affiliate of the Company for amounts exceeding NTD 500,000 in the past two years. However, for members of the Remuneration Committee, Public Acquisitions Review Committee, or M&A Special Committee who perform their functions and powers in accordance with the relevant laws and regulations of the Securities and Exchange Act or the Corporate Mergers & Acquisitions Act, this limitation shall not apply.
- He/she is not the spouse or relative within the second degree of kinship of another director.
- Not exhibiting any of the circumstances specified under Article 30 of the Company Act.
- No provision to be elected by a government, juristic person or their representatives under Article 27 of the Company Act.

□ Information on the General Manager, vice general managers, associate managers, and supervisors of various departments and branches

April 26, 2021

Title (Note 1)	Nationality	Name	Gender	Date assumed office	Number of shares held		Spouse and minor children holding shares		Shares held in the name(s) of others		Principal Experience (Education) (Note 2)	Office(s) Concurrently Held in Other Companies	Spouse or relatives within the second degree of kinship or closer acting as managerial officers			Remarks (Note 3)
					Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership			Title	Name	Relationship with the Company	
General Manager	Japan	Sheng Lu Rong Feng	Male	2002.6.21	6,293,995	3.13	—	—	—	—	Department of Mechanical Engineering, Tokai University, Japan Executive Manager, Chairman's Office	Director, Xiechang Steel Company	—	—	—	
Foreman, Steel Pipe Factory	Taiwan	Hsiao Chiu- Te	Male	2014.11.1	8,886	—	—	—	—	—	Department of Electrical Engineering, National Kaohsiung University of Science and Technology Foreman, Cold Rolling Mill		—	—	—	
Manager, Steel Pipe Department	Taiwan	Hsu Pang- Feng	Male	2018.4.1	—	—	—	—	—	—	Department of Business Management, Feng Chia University Deputy Manager, Steel Pipe Department		—	—	—	

Manager, Finance and Accounting Department	Taiwan	Chao Hui- Mei	Female	April 1, 2021	—	—	—	—	—	—	Department of Accounting, Soochow University Assistant Manager, Finance and Accounting Department	—	—	—	
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Note 1: Include General Manager, vice general managers, associate managers, and the chiefs of all the Company's divisions and branches. Regardless of position, all assignments equivalent to General Manager, vice general manager, and associate manager shall be shown.

Note 2: If work experience related to position now is in accounting firm or affiliated company in the period shown above, it shall show his/her title and function of position.

Note 3: When the General Manager or equivalent (top manager) and the chairperson are the same person, or spouse or relative within one degree of kinship to the other, the reason, rationality, necessity and relevant information of the corresponding measures should be disclosed (e.g., the number of independent directors should be increased, more than half of the directors should not be concurrent employees or managers, etc.).

III. Compensation Paid to Directors, General Manager, and Deputy General parties Manager(s) in the Most Recent Year

April 26, 2021

1. Compensation to directors (including independent directors)

Unit: NTD Thousand

Title	Name	Directors' compensation								Ratio of the total amount of A, B, C and D vs. net profit after tax		Compensation from concurrently serving as employee						Ratio of the total amount of A, B, C, D, E, F, and G vs. net profit (loss) after tax		Compensation received from investee companies outside of subsidiaries																	
		Remuneration (A)		Retirement pension (B)		Director's remuneration (C)		Business execution expenses (D)				Salary, bonuses, and special expenses (E)		Retirement pension (F)		Employee remuneration (G)																					
		The Company	All companies in the financial reports	The Company	All companies in the financial reports	The Company	All companies in the financial reports	The Company	All companies in the financial reports			The Company	All companies in the financial reports	The Company (Note 2)	All companies in the financial reports (Note 2)	The Company	All companies in the financial reports				The Company		All companies in the financial reports		The Company	All companies in the financial reports											
										Cash amount	Stock amount							Cash amount	Stock amount																		
Chairman	Lu Tai Rong							290				2,429																									
Director	Pro Imp'x Company Limited							290				2,309																									
Director	Huida Investment Co., Ltd. Huang Li-Chun							890																													
Director	You Chang Co., Ltd. Wu Hsien-Ming							290		13.55%																											
Director	You Chang Co., Ltd. Lin Tzu-Hui							290				732																									
Director	Hong Well Company Limited Lu En-Chang							290																													
Independent Director	Lin Hsien-Lang	323						410																													
Independent Director	Chen Chi-Hsiung	275						410																													

Independent Director	Wu Hsiao-Yen	275						410														
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Note 1.: The Company provides automobiles for management personnel. In 2020, the undiscounted balance of such automobile equipment was NTD1,690,498. (Cost of NTD 11,270,000 minus accumulated depreciation of NTD9,579,502). In addition, the Chairman of the Board is equipped with a driver, and salaries of drivers shall be the same as those of employees.

2.: The Company's 2020 consolidated statements are not applicable; the loss after tax for the 2020 was NTD32,794 thousand.

2. Compensation Paid to General Manager and Vice General Manager(s)

April 26, 2021

Unit: NTD Thousand

Title	Name	Salary (A)		Retirement pension (B)		Bonuses and special expenses (C)		Employee remuneration amount (D)				Ratio of the total amount of A, B, C and D vs. net profit (loss) after tax (%)		Compensation received from investee companies outside of subsidiaries
		The Company	All companies in the financial reports	The Company	All companies in the financial reports	The Company	All companies in the financial reports	The Company		All companies in the financial reports		The Company	All companies in the financial reports	
								Cash dividend amount	Stock dividend amount	Cash dividend amount	Stock dividend amount			
Director and General Manager	Sheng Lu Rong Feng	2,281	—	0	—	28	—	0	0	0	0	7.04%	—	0

Note 1.: One car is provided in 2020, and the undiscounted balance of such automobile equipment is NTD845,249. (Cost of NTD5,635,000 minus accumulated depreciation of NTD4,789,751).

2. Vice General Manager of the Company (vacancy).

3. Names of managerial officers entitled to employee remuneration and amounts entitled: None.

4. Separately compare the analysis of total compensation paid in the last two years by the Company and all companies included in the consolidated financial statements to the Company's directors and General Manager, and the respective proportions of such remuneration to income after tax, as well as the policies, standards, and packages by which it was paid, the procedures through which the compensation was determined, and its association with future risk:

Units: NTD Thousand, %

Year	Net profit or loss after tax	Directors' compensation		Director's compensation as a percentage of after-tax profit or loss		General Manager's compensation		General Manager's compensation as a percentage of after-tax profit or loss	
		The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements	The Company	All companies in the financial statements
2020	(32,794)	9,913	—	30.23%	—	2,309	—	7.04%	—
2019	(124,106)	9,802	—	7.90%	—	2,308	—	1.86%	—

Note: on 6/27/2018 3 independent director positions were established and an Audit Committee was set up.

The Company pays compensation based on the salary level of the position in the industry's market, the scope of responsibility of the position in the Company, and the contribution to the Company's operating goals. The purpose is to attract outstanding individuals to join and encourage those with development potential to stay, and create high performance for the Company by forming a management team with outstanding talent, generating operating results through the payment of compensation.

In order to closely integrate the employees' personal work goals with the Company's business goals and shareholders' interests, and to attract outstanding talents to serve the Company, the Company's overall reward strategy and positioning are performance-oriented, and a salary policy with market competition is designed. Based on the Company's operating results and individual performance, it is allocated reasonably to create the common interests of individuals, the Company and shareholders, and achieve a win-win situation.

IV. Corporate Governance Status

Information on the operation of the Board of Directors

1. The Board of Directors met 5 times in total in 2020 and the directors attended the meetings as follows:

Title	Name		Number of times actually attending (observing)	Frequency of attendance	Actual attendance (observation) rate (%)	Remarks
Chairman	Lu Tai Rong		5		100%	Re-elected on June 27, 2018
Director	Pro Imp'ex Company Limited	Sheng Lu Rong Feng	5		100%	Re-elected on June 27, 2018
Director	Huida Investment Co., Ltd.	Huang Li-Chun	5		100%	Re-elected on June 27, 2018
Director	You Chang Co., Ltd.	Wu Hsien-Ming	5		100%	Re-elected on June 27, 2018
Director		Lin Tzu-Hui	5		100%	Re-elected on June 27, 2018
Director	Hong Well Company Limited	Lu En-Chang	4	1	80%	Re-elected on June 27, 2018
Independent Director	Lin Hsien-Lang		5		100%	Newly elected on June 27, 2018
Independent Director	Chen Chi-Hsiung		5		100%	Re-elected on June 27, 2018
Independent Director	Wu Hsiao-Yen		5		100%	Re-elected on June 27, 2018

Other matters to be recorded:

I. If any of the following occurs in the operation of the Board, specify the date, the session, the content of the motion, the opinions of the Independent Directors, and the response of the Company to the opinions of the Independent Directors:

(I) Matters listed in Article 14-3 of the Securities and Exchange Act:

Board of Directors date and term	Proposal content	Board resolution results	Audit Committee resolution results
2020.3.19 The 8th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2019 business report and financial statements	Approved as per the proposal by all directors present	2020.3.19 The 8th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors
	Matters for Acknowledgment and Discussion, Proposal 2: Preparation of the Company's 2019 loss make-up statement	Approved as per the proposal by all directors present	2020.3.19 The 8th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors
	Matters for Acknowledgment and Discussion, Proposal 3: Assessment of independence of CPAs of the Company	Approved by all directors present	2020.3.19 The 8th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors
	Matters for Acknowledgment and Discussion, Proposal 5: Planned issuance of the Company's 2019 Internal Control System Statement	Approved by all directors present	2020.3.19 The 8th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors
	Matters for Acknowledgment and Discussion, Proposal 9: Amendment of the Rules of Procedure for Shareholders Meetings	Approved by all directors present	
May 7, 2020 The 9th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2020 Q1 financial statements	Approved as per the proposal by all directors present	May 7, 2020 The 8th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged

Board of Directors date and term	Proposal content	Board resolution results	Audit Committee resolution results
			without objection and reported to the Board of Directors
	Matters for Acknowledgment and Discussion, Proposal 2: Discussion on amendments to the Company's "Stock Services Internal Control System"	Approved by all directors present	
August 7, 2020 The 10th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2020 Q2 financial statements	Approved as per the proposal by all directors present	August 7, 2020 The 10th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors
	Matters for Acknowledgment and Discussion, Proposal 2: Amendments to the "Rules of Procedure for Shareholders Meetings"	Approved by all directors present	
September 10, 2020 The 11th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Cash capital increase subscription case for Enrestec Inc.	Approved as per the proposal by all directors present	
	Matters for Acknowledgment and Discussion, Proposal 2: Acquisition of land and buildings from Sunward Refractories Co., Ltd.	Approved by all directors present Chairman, and Chairman, and authorization granted to the Chairman: 1. The total price less than NT\$1.125 billion. 2. Leaseback for no less than 5 years. 3. Monthly rent amounting to NT\$2,500,000. 4. Payment made only upon acquisition of more than 70% of equity of Sunward Refractories Co., Ltd. by CALDERYS TAIWAN CO., LTD.	September 10, 2020 The 11th session of the 1st term Audit Committee resolved the following: 1. Necessity for the acquisition has been acknowledged. 2. Acquisition price shall be no more than the amount estimated by the appraiser. 3. Acquisition procedure (1) To negotiate the transactions with the new management team. (2) Leaseback shall ensure that the rent during the lease period and provide correspondent security. Approved by all member present, and submitted to the Board of Directors for resolution:

Board of Directors date and term	Proposal content	Board resolution results	Audit Committee resolution results
November 10, 2020 The 12th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2020 Q3 financial statements	Approved as per the proposal by all directors present	November 10, 2020 The 12th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 2: 2021 Internal Audit Plan of the Company	Approved by all directors present	November 10, 2020 The 12th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors.
March 11, 2021 The 13th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2020 business report and financial statements	Approved as per the proposal by all directors present	March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 2: Preparation of the Company's 2020 loss make-up statement	Approved as per the proposal by all directors present	March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 3: Assessment of independence of CPAs of the Company	Approved by all directors present	March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 4: Planned issuance of the Company's 2020 Internal Control System Statement.	Approved by all directors present	March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors.

Board of Directors date and term	Proposal content	Board resolution results	Audit Committee resolution results
	Matters for Acknowledgment and Discussion, Proposal 5: Amendment of the Rules of Procedure for Shareholders Meetings	Approved by all directors present	
	Matters for Acknowledgment and Discussion, Proposal 6: Election of 9 directors of the Company's 21st Board of Directors (including 3 independent directors).	Approved by all directors present	
	Matters for Acknowledgment and Discussion, Proposal 10: Preparation of the name list of candidates for directors of the Company's 21st Board of Directors.	Except the candidates for directors who recused themselves voluntarily, the other present directors agreed to include said candidates into the name list of candidates for directors and independent directors.	
	Matters for Acknowledgment and Discussion Proposal 11: Appointment and dismissal of financial and accounting managers.	Approved by all directors present.	March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion Proposal 12: Appointment and dismissal of the Company's chief corporate governance officer.	Except Director Lin Tzu-Hui, who recused herself, the other present directors agreed to pass the proposal.	
May 7, 2021 The 14th session of the 20th term Board of Directors	Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q1 financial statements	Approved as per the proposal by all directors present	May 7, 2021 The 14th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 2: Amendments to the Company's "Stock Services Internal Control System"	Approved by all directors present	May 7, 2021 The 14th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors.

- (II) Further to the aforementioned matters, any adverse opinion or qualified opinion of the Independent Directors against the resolutions of the Board: None.
- II. For recusal of directors from motions due to conflicts of interest, specify the names of the Directors, the content of the motions, the reasons for recusal, and the participation in voting: The Matters for Acknowledgment and Discussion, Proposal 10 and Proposal 12, at the 13th session of the 20th term Board of Directors on March 11, 2021, as mentioned in said table.
- III. According to the Company’s “Board Performance Evaluation Method”, the Company shall conduct the Board performance evaluation for once per year. In 2020, the evaluation was conducted in the form of the questionnaire completed by all directors. The Board performance evaluation in 2020:

Evaluation cycle	Evaluation period	Scope of evaluation	Method of evaluation	Contents of evaluation
Once per year	January 1, 2020~ December 31, 2020	Board Performance Evaluation	Board’s Internal Self-Evaluation	A. Participation in the Company’s operation B. Improvement of the Board decision-making quality C. Composition and structure of Board D. Election and continuing education of directors E. Internal control
Once per year	January 1, 2020~ December 31, 2020	Individual director’s performance evaluation	Board members’ self-evaluation	A. Alignment with the goals and mission of the Company B. Knowledge of the directors’ duties C. Participation in the Company’s operation D. Management of internal relationship and communication E. Professionalism and continuing education of directors F. Internal control
Once per year	January 1, 2020~ December 31, 2020	Audit Committee Performance Evaluation	Audit Committee’s Internal Self-Evaluation	A. Participation in the Company’s operation B. Knowledge of functional committees’ duties C. Improvement of the functional committees’ decision-making quality D. Composition and member election of the functional committees E. Internal control
Once per year	January 1, 2020~	Remuneration Committee	Remuneration Committee’s	A. Participation in the Company’s operation

	December 31, 2020	Performance Evaluation	Internal Self- Evaluation	B. Knowledge of functional committees' duties C. Improvement of the functional committees' decision-making quality D. Composition and member election of the functional committees
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IV. Assessment of objectives (e.g. setting up an Audit Committee, enhancing the transparency of information, etc.) and implementation status in respect of strengthening the powers of the Board of Directors for the current and immediately past years will be carried out.

1. June 27, 2018 A candidate nomination system was adopted for the election of directors at the General Meeting of Shareholders.
2. June 27, 2018 The General Meeting of Shareholders elected 3 independent directors and established an Audit Committee.
3. May 6, 2019 Established the “Standard Operating Procedures for Handling Director Requests.”
4. November 7, 2019 Established the “Board Performance Evaluation Method,” and implemented the same since 2020; the 2020 Board performance evaluation results already reported to the 13th session of the 20th term Board of Directors on March 11, 2021.

Information on the operations of the Audit Committee:

The Company established an Audit Committee on June 27, 2018. The first Audit Committee met 5 times in 2020, and the attendance of independent directors was as follows:

Job Title	Name	Number of times actually attending (observing)	Frequency of attendance	Actual attendance (observation) rate (%)	Remarks
Convener	Lin Hsien-Lang	5		100%	Independent Director
Member	Chen Chi-Hsiung	5		100%	Independent Director
Member	Wu Hsiao-Yen	5		100%	Independent Director

Other matters to be recorded:

- I. If any of the following occurs in the operation of the Audit Committee, specify the date, the session, the content of the motion, the results of the Audit Committee’s resolutions and the Company’s handling of the Audit Committee’s opinions.

- (I) Matters listed in Article 14-5 of the Securities and Exchange Act: Details of other matters to be recorded in the operation of the Board of Directors on Page 16 of this Annual Report 1(1).
 - (II) Except for the aforementioned matters, other matters that have not been approved by the Audit Committee and approved by more than two-thirds of all directors: None.
- II. For recusal of independent directors from motions due to conflicts of interest, specify the names of the independent directors, the content of the motions, the reasons for recusal, and the participation in voting: None.
- III. Status of communication between independent directors, internal audit supervisors, and CPAs.
- (I) The internal audit supervisor of the Company attends regular Audit Committee meetings and Board meetings as non-voting delegates to report on the implementation of internal audit work; the audit department regularly sends audit reports and follow-up report results to independent directors for review.
 - (II) The Company's independent auditors (CPAs) attend routine Audit Committee meetings and Board meetings to communicate and discuss matters related to financial reports.

Status of corporate governance, and deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
I. Has the Company prepared and disclosed the Corporate Governance Best Practice Principles in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?		✓	The Company follows the relevant regulations of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.	There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.
II. The equity structure and shareholders' equity of the Company <input type="checkbox"/> Does the Company have internal operating procedures in place to deal with shareholder recommendations, doubts, disputes and litigation matters according to the procedures?	✓		Instructs relevant departments to deal with issues such as uncertainties, disputes, and litigation concerning shareholder recommendations.	There are no major deviations from rules stipulated by Article 13 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Does the Company have a list of the major shareholders who actually control the Company, and the ultimate controllers of the major shareholders?	✓		The stock affairs unit shall maintain an understanding of equity changes among major shareholders.	There are no major deviations from rules stipulated by Article 19 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> Has the Company established and implemented the risk management, control and prevention mechanisms for affiliated companies?	✓		The Board of Directors has approved to formulate and implement the "Supervision and Management Measures for Subsidiary Companies".	Companies. There are no major deviations from rules stipulated by Article 14 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies. There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Has the Company established internal regulations that prohibit insiders from using unpublished information in the market to buy and sell securities?	✓		The Board of Directors passed and implemented the "Management Procedures for Preventing Insider Trading."	
III. Composition and Duties of the Board of Directors <input type="checkbox"/> Has the Board developed its policies in diversity relevant to the composition of the members and has it properly pursued these policies? <input type="checkbox"/> Has the Company voluntarily set up other functional committees other than the Remuneration	✓		<p>In addition to addressing overall configuration, the selection of Board members shall also consider basic conditions and value as well as professional knowledge and skills.</p> <p>A Remuneration Committee has been established in accordance with the regulations, and on 6/27/2018 the Shareholders' Meeting elected 3</p>	<p>There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.</p> <p>There are no major deviations from the Corporate Governance Best-Practice</p>

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<p>Committee and the Audit Committee according to law?</p> <p><input type="checkbox"/> Has the Company formulated the Board's performance assessment and evaluation method, conduct performance evaluation annually and regularly, and report the results of the performance evaluation to the Board of Directors, and apply it to individual directors' remuneration and nomination renewal?</p> <p><input type="checkbox"/> Has the Company assessed the independence status of the CPAs at regular intervals?</p>	<p>✓</p> <p>✓</p>		<p>independent directors and established an Audit Committee.</p> <p>The Company established its Board Performance Evaluation Method on November 7, 2019. Starting from 2020, a self-evaluation questionnaire will be distributed at the end of each year for regular evaluation, and the evaluation results will be reported to the Board of Directors. This shall also serve as a reference for individual directors' remuneration and nomination for renewal.</p> <p>Reviewed on 3/11/2021 by the 13th meeting of the 1st Audit Committee and resolution passed on March 11, 2020 by the 13th meeting of the 20th Board of Directors.</p>	<p>Principles for TWSE/TPEX Listed Companies. There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.</p> <p>There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.</p>
<p>IV. Is the TWSE/TPEX listed company equipped with qualified and appropriate number of corporate governance personnel, and appoint a corporate governance director responsible for corporate governance</p>	<p>✓</p>		<p>The Company has part-time staff to handle corporate governance related matters. For detailed information and contact information, please refer to the Company's website at http://www.khc.com.tw Resolution passed by the 13th session of the 20th term</p>	<p>There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
related matters (including but not limited to providing information needed by directors and supervisors to carry out business, assisting directors and supervisors to comply with laws and regulations, handling matters related to meetings of the Board of Directors and shareholders' meeting in accordance with the law, and producing minutes of Board meetings and shareholders' meetings)?			Board of Directors and the chief corporate governance officer appointed on March 11, 2021.	
V. Has the Company established channels for the communications with the stakeholders (including but not limited to the shareholders, employees, customers, and suppliers), and the section for the shareholders on the official website of the Company to respond to all concerns of the stakeholders on corporate social responsibility?	✓		A special area for stakeholders has been set up on the Company's website and the relevant departments have been instructed to handle it. The stakeholder area includes stakeholder needs and expectations (shareholder, employee, customer, third-party, community, and government). Shareholders can communicate with the Company through the toll free shareholder hotline and through email.	There are no major deviations from rules stipulated by Article 51 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.
VI. Has the Company appointed a		✓	Stock services self-administered.	There are no major

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
professional share registration and investors service agent for handling matters pertaining to the Shareholders Meeting?				deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.
<p>VII. Disclosure of Information</p> <p><input type="checkbox"/> Has the Company installed a website for the disclosure of information on financial position and operation, as well as corporate governance?</p> <p><input type="checkbox"/> Has the Company adopted other means for disclosure (such as the installation of a website in the English language, appointment of designated persons for the collection and disclosure of information on the Company, the implementation of the spokesman system, and videotaping institutional investor conferences)?</p>	<p>✓</p> <p>✓</p>		<p>http://www.khc.com.tw There is a special area for investors, regularly updating financial, business, and other information for investors' reference.</p> <p>It has set up a spokesperson and a dedicated person to be responsible for media data collection. Externally, the spokesperson will speak on behalf of the Company. It also requires other employees not to disseminate information without authorization.</p>	<p>There are no major deviations from rules stipulated by Article 56 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.</p>

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> Does the Company announce and declare its annual financial report within two months after the end of the fiscal year, and announce and declare the first, second, and third quarter financial reports and the monthly operating situation as early as possible within the prescribed time limit?		✓	Currently, the deadline is announced in accordance with the law.	
VIII. Is there any other essential information that would help understand the pursuit of corporate governance (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, the continuing education of directors and supervisors, the pursuit of a risk management policy and standard of risk assessment, the pursuit of a customer policy, and professional liability insurance coverage for the directors and supervisors)?	✓		<ol style="list-style-type: none"> 1. Set up a labor union and employee welfare committee to ensure employee rights and employee care, and strive to improve the working environment and welfare of employees. 2. Establish a dedicated unit to regularly disclose the Company's important operating information, continue to improve the transparency of the Company's information, and establish a feedback mechanism for investors to express relevant suggestions for the Company's development. 3. The Company's website has a dedicated area to respond to interested parties, who can get into 	There are no major deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
			direct contact and communicate via telephone, fax, and email.	
<p>IX. Please explain corrective action taken in response to the result of the Corporate Governance Evaluation conducted by the Corporate Governance Center of Taiwan Stock Exchange Corporation, and the priority of action on issues pending for corrective action in the most recent year.</p> <p>9.1 Explanation of improvements:</p> <p>9.1.1 Do the Company's Articles of Incorporation require a comprehensive candidate nomination system for director elections? Yes, on 2018/6/27 a candidate nomination system was adopted for the election of directors at the Shareholders' Meeting.</p> <p>9.1.2 Has the Company set up an Audit Committee for compliance? Yes; on 6/27/2018 the Shareholders' Meeting elected 3 independent directors and established an Audit Committee.</p> <p>9.1.3 Is information reported in English? Already prepared the financial statements, annual reports and meeting handbook in English language as required in 2021.</p> <p>9.2 Priority enhancements and measures for items that have not yet improved:</p> <p>9.2.1 Is a corporate responsibility report prepared? It will be compiled based on legal requirements and actual needs.</p>				
<input type="checkbox"/> Status of directors' continuing education in 2020:				
Name	Date	Organizer	Course title	Hours
Chairman Lu Tai Rong	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Chairman Lu Tai Rong	November 24, 2020	Securities & Futures Institute	Case Study on Protection of Business Secrets	3 hours
Chairman Lu Tai Rong	November 24, 2020	Securities & Futures Institute	Corporate governance and securities regulations	3 hours
Director Sheng Lu Rong Feng	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Director Huang Li-Chun	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
Director Lu En-Chang	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Director Wu Hsien-Ming	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Director Lin Tzu-Hui	February 17, 2020	Securities & Futures Institute	Corporate governance and securities regulations	3 hours
Director Lin Tzu-Hui	September 3, 2020	Securities & Futures Institute	2020 Insider Trading Prevention and Share Transfers by Insiders Presentation Conference	3 hours
Director Lin Tzu-Hui	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Director Lin Tzu-Hui	November 16, 2020	Taiwan Stock Exchange	2020 Corporate Governance and Ethical Corporate Management Policy Presentation Conference for Directors/Supervisors	3 hours
Lin Hsien-Lang Independent Director	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Lin Hsien-Lang Independent Director	December 2, 2020	Taiwan Corporate Governance Association	Discussion on Independent Directors and Proxy Contest	1.5 hours
Lin Hsien-Lang Independent Director	December 2, 2020	Taiwan Corporate Governance Association	Supervision of Audit Committee and Board of Directors in M&A and Public Tender Offer Cases	1.5 hours
Lin Hsien-Lang Independent Director	December 2, 2020	Taiwan Corporate Governance Association	Supervision of Audit Committee and Board of Directors in Internal Control and Risk Management	1.5 hours

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
Lin Hsien-Lang Independent Director	December 2, 2020	Taiwan Corporate Governance Association	Planning and Practicing of Roadmap for Sustainability	0.5 hour
Lin Hsien-Lang Independent Director	December 2, 2020	Taiwan Corporate Governance Association	Corporate Governance Moving Forward- Corporate Governance Roadmap 3.0	0.5 hour
Lin Hsien-Lang Independent Director	December 31, 2020	Taiwan Corporate Governance Association	How Enterprises to Make Good Use of Capital Market in the Current Global Economic and Political Environment	1 hour
Chen Chi-Hsiung Independent Director	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours
Wu Hsiao-Yen Independent Director	July 29, 2020	Taiwan Corporate Governance Association	Proxy Contest and Case Study	1 hour
Wu Hsiao-Yen Independent Director	September 3, 2020	Securities & Futures Institute	2020 Insider Trading Prevention and Share Transfers by Insiders Presentation Conference	3 hours
Wu Hsiao-Yen Independent Director	October 21, 2020	Taiwan Corporate Governance Association	How to Make Good Use of ERP to Improve Management Efficiency and Business Performance	3 hours
Wu Hsiao-Yen Independent Director	November 10, 2020	Taiwan Corporate Governance Association	Board Functions and Performance Evaluation	3 hours

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> The implementation of risk management policies and risk measurement standards and the implementation of customer policies: <ol style="list-style-type: none"> 1. The annual budget is sent to the Board of Directors for deliberation, and the budget and cash flow are controlled. 2. Board meetings, report business, financial and audit reports. 3. Review customer sales credit limits every year and instruct relevant departments to control them. 4. In order to reduce the credit risk of accounts receivable, most of the Company's customer's open letters of credit before shipment. 				
<input type="checkbox"/> The Company's purchase of insurance for directors and supervisors: <p>The Company has purchased liability insurance for directors:</p> <ol style="list-style-type: none"> 1. Insurance company: Shin Kong Insurance Co., Ltd. <p style="margin-left: 40px;">Shin Kong liability insurance for directors, supervisors and managers</p> 2. Insurance period: August 22, 2020 - August 22, 2021 3. Insurance amount: USD3,000,000 (accumulated liability for compensation during the insurance period). 				

Kao Hsing Chang Iron & Steel Corp. Code of Ethical Conduct

Reported to the Shareholders' Meeting of 2016/6/17

Article 1 Purpose of establishment and its basis

In order to ensure that the behavior of the Company's directors, supervisors, managers and all employees (hereinafter referred to as "Company Personnel") complies with ethical standards, and to allow the Company's stakeholders to better understand the Company's ethical standards, the Company has developed these standards in an adherence with the "Guidelines for the Adoption of Codes of Ethical Conduct for TWSE/TPEX Listed Companies" as announced by the Taiwan Stock Exchange Corporation.

Article 2 Ethical principles

Company Personnel shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, nor commit unethical acts including breach of ethics, illegal acts, or breach of fiduciary duty for purposes of acquiring or maintaining benefits.

Article 3 Covered content

(I) Prevention of conflicts of interest:

Company Personnel shall handle official duties in an objective and efficient manner, and shall not allow themselves, their spouses, parents, children, or their relatives within the second degree to obtain improper benefits while holding their positions. The Company and affiliated companies to which the aforementioned personnel belong, or provide them with guarantees, major asset transactions, or purchase (sales) of goods. Company Personnel should take the initiative to explain whether they have a potential conflict of interest with the Company.

(II) Avoiding opportunities for personal gain:

1. Company Personnel should avoid the following matters:

- (1) Opportunities for personal gain through the use of Company property, information, or the convenience of one's position.
- (2) Gaining personal benefit through the use of Company property, information, or the convenience of one's position.
- (3) Competition with the Company.

2. When the Company has a profit opportunity, the personnel of the Company are responsible for increasing the reasonable and legitimate interests that can be obtained by the Company.

3. Should not obtain or give rebates or other improper benefits from customers, suppliers, or groups related to the Company.

(III) Duty of confidentiality:

The personnel of the Company shall be obliged to keep confidential the Company's own information or that of its purchase (sales) customers, except when authorized or required by law to be disclosed. Information that should be kept confidential includes all unpublished information that may be used or leaked by competitors to harm the Company or customers.

(IV) Fair trading:

The Company's personnel shall treat the Company's purchase (sales) customers, competitors, and employees fairly, and shall not obtain them by manipulating, concealing, or misusing the information they have learned based on their duties, making misrepresentations on important matters, or other unfair trading methods to obtain improper interests.

(V) Protecting and appropriately using Company assets:

The Company's personnel are responsible for protecting the Company's assets and ensuring that they can be used effectively and legally for official duties. Theft, negligence, or waste would directly affect the Company's profitability.

(VI) Following laws and regulations:

Company Personnel must truly adhere to the Company Act, the Securities and Exchange Act, and other laws and regulations.

Insider trading is prohibited; implement the environment and establish a healthy and safe working environment.

(VII) Encouraging the reporting of any illegal or unethical conduct:

The Company should strengthen the promotion of ethical concepts. When Company Personnel know or discover any behavior that may violate laws, regulations, or the Code of Ethical Conduct, they should report to the supervisor, manager, internal audit supervisor or other appropriate personnel. Any individual use whistleblowing reporting method provided that sufficient information is provided. If anyone believes that he or she has been

retaliated against (threats or harassment) for the above actions, this should be reported to the direct supervisor or personnel supervisor or internal audit supervisor or other appropriate personnel, and the Company will do its best to protect the safety of the informant from retaliation.

(VIII) Disciplinary measures:

When Company Personnel violate the Code of Ethical Conduct, the Company shall deal with it in accordance with the disciplinary measures stipulated in the Code of Ethical Conduct. In addition, immediate disclosure shall be made on the Market Observation Post System regarding information on the date of violation, the reason for the violation, the violation of the standard and the handling situation of the person who violated the Code of Ethical Conduct; and remedial measures will be taken.

Before disciplinary action is taken, the person who violated ethical conduct should be issued a verbal explanation of the complaint.

Article 4 Procedures for exemptions

If Company Personnel are exempted from following the Company's code of ethical conduct, this must be approved by the Board of Directors, and immediate disclosure must be made on the Market Observation Post System regarding the date of approval of the waiver by the Board of Directors, the objections or reservations of independent directors, the period of application of the waiver, the reasons for the waiver and the criteria for the application of the waiver, and other information. This shall be done to facilitate shareholders' evaluation of whether the resolutions made by the Board of Directors are appropriate to prevent arbitrary or questionable exemptions from complying with the standards, and ensure that any exemptions from complying with the standards have appropriate control mechanisms to protect the Company.

Article 5 Methods of disclosure

The Company shall disclose its Code of Ethical Conduct on the Company website, annual report, public brochures, and Market Observation Post System, and the same shall apply for revisions.

Article 6 Implementation

This Code shall be implemented after the approval of the Board of Directors, and shall be sent to the supervisors and reported to the Shareholders Meeting. The same shall apply for revisions.

If the Company has set up the Remuneration Committee, it shall disclose the composition, responsibilities and operation thereof:

1. Information of Remuneration Committee Members

ID classification (Note 1)	Name	Terms	Has at least five years of relevant working experience and the following professional qualifications	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience required for business, legal affairs, finance, accounting, or Company business	Conform to the status of independence (Note 2)										Number concurrently serving as members of the remuneration committees of other publicly issued companies	Remarks End of full text
						1	2	3	4	5	6	7	8	9	10		
Independent Director	Lin Hsien-Lang		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Independent Director	Chen Chi-Hsiung		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Independent Director	Wu Hsiao-Yen		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1: Please fill in as director, independent director or other.

Note 2: For members who meet the following conditions during the two years before and during their tenure of office, please mark " " in the space below each condition code.

- Not an employee of the Company or its affiliates.
- Not a director or supervisor of the Company or its affiliates. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- No one percent or more of the total issued shares of the Company are held by him/her or his/her spouse, or minor children or on his/her behalf, or none of their shareholding percentage is among top ten shareholders.
- Not a manager of those listed in or someone having a relationship with those listed in or including a spousal relationship, a second-degree kinship or closer, or an immediate blood relative within three degrees of kinship.
- Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of outstanding shares of the Company or that holds shares ranking in the top

five in holdings, or is designated as a representative in accordance with Article 27, Paragraph 1 or 2 of the Company Act. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)

- Not a director, supervisor, or employee of another company controlled by the same person with more than half of the shares with voting rights on the Company's Board of Directors. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- Not a director, supervisor, or employee of another company or institution whose Chairman, General Manager, or equivalent position is the same person as that of the Company, or the spouse thereof. (However, in the case of independent directors established and concurrently serving in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- Not a director, supervisor, or manager of a specific company or institution having financial or business dealings with the Company, or a shareholder holding 5% or more of shares. (However, if a specific company or institution holds more than 20% of the total issued shares of the Company but not more than 50%, and the established independent director concurrently serves in the Company and its parent company, subsidiary company or subsidiary company of the same parent company in accordance with this law or local laws, this limitation shall not apply.)
- Not a partner, director, supervisor, manager, or spouse thereof of a company or institution that provides commercial, legal, financial, financial, or accounting related services to the Company or any affiliate of the Company for amounts exceeding NTD 500,000 in the past two years. However, for members of the Remuneration Committee, Public Acquisitions Review Committee, or M&A Special Committee who perform their functions and powers in accordance with the relevant laws and regulations of the Securities and Exchange Act or the Corporate Mergers & Acquisitions Act, this limitation shall not apply.
- Not exhibiting any of the circumstances specified under Article 30 of the Company Act.

2. Information on the operation of the Remuneration Committee

- There are 3 members of the Remuneration Committee of the Company.
- Current (4th) term of membership: August 9, 2018 to June 26, 2021. In 2020, the Remuneration Committee met twice and the qualifications and attendance of members are as follows:

Title	Name	Number of times actually attending (B)	Attendance by proxy Frequency	Actual attendance (observation) rate (%) (B/A) (Note)	Remarks
Convener	Lin Hsien-Lang	2		100%	Newly appointed 2018.8.9
Member	Wu Hsiao-Yen	2		100%	Re-elected 2018.8.9
Member	Chen Chi-Hsiung	2		100%	Re-elected 2018.8.9

Other matters to be recorded:

- I. If the Board of Directors does not adopt or amend the recommendations of the Remuneration Committee, the date and period of the Board of Directors, the content of the proposal, the resolution of the Board of Directors, and the Company's handling of the opinions of the Remuneration Committee should be stated. (If the remuneration approved by the Board of Directors exceeds the recommendation of the Remuneration Committee, the differences and reasons should be stated): None.
- II. On resolutions of the Remuneration Committee, if members have objections or reservations and have records or written declarations, the date, period, proposal content, opinions of all members and the handling of the opinions of the members shall be stated: None.

Note:

- (A) Before the end of the year, if a member of the Remuneration Committee resigns, the date of resignation should be indicated in the remarks column. The actual attendance rate (%) is calculated based on the number of meetings of the Remuneration Committee during the term of service and the actual number of attendances.
- (B) Before the end of the year, if the Remuneration Committee is re-elected, the new and old Remuneration Committee members should be listed, and the remarks column should indicate whether the member is old, new or re-elected and the date of reelection. The actual attendance rate (%) is calculated based on the number of meetings of the Remuneration Committee during the term of service and the actual

number of attendances.

Performance of social responsibility and its differences and reasons for differences with Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies:

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
I. Does the Company follow the principle of materiality, conduct risk assessments on environmental, social and corporate governance issues related to Company operations, and formulate relevant risk management policies or strategies?		✓	The Company has not formulated Corporate Social Responsibility Best Practice Principles, but each department is in charge of corporate social responsibility work. Actively participating in or sponsoring community activities.	There are no major deviations from Article 6 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
II. Has the Company set up a special (part-time) unit for promoting performance of corporate social responsibility, and allowed the Board of Directors to authorize high-level management to deal with and report the situation about social responsibility to the Board of Directors?		✓	Instruct the Management Department and administrative security section to handle it.	There are no major deviations from Article 7 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
III. Environmental Issues <input type="checkbox"/> Has the Company established an appropriate environmental management system relevant with the specific characteristics of its industry? <input type="checkbox"/> Is Company committed to improving the utilization efficiency of resources, and using the recycled materials that have a low impact on the environmental load?	✓ ✓		Passed ISO14001 environmental management system certification. We are committed to reducing the amount of residues in the process and recycling and reusing resources in the factories.	There are no major deviations from Article 13 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies. There are no major deviations from Article 12 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> Does the Company assess the potential risks and opportunities of climate change for the Company now and in the future, and take measures to deal with climate-related issues?	✓		We continue to pay attention to international climate change related agreements and laws, and actively formulate energy-saving, carbon-reduction, and greenhouse gas reduction measures.	There are no major deviations from Article 17 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Does the Company count greenhouse gas emissions, water consumption and the volume of total waste in the past two years, and formulate policies for energy saving and carbon reduction, greenhouse gas reduction, water management or other waste management?	✓		The Company's greenhouse gas emissions are lower than the Environmental Protection Administration's regular monitoring standards. The factory water is recycled after treatment in the Pingnan Industrial Park. The water consumption is calculated every six months and the waste weight is declared on a monthly basis.	There are no major deviations from Article 17 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
IV. Social Issues <input type="checkbox"/> Has the Company established related policies and procedures in accordance with applicable legal rules and the International Convention on Human Rights?	✓		Work rules and work environment safety equipment are used to protect the personal safety of employees, and industrial labor unions are established to implement the protection of employees' legal rights and employment policies without discrimination.	There are no major deviations from Article 18 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Has the Company formulated and implemented reasonable employee welfare measures (including salary, vacation and other	✓		An employee welfare committee was established to handle employee welfare in accordance with	There are no major deviations from Article 21 of the Corporate Social Responsibility Best

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
benefits, etc.), and appropriately reflects business performance or results in employee compensation?			laws and regulations. The Company has set up salary and remuneration policies and employee performance appraisal systems.	Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Has the Company provided a safe and healthy work environment for the employees, and related education on occupational safety and health for the employees at regular intervals?	✓		Regular health inspections and work safety education and training are held for employees, and they have passed ISO14001, ISO45001 & CNS45001 and other occupational safety management system certifications	There are no major deviations from Article 20 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Has Company provided effective training in career planning for employees?	✓		We organize pre-employment and on-the-job education and training for employees, select employees with development potential and cultivate reserve managers, and attach importance to the development of professional competence of employees.	There are no major deviations from Article 21 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.
<input type="checkbox"/> Regarding customer health and safety, customer privacy, marketing and labeling of products and services, does the Company comply with relevant regulations and international standards, and formulate relevant consumer protection	✓		We comply with relevant laws and regulations such as fair trade, and also collect information on major international environmental protection regulations to grasp trends and responses.	There are no major deviations from Article 24 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<p>policies and appeal procedures?</p> <p><input type="checkbox"/> Has the Company formulated supplier management policies, where suppliers are required to follow relevant regulations on issues such as environmental protection, occupational safety and health or labor and their implementation?</p>	✓		<p>We carry out customer satisfaction surveys and provide complaints channels for products and services every year.</p> <p>The Company has established supplier review and evaluation procedures, and evaluates supplier products, environmental safety, ethics, and social responsibility items.</p>	<p>There are no major deviations from Article 26 of the Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies.</p>
<p>V. Does the Company refer to internationally accepted reporting standards or guidelines to prepare corporate social responsibility reports and other reports that disclose the Company's non-financial information? Has the preliminary report obtained the confidence or assurance opinion of the third-party verification unit?</p>		✓	<p>The Company's website partially discloses corporate responsibility related information.</p>	
<p>VI. If the Company has enacted the "Corporate Social Responsibility Best Practice Principles" in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies, please describe the difference between its operation and the Principles: Not yet determined.</p>				

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<p>VII. Other important information helpful for better understanding of the operation of corporate social responsibility:</p> <ol style="list-style-type: none"> 1. In implementing and promoting energy saving and waste reduction, in addition to budgeting and investing in environmental protection capital expenditures, the entire Company's waste is classified and recycled, and waste and other pollutants are entrusted to a qualified cleaning company. 2. Community involvement: Sponsored community activities in Gushan District, Yongan District, Kaohsiung City, and Fangliao Township in Pingtung County, and participated in the promotion of softball activities, and gave priority to employing local villagers. 3. The Company has set up parking lots on a portion of land in Kaohsiung City to help alleviate public parking difficulties. 				

Ethical business performance conditions, as well as differences and reasons for differences with Ethical Corporate Management Best Practice Principles for TWSE / GTSM Listed Companies

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<p>I. Formulation of ethical management policy and plans</p> <p><input type="checkbox"/> Has the Company specified its policy and method for the implementation of ethical corporate management in its internal rules and regulations and external documents, and have the Board and the management of the Company promised to pursue the policy of ethical corporate management?</p> <p><input type="checkbox"/> Has the Company established an assessment mechanism for the risk of dishonesty, regularly analyzing and evaluating business activities with a high risk of dishonesty in the business scope, and formulated a plan to prevent dishonesty, and cover at a minimum the preventive measures for various acts under Article 7, Paragraph 2 of "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?"</p> <p><input type="checkbox"/> Does the Company specify the operating procedures, behavior</p>			<p>Formulated the Code of Ethical Conduct for directors, managers, and all employees of the Company. Clearly indicate the Company's policy of ethical operations, such that Board members and management should actively implement the commitments of this operating policy when performing business.</p> <p>Company Personnel shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, nor commit unethical acts including breach of ethics, illegal acts, or breach of fiduciary duty for purposes of acquiring or maintaining benefits.</p> <p>Prevention of conflicts of interest: Company Personnel shall</p>	<p>None.</p> <p>None.</p> <p>None.</p>

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
guidelines, disciplinary penalties and grievance system in the plan to prevent dishonesty, and implement it, and regularly review and revise the pre-disclosure plan?			handle official duties in an objective and efficient manner, and shall not allow themselves, their spouses, parents, children, or their relatives within the second degree to obtain improper benefits while holding their positions. The Company and affiliated companies to which the aforementioned personnel belong, or provide them with guarantees, major asset transactions, or purchase (sales) of goods. Company Personnel should take the initiative to explain whether they have a potential conflict of interest with the Company.	
II. Implementation of Ethical Corporate Management <input type="checkbox"/> Does the Company assess a trading counterpart's ethical management record and expressly state the ethical management clause in the contract to be signed with the trading counterpart?	✓		Avoiding opportunities for personal gain: Should not obtain or give rebates or other improper benefits from customers, suppliers, or groups related to the Company. The Company regularly evaluates and audits its customers and manufacturers.	None.

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> Has the Company set up a dedicated unit under the Board of Directors to promote corporate ethical management, and regularly reports (at least once a year) to the Board of Directors on its ethical management policies, plans for preventing dishonest behavior, and supervision and implementation?	✓		Ethics and integrity are the most important core value of the Company's culture. Under the supervision of the Board of Directors, the Company managers shall be responsible for the completeness, accuracy, and timeliness of all information disclosed by the Company.	None.
<input type="checkbox"/> Has the Company developed a policy to prevent conflicts of interest, provided a proper presentation channel, and put such policy in place?	✓		Encouraging the reporting of any illegal or unethical conduct: The Company should strengthen the promotion of ethical concepts. When Company Personnel know or discover any behavior that may violate laws, regulations, or the Code of Ethical Conduct, they should report to the manager, internal audit supervisor or other appropriate personnel. Any individual use whistleblowing reporting method provided that sufficient information is provided. The personnel unit has a complaint mechanism and the Company website has a complaint channel.	None.

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> Has the Company established an effective accounting system for the implementation of ethical management, internal control system, and the evaluation result of the risk of dishonesty by the internal audit unit, to formulate relevant audit plans, and check the compliance with the plan to prevent dishonesty, or entrusted an accountant to perform the audit?	✓		The Company has always attached importance to the accuracy and completeness of financial reports. The audit unit draws up an annual audit plan based on the risk assessment, and executes the audit to prepare an audit report to the Board of Directors and deliver it to independent directors for review.	None.
<input type="checkbox"/> Does the Company hold education training in ethical corporate management inside and outside the Company on a regular basis?	✓		The personnel unit organizes relevant education, training, and promotions every year.	None.
III. Operation of the Company's whistle-blowing system <input type="checkbox"/> Has the Company put in place the specific whistle-blowing and reward system, established a convenient reporting channel, and assigned appropriate personnel to deal with whistle-blowing?	✓		The Company incorporates ethical management into employee evaluation and human resources policies, and there is a system of rewards, punishments, and appeals.	None.

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
<input type="checkbox"/> Has the Company established standard operating procedures for accepting complaints, follow-up measures to be taken after the investigation is completed, and relevant confidentiality mechanisms? <input type="checkbox"/> Has the Company taken measures to protect whistle-blowers from retaliation due to reporting?		✓	To be established	None.
	✓		If anyone believes that he or she has reported any illegal or ethical conduct that is subject to retaliation (threats or harassment), this should be reported to the direct supervisor or personnel supervisor or internal audit supervisor or other appropriate personnel, and the Company will do its best to protect the safety of the informant from retaliation.	None.
IV. Strengthening information disclosure <input type="checkbox"/> Has the Company, on its website and on the Market Observation Post System, disclosed the content and promotion effectiveness of its Ethical Corporate Management Best Practice Principles?	✓		<input type="checkbox"/> Address of the Company's website: http://www.khc.com.tw ; ethical policies are disclosed by the annual report, internal regulations, and so on.	None.
V. If the Company has enacted the Ethical Corporate Management Best Practice Principles in accordance with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe the difference between its operation and the Principles: A code of ethical management has not yet been formulated, while a code of ethical conduct has been formulated, and there is no difference between the Company's operations and the established guidelines.				

Evaluation item	Operational status			Deviation from Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies and causes thereof:
	Yes	No	Summary Description	
VI. Other information that enables a better understanding of the Company's ethical corporate management (for example, the Company's review and revision the Ethical Corporate Management Best Practice Principles, etc.): None.				

- If the Company has established the Corporate Governance Best Practice Principles and the related regulations, it should disclose how to inquire about such principles: None.
- Other important information that is sufficient to enhance the understanding of corporate governance and operation conditions must be disclosed together: None.

Implementation status of internal control system

1. Internal Control System Statement

Kao Hsing Chang Iron & Steel Corp.


Internal Control System Statement

Date: March 11, 2021

For the Company's Internal Control System of 2020, based on the results of self-assessment, the following is hereby declared:

- I. The Company acknowledges and understands that the establishment, implementation and maintenance of the internal control system are the responsibility of the Board and managerial officers of the Company, and that such a system has been implemented within the Company. The purpose of the system is to reasonably ensure that the effectiveness and efficiency of operations (including profits, performance, and protecting the security of assets), reliability, timeliness, and regulatory compliance of reporting, as well as the compliance with applicable laws, regulations, and bylaws are achieved.
- II. The internal control system is designed with inherent limitations. No matter how perfect the internal control system is, it can only provide a reasonable assurance to the fulfillment of the three objectives referred to above. Moreover, the effectiveness of the internal control system could be affected by the changes of environment and circumstances. However, the Company's internal control system has a self-supervision mechanism. Once the missing element is recognized, the Company takes corrective action.
- III. The Company evaluates the design and execution of its internal control system based on the criteria specified in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations") to determine whether the existing system continues to be effective. The criteria defined in "the Regulations" include five elements depending on the management control process: 1. environment control, 2. risk assessment, 3. control process, 4. information and communication, and 5. supervision. Each element further encompasses several sub-elements. Please refer to "the Regulations" for details.
- IV. The Company has adopted the said criteria to validate the effectiveness of its internal control system design and execution.
- V. Based on the results of examination, the Company believes that the design and implementation of its internal control system dated December 31, 2020 (including supervising and managing its subsidiaries), consisting of the effectiveness and efficiency of business operations, the preparation of reliable, timely and transparent financial statements, and their compliance with the relevant rules and regulations, are effective, and reasonably assure the achievement of the aforementioned goals.
- VI. The Statement of Declaration will be the major contents of the annual report and prospectus of the Company and to be publicly disclosed. The Company shall be held liable for misrepresentation or nondisclosure in the above content, according to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This statement was approved by the Company's Board of Directors on March 11, 2021.

Among the 9 directors present, none presented objections and all agreed to the content of this statement and hereby declaration.

Chairman: Lu Tai Rong 

General Manager: Sheng Lu Rong Feng 

2. If a CPA is retained for the conduct of the internal audit system, disclose the Auditor's Report: None

In the most recent year and as of the date of publication of the Annual Report, whether the Company and its internal personnel have been disciplined according to law, the Company's disciplining of its internal personnel for violating the provisions of the Internal Control System, and major deficiencies and improvements: None.

In the most recent year and as of the printing date of the Annual Report, important resolutions of the Shareholders' Meeting and Board of Directors:

1. Important resolutions of the 2020 Shareholders' Meeting (June 19, 2020):

(1) Voted on acknowledgment of the 2019 business report and financial statements

(2) Voted to acknowledge the 2019 loss make-up proposal

(3) Voted to pass the amendments to provisions of the "Rules of Procedure for Shareholders Meetings"

Implementation of the resolutions of the Shareholders' Meeting of 2020:

(1) Voted on acknowledgment of the 2019 business report and financial statements:
Passed the proposal.

(2) Voted to acknowledge the 2019 loss make-up proposal: No dividends to be distributed, and passed according to the proposal.

(3) Voted to pass the amendments to provisions of the "Rules of Procedure for Shareholders Meetings": The amended Rules of Procedure shall apply.

After the meeting, the resolutions of the Shareholders' Meeting would be released within the specified time.

2. Important Resolutions of the Board of Directors in 2020

Item	Important resolutions
1. The 8th session of the 20th term Board of Directors (March 19, 2020)	<ol style="list-style-type: none"> 1. Acknowledged the 2019 business report and financial statements 2. Acknowledged the 2019 loss make-up proposal 3. Passed the assessment of independence of CPAs 4. Passed the borrowing of NTD1 billion from Yuanta Commercial Bank 5. Passed the 2019 Internal Control Statement 6. Amended the “Remuneration Committee Organizational Procedures” 7. Amended the “Audit Committee Organizational Procedures” 8. Amended the “Rules of Procedure for the Board of Directors Meetings” 9. Amended the “Rules of Procedure for Shareholders Meetings” 10. Passed the convention of General Meeting of Shareholders on June 19, 2020, and agenda thereof 11. Passed the measures to accept proposals from shareholders holding more than 1% of shares.
2. The 9th session of the 20th term Board of Directors (May 7, 2020)	<ol style="list-style-type: none"> 1. Acknowledged the 2020 Q1 financial statements. 2. Amended the “Stock Services Internal Control System.”
3. The 10th session of the 20th term Board of Directors (August 7, 2020)	<ol style="list-style-type: none"> 1. Acknowledged the 2020 Q2 financial statements. 2. Passed the amendments to the “ Remuneration Committee Organizational Procedures.” 3. Passed the amendments the “Rules of Procedure for the Board of Directors Meetings.” 4. Passed the amendments the “Board Performance Evaluation Method.” 5. Passed the amendments to the “Rules Governing the Scope of Powers of Independent Directors.” 6. Passed the amendments to the “Procedure for Election of Directors.” 7. Passed the amendments to the “Rules of Procedure for Shareholders Meetings.”
4. The 11th session of the 20th term Board of Directors (September 10, 2020)	<ol style="list-style-type: none"> 1. Ratified cash capital increase subscription case for Enrestec Inc. 2. Passed the proposal for acquisition of land and buildings from Sunward Refractories Co., Ltd. 3. Passed the proposal for borrowing of fund from Chang Hwa Bank.
5. The 12th session of the 20th term Board of Directors (November 10, 2020)	<ol style="list-style-type: none"> 1. Acknowledged the 2020 Q3 financial statements. 2. Passed the 2021 annual budget. 3. Passed the loans from financial institutions in 2021. 4. Passed the 2021 annual audit plan.
6. The 13th session of the 20th term Board of Directors (March 11, 2021)	<ol style="list-style-type: none"> 2. Acknowledged the 2020 business report and financial statements. 3. Acknowledged the 2020 loss make-up proposal. 4. Passed the assessment of independence of CPAs. 5. Passed the 2019 Internal Control Statement.

Item	Important resolutions
	6. Passed the amendments to the “Rules of Procedure for Shareholders Meetings.” 7. Passed the proposal for re-election of the whole directors. 8. Passed the convention of General Meeting of Shareholders on June 24, 2021, and agenda thereof. 9. Passed the measures to accept proposals from shareholders holding more than 1% of shares. 10. Passed the measures to accept proposals for nomination of candidates for directors from shareholders holding more than 1% of shares. 11. Passed the name list of candidates for directors of the Company’s 21st Board of Directors. 12. Passed the proposal for appointment and dismissal of financial and accounting managers. 13. Passed the proposal for appointment and dismissal of the Company's chief corporate governance officer.
7. The 14th session of the 20th term Board of Directors (2020.05. 07)	1. Acknowledgment of financial statements for the first quarter of 2021 2. Amended the “Stock Services Internal Control System”.

Directors or independent directors holding adverse opinions on the resolutions of the Board in the most recent year to the day this report was printed on record or in written declaration, and their main contents: None.

Summary of the resignation and removal of the Company's Chairman, General Manager, chief accountant, treasurer, internal audit supervisor and R&D supervisor in the most recent year and up to the date of publication of the Annual Report:

Summarization of Resignation/Removal from Office of the Company's Related Parties

April 30, 2021

Job Title	Name	Date of assuming office	Date of resignation or removal from office	Cause of resignation or removal from office
Manager, Finance and Accounting Department	Huang Feng-Yuan	January 9, 2019	April 1, 2021	Retired

Note: The Company's related parties refer to the Chairman, General Manager, chief accountant, treasurer, internal audit supervisor and R&D supervisor.

V. Information about CPA Professional Fees

Accounting firm name	Accountant name	Accountant name	Audit period	Remarks
KPMG Taiwan	Chen Kuo-Tsung	Hsu Chen-Lung	2020	

Note: If the Company has changed accountants or accounting firms this year, please list the audit period separately and explain the reason for the change in the remarks column.

Schedule of information for CPA professional fees

Currency Unit: NTD Thousand

Fee item		Audit fees	Non-audit fees	Total
Amount range				
1	Less than NTD 2,000 thousand	✓	✓	✓
2	NTD 2,000 thousand (inclusive) - NTD 4,000 thousand			
3	NTD 4,000 thousand (inclusive) - NTD 6,000 thousand			
4	NTD 6,000 thousand (inclusive) - NTD 8,000 thousand			
5	NTD 8,000 thousand (inclusive) - NTD 10,000 thousand			
6	NTD 10,000 thousand (inclusive) and above			

Information about CPA Professional Fees

Unit: NTD Thousand

Accounting firm name	Accountant name	Audit fees	Non-audit fees					Subtotal	Accountant audit period	Remarks
			System design	Business registration	Human resources	Others (Note)				
KPMG Taiwan	Chen Kuo-Tsung	1,680						January 1, 2020~ December 31, 2020		
	Hsu Chen-Lung							January 1, 2020~ December		

								31, 2020	
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- If the Company has changed its CPA office and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amount, proportion and reasons for the reduction of audit expenses should be disclosed: None.

- If the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more, the amount, proportion and reasons for the reduction of audit expenses should be disclosed: None.

VI. Information about changes of CPAs

Information about changes of CPAs

About the former CPAs

Date of replacement	None		
Reason for replacement and description	KPMG Taiwan adjustment in internal work allocation		
Explain when the appointing person or accountant was terminated or did not accept the appointment	Circumstances of the parties	Accountants	Appointed person
	Circumstances	None	
	Voluntary termination of appointment		
No longer accepting (continuing) appointment			
Comments and reasons for audit reports having other than an	None		
Any discrepancies with the issuer	None		Accounting principles or practices
			Disclosure of financial reports
			Audit scope or steps
			Others
	No such situation		
Explanation			
Other disclosures (Article 10, Section 6, Item 1, Items 4 to 1-7 of this Code shall be disclosed)	None		

Note: Explanation for change of CPAs in 2019

Explanation for change of CPAs	None
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About successor CPAs

Firm name	KPMG Taiwan
Accountant name	None
Date of appointment	None
Prior to appointment, the accounting treatment methods or accounting principles for holding transactions and the possible issuance of financial reports and consultation matters and results	None
Written opinion of the successor accountant on the dissenting opinions of the former accountant	None

The former CPAs' reply to item 3 and item 2-3, the subparagraph 6 of Paragraph 6 of Article 10 of this Code: Not applicable.

VII. The Company's Chairman, General Manager, or the manager responsible for financing or accounting affairs, who has worked for the CPA Office to which the CPAs belong or its affiliated enterprises in the past year: None.

VIII. Changes in equity of directors, managers, and major shareholders

Job Title	Name	2020		From the current year up to April 26	
		Increase (decrease) in the number of equity held	Increase (decrease) in the number of pledged shares	Increase (decrease) in the number of equity held	Increase (decrease) in the number of pledged shares
Chairman	Lu Tai Rong	—	—	—	—
Director	Pro Imp'ex Company Limited	—	—	—	—
	Sheng Lu Rong Feng	—	—	—	—
Director	Huida Investment Co., Ltd.	—	—	—	—
	Huang Li-Chun	—	—	—	—
Director	You Chang Co., Ltd.	—	—	—	—
	Wu Hsien-Ming	(18,000)	—	(9,000)	—
	Lin Tzu-Hui	—	—	—	—
Director	Hong Well Company Limited	—	—	—	—
	Lu En-Chang	(129,000)	—	(19,000)	—
Independent Director	Lin Hsien-Lang	—	—	—	—
Independent Director	Chen Chi-Hsiung	—	—	—	—
Independent Director	Wu Hsiao-Yen	—	—	—	—
General Manager	Sheng Lu Rong Feng	—	—	—	—
Chief Corporate Governance Officer	Lin Tzu-Hui	—	—	—	—
Financial and Accounting Manager	Huang Feng-Yuan (holding office on April 1, 2021)	—	—	—	—
Financial and Accounting Manager	Chao Hui-Mei (holding office on April 1, 2021)	—	—	—	—
Major Shareholder	Lu Tai Rong	—	—	—	—
Major Shareholder	Huida Investment Co., Ltd.	—	—	—	—

Major Shareholder	Hsieh Chang Hsing Trading Co., Ltd.	—	—	—	—
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Note 1: Shareholders holding over 10%: Huida Investment Co. (20.41%), Lu Tai Rong (13.72%), Hsieh Chang Hsing Trading Co. (12.95%).

Note 2: If the counterparty of the equity transfer or equity pledge is a related party, the following table should be filled in.

Equity transfer information: None

Name (Note 1)	Reasons for equity transfer (Note 2)	Transaction date	Trade counterparty	The relationship between the counterparty of the transaction and the Company's directors, supervisors, managers, and shareholders who hold more than 10% of shares	Number of shares	Trading price
—	—	—	—	—	—	—

Note 1: Fill in the names of the Company's directors, supervisors, managers, and shareholders holding more than 10% of shares.

Note 2: Indicate associated acquisition or disposal.

Equity pledge information: None

Name	Reasons for pledge changes	Date of change	Trade counterparty	The relationship between the counterparty of the transaction and the Company's directors, supervisors, and shareholders who hold more than 10% of shares	Number of shares	Percentage of ownership	Pledge ratio	Pledge (redemption) amount
—	—	—	—	—	—	—	—	—

IX. Information about the relationship of the ten largest shareholders:

April 26, 2021

Sequence	Name	Number of shares personally held		Spouse and minor children holding shares		Total shares held in the name(s) of others		Where top ten shareholders have a relationship with each other or a relative relationship within the scope of their spouse or relative within the second degree of kinship, the name or designation and the relationship		Remarks	
		Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Designation (or name)	Relationship		
1	Huida Investment Co., Ltd. Representative: Huang Li-Chun	40,999,312	20.41					Corporate Director			
		22,343	—	5,785,926	2.88				Lu Ho-Ching	Spouse	
2	Lu Tai Rong	27,551,329	13.72	6,053,477	3.01			Chairman	Yang Yen-Ju Lu Chung-Chi Lu Ho-Ching Lu Ho-Lin	Spouse Brother Sister and brother Sister and brother	
3	Hsieh Chang Hsing Trading Co., Ltd. Representative: Lu Ho-Lin	26,007,915	12.95								
4	Lu Ho-Lin	16,426,010	8.18								
5	KHC Steel International Corp. Representative: Lu Ho-Lin	14,691,000	7.31								
6	Qiangyi Investment Co., Ltd. Representative: Lu Ho-Lin	8,046,283	4.01								
7	Sheng Lu Rong Feng	6,293,995	3.13		—			Director and General Manager			
8	Yang Yen-Ju	6,053,477	3.01	27,551,329	13.72						
9	Lu Ho-Ching	5,785,926	2.88	22,343	—						
10	Lu Chung-Chi	2,718,365	1.35								

X. Comprehensive shareholding ratio in identical reinvested business

Units: Shares; %

Reinvested business (Note 1)	The Company's investment		Directors, supervisors, managers, and investments holding direct or indirect control of the business		Comprehensive investment	
	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding	Number of shares	Percentage of shareholding
Hsieh Chang Hsing Trading Co., Ltd.	17,172,851	45.79%	5,736,200	15.30%	22,909,051	61.09%
KHC Steel International Corp.	7,280,000	38.31%	7,563,200	39.81%	14,843,200	78.12%
Sunward Refractories Co., Ltd.	68,600	20.00%			68,600	20.00%

Note 1: Investment using the equity method.

Four. Status of Fundraising

I. Capital and Shares

Sources of equity

Year and Month	Issuing price (NTD)	Approved share capital		Paid-in capital		Remarks		
		Number of shares (thousand shares)	Amount (NTD thousand)	Number of shares (thousand shares)	Amount (NTD thousand)	Sources of equity	Property other than cash contributed as equity capital	Others
January 1966	10.00	0.8	800	0.8	800	Founded	None	None
1966.09	10.00	10	10,000	10	10,000	Cash capital increase, NTD 9,200 thousand	None	None
1970.08	10.00	40	40,000	40	40,000	Cash capital increase, NTD 30,000 thousand	None	None
1971.06	10.00	120	120,000	120	120,000	Cash capital increase, NTD 80,000 thousand	None	None
1975.02	10.00	220	200,000	200	200,000	Capital increase of NTD 32,000 thousand in cash, merger with Kao Hsing Iron & Steel Company of NTD 40,000 thousand, capitalization of retained earnings of NTD 8,000 thousand.	None	None
1976.12	10.00	230	280,000	280	280,000	Cash capital increase of NTD 20,000 thousand, capital revaluation value resulting in capital increase of NTD 60,000 thousand	None	None
1977.06	10.00	400	400,000	400	400,000	Capital increase through shareholder transactions of NTD 120,000 thousand	None	None
1979.08	10.00	50,000	500,000	50,000	500,000	Capitalization of retained earnings, NTD 100,000 thousand	None	None
1981.04	10.00	60,000	600,000	60,000	600,000	Capitalization of retained earnings, NTD 100,000 thousand	None	None
1986.05	10.00	65,000	650,000	65,000	650,000	Cash capital increase, NTD 50,000 thousand	None	None
1986.11	10.00	75,000	750,000	75,000	750,000	Capitalization of capital reserves, NTD 100,000 thousand	None	None
1988.11	15.00	160,000	1,600,000	160,000	1,600,000	Cash capital increase, NTD 850,000 thousand (Note)	None	None

Year and Month	Issuing price (NTD)	Approved share capital		Paid-in capital		Remarks		
		Number of shares (thousand shares)	Amount (NTD thousand)	Number of shares (thousand shares)	Amount (NTD thousand)	Sources of equity	Property other than cash contributed as equity capital	Others
1989.08	10.00	184,000	1,840,000	184,000	1,840,000	Capitalization of capital reserves, NTD 100,000 thousand	None	None
1990.03	40.00	234,000	2,340,000	234,000	2,340,000	Cash capital increase, NTD 500,000 thousand (Note)	None	None
1990.12	10.00	280,800	2,808,800	280,800	2,808,800	Capitalization of retained earnings of NTD 234,000 thousand, capitalization of capital reserves of NTD 234,000 thousand	None	None
1991.1	10.00	308,880	3,088,800	308,880	3,088,800	Capitalization of capital reserves, NTD 280,800 thousand	None	None
1994.01	10.00	339,768	3,397,680	339,768	3,397,680	Capitalization of capital reserves of NTD 308,880 thousand (1994.1.7 (83) Taizaizheng No. 44814)	None	None
1996.10	10.00	445,000	4,450,000	366,949	3,669,494	Capitalization of capital reserves of NTD 271,814.4 thousand (1996.109 (85) Taizaizheng No. 59439)	None	None
1997.12	10.00	450,000	4,500,000	403,644	4,036,443	Capitalization of capital reserves of NTD 146,779 thousand, capitalization of retained earnings of NTD 220,169 thousand (1997.9.11 (86) Taizaizheng (1) No. 70405)	None	None
1998.09	10.00	480,000	4,800,000	423,826	4,238,266	Capitalization of capital reserves of NTD 201,822 thousand, (1998.6.23 (87) Taizaizheng (1) No. 54948)	None	None
2013.12	10.00	580,000	5,800,000	275,487	2,754,872	Cash capital reduction of NTD 1,483,393 thousand (2013.10.16 Jinguanzheng Fazi No. 10300406085)	None	None
2016.03	10.00	580,000	5,800,000	272,342	2,723,422	Capital reduction by treasury stock, NTD 31,450 thousand (2016.3.15 MOEA Jingshou Shangzi No. 10501059460)	None	None
2016.05	10.00	580,000	5,800,000	247,942	2,479,422	Capital reduction by treasury stock, NTD 244,000 thousand (2016.5.16 MOEA Jingshou Shangzi No. 10501097240)	None	None

Year and Month	Issuing price (NTD)	Approved share capital		Paid-in capital		Remarks		
		Number of shares (thousand shares)	Amount (NTD thousand)	Number of shares (thousand shares)	Amount (NTD thousand)	Sources of equity	Property other than cash contributed as equity capital	Others
2017.03	10.00	580,000	5,800,000	223,152	2,231,522	Capital reduction by treasury stock, NTD 247,900 thousand (2017.3.27 MOEA Jingshou Shangzi No. 10601039190)	None	None
2018.03	10.00	580,000	5,800,000	200,852	2,008,522	Capital reduction by treasury stock, NTD 223,000 thousand (2018.3.23 MOEA Jingshou Shangzi No. 10701031740)	None	None

Notes: 1988.11 the subscription price of cash capital increase issuance was NTD 15 per share; the 1990.03 cash capital increase issuance subscription price was NTD 40 per share, the rest was issued at par.

Type of shares

April 26, 2021

Type of shares	Approved share capital					Remarks
	Outstanding shares			Unissued shares	Total	
	Already listed	Not yet	Total			
Registered common shares	200,852,293	0	200,852,293	379,147,707	580,000,000	

Information concerning the collective reporting system: None.

Shareholder structure

April 26, 2021

Shareholder structure \ Quantity	Government agency	Financial institution	Other juridical person	Individual	Foreign institutions and foreign individuals	Total
Number of individuals	1	2	33	18,376	40	18,452
Number of shares held	2,432	712	90,777,612	95,053,130	15,018,407	200,852,293
Percentage of shareholding (%)	—	0	45.19	47.32	7.48	100

Note: The first TWSE (OTC) listed and emerging market Company should disclose proportions of equity holdings in the mainland. Mainland investment refers to juristic persons, organizations, other institutions or their investment companies in third regions as stipulated by Article 3 of Measures Governing Investment Permit to the People of Mainland Area.

Distribution of equity

April 26, 2021

Shareholding class	Number of shareholders	Number of shares held	Percentage of shareholding (%)
1 ~ 999	13,358	3,089,859	1.54
1,000 ~ 5,000	4,098	8,167,836	4.07
5,001 ~ 10,000	573	4,494,512	2.24
10,001 ~ 15,000	126	1,608,722	0.80
15,001 ~ 20,000	90	1,715,276	0.85
20,001 ~ 30,000	73	1,945,897	0.97
30,001 ~ 50,000	51	2,017,875	1.00
50,001 ~ 100,000	32	2,452,772	1.22
100,001 ~ 200,000	18	2,504,807	1.25
200,001 ~ 400,000	10	2,805,104	1.40

400,001 ~ 600,000	2	958,514	0.48
600,001 ~ 800,000	2	1,384,227	0.69
800,001 ~ 1,000,000	2	2,000,000	1.00
1,000,001 or more	17	165,706,892	82.50
Total	18,452	200,852,293	100

Preferred shares: None.

- List of major shareholders: (holding more than 5% of total shares or where the shareholding ratio falls within the top ten shareholders)

April 26, 2021; Unit: Shares

Name	Shares	Number of shares held	Percentage of shareholding
Huida Investment Co., Ltd.		40,999,312	20.41%
Lu Tai Rong		27,551,329	13.72%
Hsieh Chang Hsing Trading Co., Ltd.		26,007,915	12.95%
Lu Ho-Lin		16,426,010	8.18%
KHC Steel International Corp.		14,691,000	7.31%
Qiangyi Investment Co., Ltd.		8,046,283	4.01%
Sheng Lu Rong Feng		6,293,995	3.13%
Yang Yen-Ju		6,053,477	3.01%
Lu Ho-Ching		5,785,926	2.88%
Lu Chung-Chi		2,718,365	1.35%

- Information about market price, net value, earnings, and dividends per share

Item	Year		2019	2020	From the current year up March 31
	Market price per share	High		13.3	21.45
Low		12	12.1	12.65	
Average		12.38	17.1	16.64	
Net value per share	Before distribution		12.17	13.80	14.19
	After distribution		—	—	—
Earnings per share	Weighted average number of shares		200,852,293 shares	200,852,293 shares	200,852,293 shares
	Earnings per share		(0.62)	(0.16)	(0.06)
Dividend per share	Cash dividend				—
	Stock dividends	Stock dividends from retained earnings	—		—
		Additional paid in capital	—		—
	Accumulated unpaid dividends		—		—
Return on investment analysis	P/E ratio		—	—	—
	Price to dividend ratio		—		—
	Cash dividend yield		—		—

- Company dividend policy and implementation status

1. Dividend policy:

Article 26 and Article 26-1 of the Company's Articles of Incorporation:

The Company's industrial development is mature. Based on the needs of the Company's operations and the consideration of maximizing shareholders' equity, dividend distribution adopts a residual dividend policy. If the Company is profitable in the year, employees and directors shall be paid remuneration respectively out of no less than 0.5% and no more than 5% of the profits in the year. However, if the Company still has accumulated losses, the accumulated losses shall be deducted in advance before calculating the balance of employees and directors' remuneration.

If there are surpluses in the Company's final accounts for the year, taxes and accumulated losses shall be paid out of such surpluses first, with 10% set aside as legal reserves. However, when the legal reserve has reached the level of the total capital of the Company, this limit is not applicable. In addition to the payment of dividends, if there are still surplus earnings then they shall be combined with undistributed earnings of prior years for the Board of Directors will draw up a profit distribution plan and submit to the shareholders' meeting a resolution to distribute shareholder dividends. The distribution of shareholder dividends will be distributed at an appropriate ratio of cash dividends and stock dividends. The cash dividend shall not be less than 50%.

2. Proposed dividend distribution for presentation to this year's Shareholders' Meeting:

At the 2020 Annual General Meeting of Shareholders, proposed non-distribution of dividends

3. Any major changes in dividend policy expectations: No such situation.

- The influence of stock dividends planned to be paid in the Shareholders Meeting of this year on the operation performance and earnings per share of the Company:

At the 2021 Annual General Meeting of Shareholders, proposed non-distribution of dividends.

- Employee and director remuneration

1. The percentage or scope of remuneration for employees and directors as set out in the Articles of Incorporation:

Article 26 of the Company's Articles of Incorporation:

If the Company's annual accounts show a profit, employees and directors shall be paid remuneration respectively out of no less than 0.5% and 5% of the profits in the year. However, if the Company still has accumulated losses, the accumulated losses shall be deducted in advance before calculating the balance of employees and directors' remuneration.

2. The calculation basis for the estimated amount of remuneration for employees and directors in the current period, the calculation basis for the number of shares distributed, and the accounting treatment when the actual distribution amount differs from the

estimated amount:

“No” distribution to employee and director remuneration in this period.

3. Remuneration distribution approved by the Board of Directors:

Board of Directors approved: No dividends or remuneration will be distributed.

4. The actual distribution of remuneration for employees and directors in the previous year (including the number of distributed shares, amount and stock price). If there is a difference in the recognition of remuneration for employees and directors, the number of differences, reasons, and handling circumstances shall be stated:

“No remuneration” distributed to employees and directors in 2020.

Circumstances of share buybacks of the Company: In 2020, the Company “didn’t” buy back any of the Company's shares.

II. Handling of corporate bonds

- Information on the Company's issuance of corporate bonds, including unretired bonds and unissued bonds for which an issue is currently under preparation, and disclosure of all the matters set forth thereunder and their effect upon shareholders' equity under Article 248 of the Company Act. Any privately placed corporate bonds shall be prominently identified as such: None.
- The section on preferred shares shall include both outstanding and unissued shares for which an issue is currently under preparation, and shall disclose any conditions attaching to issuance and their effect upon shareholders' equity. The information on preferred shares shall also specify the matters listed under Article 157 of the Company Act. Any privately placed preferred shares shall be prominently identified as such: None.
- The section on global depository receipts shall include information on receipts issues that remain partially outstanding, and on unissued receipts for which an issue is currently under preparation. The date of issue, total value of issue, the rights and responsibilities of the holders of global depository receipts, and related matters shall also be disclosed. Any privately placed global depository receipts shall be prominently identified as such: None.
- The section on employee stock warrants shall specify the following matters:
 1. Disclosure of unexpired employee stock warrants issued by the Company in existence as of the date of publication of the Annual Report, and the effect of such warrants upon shareholders' equity. Any privately placed employee subscription warrants shall be prominently identified as such: None.
 2. Names of top-level Company executives holding employee stock warrants as of the date of publication of the Annual Report, and the names of the ten employees holding employee stock warrants authorizing purchase of the most shares, along with the cumulative number of warrants exercised by these ten employees: None.
- The following matters should be recorded in the handling of Restricted Stock Awards (RSAs):
 1. For all new RSAs for which the vesting conditions have not yet been met for the full number of shares, disclose the status up to the date of publication of the Annual Report and the effect on shareholders' equity: None.
 2. Names and acquisition status of managerial officers who have acquired RSAs and of employees who rank among the top ten in the number of RSAs acquired, cumulative to the date of publication of the Annual Report: None.
- The section on issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies shall specify the following matters:
 1. If, during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, the Company has completed any issuance of new shares in connection with a merger or acquisition or with acquisition of shares of any other company, the Annual Report shall specify the following matters: None.
 2. Where the Board of Directors has, during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, adopted a resolution approving any issuance of shares in connection with a merger or acquisition or with acquisition of shares of any other company, the Annual Report shall disclose the state of the plan's implementation together with the basic identifying information of the company (or companies) to be merged or acquired or whose shares are to be acquired. Where any issuance of new shares in connection with a merger or acquisition or with acquisition of

shares of any other company is currently in progress, the Annual Report shall disclose the state of the plan's implementation and its effect upon shareholders' equity: None.

III. Implementation status of fund utilization plan:

The section on implementation of the Company's capital allocation plans shall include the following:

- A description of the plans: For the period as of the quarter preceding the date of publication of the Annual Report, with respect to each uncompleted public issue or private placement of securities, and to such issues and placements that were completed in the most recent 3 years but have not yet fully yielded the planned benefits: None.
- Status of implementation: With respect to funds usage under the plans referred to in the preceding subparagraph, the Annual Report shall (for the period as of the quarter preceding the date of publication of the Annual Report) analyze the status of implementation and compare actual benefits with expected benefits: None.

Five. Overview of Operations

I. Business contents

Business Scope

1. Main contents of the business:

- Steel pipe, galvanized steel pipe, steel pipe pile, hot rolled steel coil (sheet), cold rolled steel coil (sheet), cold rolled steel strips, steel straps, slab, section steel, stainless steel coil (sheet), silicon steel coil (sheet), coated steel coil (sheet), manufacturing and trading of equipment for the above products and other steel products.
- Heat treatment processing business.
- Motorcycles and bicycles, manufacturing of engines and accessories, assembly and sales of motorcycles.
- The business of entrusting construction companies to construct residential and commercial buildings for rent and sale.
- Operation of livestock business and manufacturing, processing and trading of agricultural and livestock products.
- Agency business of the aforementioned items.
- Related import and export trade business.
- Waste recycling and treatment business.
- C801010 Basic Industrial Chemical Manufacturing.
- C802120 Industrial Catalyst Manufacturing.
- CA02010 Metal Architectural Structure and Components Manufacturing.
- I501010 Product Designing.
- I601010 Rental and Leasing.
- ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

2. Current merchandise and business contributions

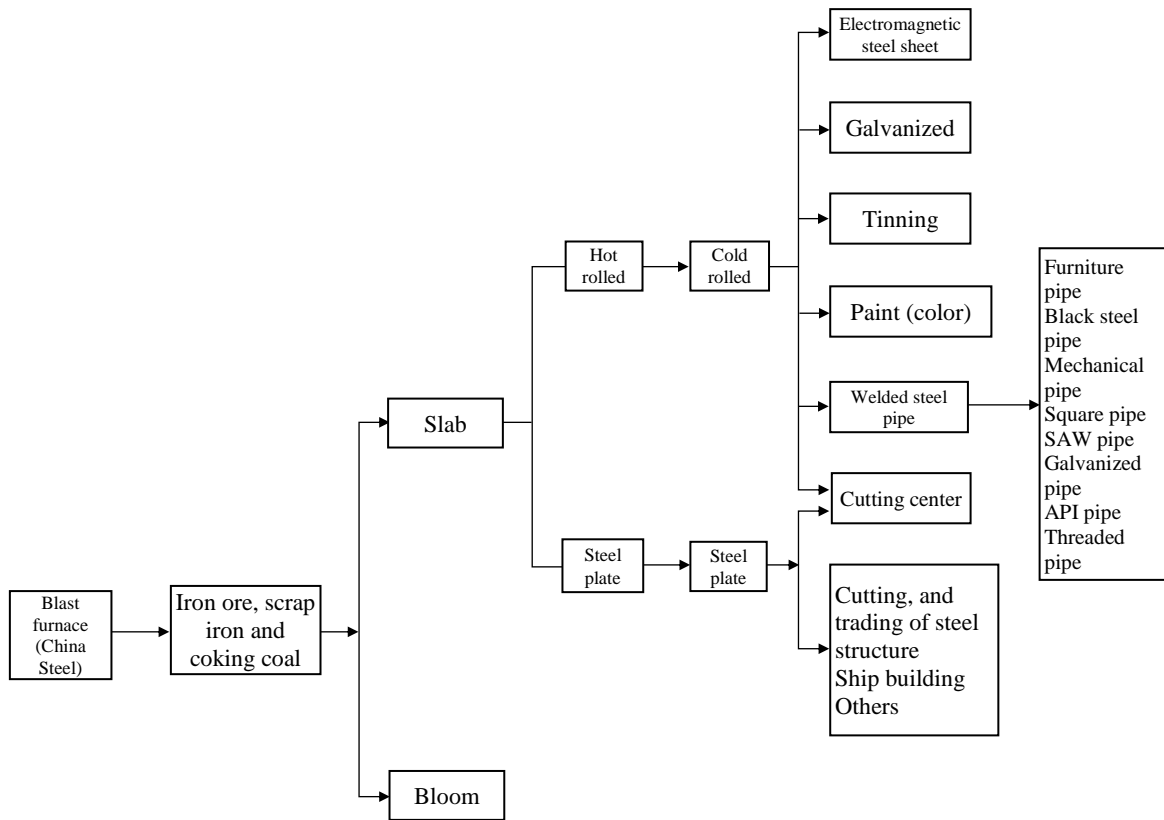
Main industry sector	Main products	Operating profit contribution	
		2020	2019
Steel pipes	Galvanized steel pipe, black steel pipe, API steel pipe, PE coated pipe, submerged arc welding straight seam steel pipe	92%	91%
Logistics and circulating products	Cold rolled steel coil, hot rolled steel coil, galvanized steel coil	7%	6%
Others	Zinc products and film, etc.	1%	2%

3. 2020 R&D products

The Company is constantly committed to the renewal of steel pipe equipment, focusing on improving production efficiency, saving energy, preventing pollution, and strengthening work safety to improve product quality. In 2020, the old galvanizing furnace equipment, pipe-making truck, and overhead crane track were replaced with new ones.

□ Industry Overview

1. Relationships with upstream, middle-stream, and downstream industries:



Important production and supply of the Company:

- Cold rolling mill: cold rolled steel coil, pickled & oiled coils, cold rolled tempered steel coil, steel straps (suspended temporarily in June 2012)
 - Steel Pipe Factory: Galvanized steel pipe, black steel pipe, API steel pipe, PE coated pipe, submerged arc welding straight seam steel pipe
- Demand industries include home appliances, personal computers, machinery, automobiles, motorcycles, bicycles, and construction industries.

2. Product development trends and competition

□ Product development trends

Steel pipe is a basic material for the construction industry and metal processing industry, and raw materials constitute the main cost of steel pipe. Therefore, the domestic steel processing industry mostly develops products with higher added value. Production costs have increased with the increase of domestic environmental protection requirements and the implementation of the One Mandatory Day Off and One Flexible Rest Day Policy. At the same time, the domestic market is opening up and competition between imported materials and peers has formed. Therefore, the demand for steel is not only changing in quantity but also in pursuit of "quality" change.

Competition:

- A. The relationship between China and the USA remains tense. The trade war causes the global market disorder. The export end-customers' demand becomes unstable due to the tariff and prevailing Protectionism for steel products trading. As a result, the high inventory retained by customers is squeezing the confidence in market demand.
- B. The steel industry still faces high tariff barriers in the US under "Section 232" as well as the defensive measures of Europe's overall restrictions. This has resulting in fierce competition in the steel market and weak overall market demand.
- C. Domestic steel pipe market demand has been stagnant for a long time, and this has significantly increased industry sales competition.

Technology and R&D Overview

The Company's product life cycle is long, equipment investment is large, and most of the new product technology is imported from abroad. Although it has a research and development center, it focuses on improving production efficiency, saving energy, preventing pollution, and improving product quality.

Long-term and short-term business development plans:

1. Short-term:

- Improve product quality and strengthen steel pipe production capacity; strictly control the production and sales schedule from order acceptance to delivery to improve customer satisfaction.
- Develop domestic and international sales channels, expand markets to diversify sales channels, and increase steel trading. The sales strategy focuses on domestic sales, supplemented by foreign sales, and adjusts the product mix to meet market demand.
- As the trade war heats up, strengthen raw material inventory control and reduce capital requirements and cost risks. Continue to enhance the added value of products to maintain the Company's product niche.

2. Long-term:

- Actively adjust the core industry structure and implement product differentiation, continue to improve and upgrade products and technologies, and ensure quality competitive advantages.
- Strengthen cooperation with customers to stabilize sales channels, flexibly operate production and sales combinations, and achieve balanced development of domestic and foreign sales.
- Prudently develop diversified business operations, and wait for opportunities to evaluate additional business items, hoping to pursue sustainable business operations and growth.

II. Market and production and sales overview

□ Market analysis

Upon outbreak of the pandemic in 2020, various countries' governments have announced a lockdown policy or a state of emergency. As a result, the consumption and production activities became sluggish or were shut down largely, thus triggering the turmoil in the financial market and drastic declination of the price of products, such as crude oil. Meanwhile, the lockdown policy resulted in the temporary shutdown of the construction industry, manufacturing industry and sea transportation industry, etc. and caused a setback to the demand for steel products indirectly. Notwithstanding, due to the continuing economic recovery in China as of the second half of this year, the steel price has increased sharply. For the sales of steel tubes, the market condition in 2020 was more critical than the previous year. In consideration of the declining international crude oil price, significant reduction of oil wells in the USA, and the preferential tariff conditions offered by Korea, it became more difficult for the Company to accept orders. For domestic marketing, the economy was stabilized due to the Government's infrastructure projects and repatriation of Taiwanese businessman's capital, electronic factories released the orders at mass quantity, thereby driving the increase in domestic demand.

According to the IMF World Economic Outlook report dated April 2021, the global economic growth rate referred to in the reported dated January this year was adjusted as 6% in 2021, and 4.4% in 2022. According to the report, despite the uncertainty in pandemic, various countries' economic growth is still expected to be strong. The Worldsteel forecast in April that the global demand for steel products would increase by 5.8%, attaining 1.874 billion tons in 2021, and by 2.7%, attaining 1.925 billion tons in 2022.

Following the launch of vaccine and vaccination approved by various countries, the pandemic is expected to be mitigated step by step in 2021. Besides, the political uncertainty in Europe and the USA is eliminated. In response to the low-base period factor, international forecast organizations all consider that the global economic and trading growth in 2021 appears to be better than that in 2020. The global steel market demand is increasing. The international raw materials and supplies price also keeps rising, thus driving the increase in the steel industry's quotation. The downstream dealers are successively replenishing their inventories. Suppliers engaged in the steel industry are looking forward to the economy in

next six months optimistically.

1. Supply and demand status of major domestic steel products

Unit: Tons

Steel products	Item	2016	2017	2018	2019	2020
Hot rolled	Production	16,156,525	17,259,512	17,462,050	16,132,687	15,672,283
	Domestic sales	5,988,491	6,036,080	6,269,780	5,384,679	5,367,466
	Inventory	1,197,358	1,185,377	1,107,527	1,099,124	1,202,487
Cold rolled	Production	4,697,273	4,594,319	4,439,007	4,104,638	3,949,606
	Domestic sales	1,525,762	1,410,900	1,313,614	1,204,616	1,107,561
	Inventory	202,070	270,383	231,269	254,367	190,647
Welded steel pipe	Production	819,220	976,529	1,025,244	946,223	788,826
	Domestic sales	654,961	634,547	612,685	616,982	609,551
	Inventory	56,507	77,906	71,028	77,381	58,584

Source: Taiwan Steel & Iron Industries Association

2. Domestic welded steel pipes apparent consumption, most recent two years

Unit: Tons

Item	Production volume	Import volume	Export volume	Apparent consumption	Self-sufficiency
2019	946,223	39,153	368,854	616,522	153%
2020	788,826	38,794	219,117	608,503	105%

Source: Taiwan Steel & Iron Industries Association

3. Main domestic steel product market (2020)

Unit: Factory price NTD/ton; Steel pipe NTD/kg

Steel products	Q1	Q2	Q3	Q4
Hot rolled	15,700~16,686	14,786~16,186	15,386~18,000	17,500~21,500
Black steel pipe (BS)	18.4~24.0	16.7~23.5	17.3~24.1	18.3~26.1
Galvanized steel pipe (BS)	28.6~40.8	28.0~39.0	28.9~41.4	30.2~43.5

Source: Taiwan Steel & Iron Industries Association

4. Main product sales areas of the Company

Unit: NTD Thousand

Year	2019	2020

Item	Subtotal	Total	Subtotal	Total
Taiwan		876,777		948,871
Hong Kong - mainland China	—		—	
Americas	241,967		6,256	
Northeast Asia	23,393		7,383	
Southeast Asia	—		—	
Other regions	—		—	
Operating income from exports		265,360		13,639
Net operating income		1,142,137		962,510

5. Market share and future supply and demand conditions and growth of the market, expected sales volume and its basis, and competitive niche

Cold rolled steel products

In addition to domestic cold rolled steel products used in the computer industry, strollers, bicycles, metal furniture, and other industries, demand for cold rolled steel products is driven by demand for galvanized and painted steel plates and the cold rolled materials used by Taiwanese mainland factories. For cold rolled steel products, the market is facing greater competitive pressure in the wake of mass production at China Steel's third cold rolled line (with annual production capacity 1.8 million tons), and this is bound to squeeze a portion of the Company's market space. Coupled with the poor market outlook, the Company temporarily suspended production in June 2012.

Steel pipes

The Company mainly sells steel pipe products	Sales targets
Galvanized steel	Buildings, firefighting, engineering, water conservation
Black steel pipe	Buildings, firefighting, engineering, water conservation
API steel pipe	High pressure oil pipeline, petrochemical pipeline, building, water conservation
PE coated pipe	High pressure oil pipeline, petrochemical pipeline, building, water conservation
Steel pipe pile	Piling for foundations of ports, bridges, etc.

Production volume of various welded steel pipe categories

Unit: Tons

Type	2020 ratio	2020 (A)	2019 (B)	(A) – (B)	Growth (%)
Oil pipeline	6.96%	53,472	135,207	(81,735)	(60.45)%
Furniture pipe	10.00%	76,767	75,950	817	1.08%
Square pipe	10.25%	78,725	81,553	(2,828)	(3.47)%
Mechanical pipe	2.56%	19,675	11,870	7,805	65.75%
Black pipe	38.54%	296,050	361,032	(64,982)	(18.00)%
Galvanized pipe	23.30%	178,989	175,406	3,583	2.04%
Other pipes	8.39%	64,404	64,404	0	0%
Total	100%	768,082	905,424	(137,342)	(15.17)%

Source: Taiwan Steel & Iron Industries Association

Major domestic manufacturers:

The Company, Mayer, Chung Hung, Shin Yang, Far East Machinery, Tension Steel, etc.

The total sales volume of domestic manufacturers in 2020 was approximately 545,000 tons per year.

Kao Hsing Chang: Sales volume is about 28,700 tons per year and market share is 5.27%.

Market share of galvanized steel pipe is about 13.07%.

The Company's 2021 business target is approximately 50,929 tons, and the steel pipes have grown by approximately 61% over the same period last year.

The Steel Pipe Factory has obtained ISO 9001 quality management system certification, and has passed CNS, API, and other domestic and international product specifications. It has the largest domestic pipe-making truck and production technology to produce API-5L 52" large pipes. Completed the development of API 5CT oil well casing and was authorized by the American Petroleum Institute.

The API oil pipeline produced by the Company is an American Petroleum Institute (API) authorized manufacturer and sold to major private enterprises such as CPC Corporation, Taiwan Power, the military, and Formosa Plastics. The galvanized steel pipe is of high quality and is designated for many major domestic projects. At the same time, the API 5CT certification was completed and it was exported to the US market. Simultaneously, it has excellent quality, timely delivery, and high customer satisfaction.

The domestic marketing benefits from domestic leading semi-conductor manufacturers' continuous expansion of capital expenditure, reconstruction of unsafe and old buildings and urban renewal driving the investment in construction projects, global technology enterprises' increase in investment in Taiwan, and private enterprises' response to the government's green power policy, the investment in green power has been increasing, especially the offshore wind farm. All of these could help boost growth of the domestic steel materials demand.

6. Favorable and unfavorable factors for development prospects

Favorable factors for development prospects

The brand has a good reputation, strict quality control, and has passed ISO 9001, CNS, API and ISO 14001, ISO45001 & CNS45001 certifications.

Offer complete sizes, great flexibility in ordering, prepare materials in advance, map out production plans, shorten delivery periods, and strengthen customer service.

The Company's overall operation is geared towards low-debt operations, and it actively develops high-quality products, enhances competitiveness, and keeps the Company sustainable.

There are many land assets, and some are located in the best areas of Kaohsiung City.

Unfavorable factors for development prospects

High product homogeneity and oversupply has led to fierce market competition.

Orders cannot be made in large quantities, and there are many models and batch numbers, and production costs are increasing.

The ratio of the cost of raw materials to the overall cost is high, and the rise and fall of raw materials are rapid and difficult to grasp.

The steel industry features large investment, slow recovery and difficult recruitment and cultivation of professional and technical personnel.

Domestic peers have expanded their investment in petroleum steel pipes and put them into market supply competition. A large amount of production capacity must rely on the export market, which has significantly increased industrial sales competition.

The trade war between China and the USA causes the global market disorder. The tariff barrier and prevailing Protectionism resulted in unstable market demand.

Countermeasures:

Improve product process capability and quality, and continue to differentiate products and segment the market.

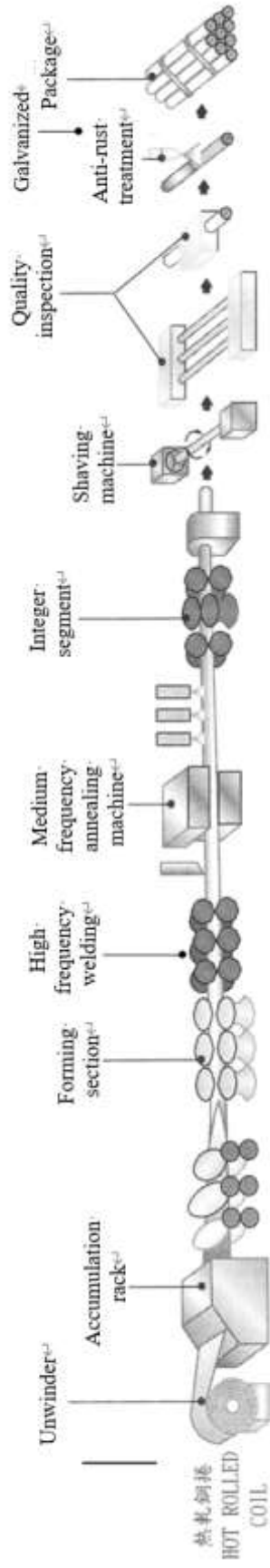
Adhere to the image of good quality and stable supply of products, and strengthen cooperation with customers to stabilize sales channels.

Important purpose and production processes of main products:

I. Important purpose of main products

Steel pipe: construction, gas pipes, transportation equipment, refrigeration pipes, high-pressure oil pipelines, petrochemical engineering pipes, fire-fighting pipes, mechanical processing, furniture processing, structural pipes, scaffold pipes, etc.

II. Production processes: Steel pipe products



Supply status of main raw materials

The main raw material of the Company's products is hot rolled steel coil (sheet), and the main domestic raw material suppliers are China Steel, Chung Hung, Shang Chen, and other companies. Due to the signing of supply contracts, the sources of raw materials are stable. Some of the raw materials are supplied by steel plants in China, Brazil, South Korea, etc. Because the Company's procurement is based on the long-term relationship between the price, quantity, delivery, quality, exchange rates, and long-term cooperation among manufacturers, raw material supplies are still stable and abundant.

List of main purchase and sales customers in the last two years

1. Information of major suppliers in the last two years:

Unit: NTD Thousand

Item	2019				2020				2021 to the end of the first quarter			
	Designation	Amount	Percentage of total annual net purchases (%)	Relationship with issuer	Designation	Amount	Percentage of total annual net purchases (%)	Relationship with issuer	Designation	Amount	Percentage of current year net purchases through the prior quarter (%)	Relationship with issuer
1	China Steel	443,678	65	—	China Steel	246,041	47	—	Shang Chen	103,601	51	—
2	Shang Chen	121,515	18	—	Shang Chen	206,519	39	—	China Steel	79,278	39	—
3	Hyosung	56,505	8	—	Chung Hung	69,398	13	—	Chung Hung	19,817	9	—
	Others	58,876	9		Others	2,260	1		Others	621	1	
	Net purchases	680,574	100		Net purchases	524,218	100		Net purchases Net	203,317	100	

Reasons for increase or decrease: This is due to the decrease in production volume and sales volume in 2020.

2. Information on main sales customers in the last two years:

Unit: NTD Thousand

Item	2019				2020				2021 to the end of the first quarter			
	Designation	Amount	Percentage of total annual net sales (%)	Relationship with issuer	Designation	Amount	Percentage of total annual net sales (%)	Relationship with issuer	Designation	Amount	Percentage of current year net sales through the prior quarter (%)	Relationship with issuer
1	Customer A	257,947	23	—	Customer A	325,106	34	—	Customer A	82,623	30	—
2	Customer B	208,745	18	—	Customer B	143,842	15	—	Customer B	47,118	17	—
3	Customer C	143,264	12	—	Customer C	77,995	8	—	Customer D	17,238	6	—

4	Others	532,181	47		Others	415,567	57		Others	126,686	47	
	Net sales amount	1,142,137	100		Net sales amount	962,510	100		Net sales amount	273,665	100	

Reasons for increase or decrease: The main reason for the changes in the amount of sales of vendors in the last two years is market competition, and customer operations have their own performance, so their sales are different.

Production value in the last two years:

Capacity output: Tons Production value: NTD thousand

Year Production value Major products	2020			2019		
	Capacity	Yield	Production value	Capacity	Yield	Production value
Steel pipe	72,000	30,496	771,920	72,000	39,643	1,085,750
Others	—	344	15,826	—	457	25,426
Total	72,000	30,840	787,746	72,000	40,100	1,111,176

Sales volume in the last two years:

Volume: Tons Value: NTD thousand

Year Sales value Major products	2020				2019			
	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Value	Volume	Value.	Volume	Value.	Volume	Value
Steel pipe	28,711	862,377	632	13,639	25,773	773,804	9,387	265,360
Circulating steel products	3,928	62,979			4,249	73,412		
Others	338	23,515	—	—	452	25,474	—	—
Total	32,977	948,871	632	13,639	30,474	872,690	9,387	265,360

III. Information of employees in the latest two years and as of the publication date of the Annual Report

Year		2019	2020	From the current year through April 30, 2021
Number of employees	Headquarters	47	49	48
	Yongan Factory	9	3	3
	Pingnan Factory	163	160	159
	Total	219	212	210
Average age		46	47	47
Average years of service		17	17	17
Education distribution ratio	Ph.D.	0	0	0
	Master's degree	2	2	3
	College and university	105	104	101
	High school	101	94	96
	Below high school	11	12	10

IV. Environmental expenditure information

1. Pollution losses in the last two years

Unit: NTD

	2019	2020
Pollution status (type, degree) (Including occupational safety and health penalties by the Ministry of Labor Affairs)	None	None
Explanation	None	None
Compensation party or sanctioned unit	None	None
The amount of compensation or sanctions	None	None
Other losses	None	None

2. As of the publication date of the Annual Report in 2021, the Company has not been penalized due to environmental protection and industrial safety pollution.

Continuity management strategy

1. A portion of proposed improvement measures

Work safety:

- 1) Implement the occupational safety and health management system (ISO45001&CNS45001) to maintain the effective operation and continuous improvement of PDCA.
- 2) Comply with occupational safety and health laws and regulations, hazard risk assessment and risk management in the workplace.
- 3) Implement automatic inspections, strengthen employee safety observation and analysis, and education and training on safety operating standards.
- 4) Strengthen the on-site labor safety inspection and practice the employees' health protection.

Environmental protection:

- 1) Comply with environmental protection laws, industrial waste reduction, and resource management.
- 2) Implement environmental management system (ISO14001) to maintain effective operation and continuous improvement.
- 3) Implement environmental assessment and classification in the manufacturing process, and formulate improvement target management plans for major environmental consideration projects.

2. Estimated environmental capital expenditure in the next three years

	2021	2022	2023
Pollution prevention equipment or expenditures to be purchased	<ol style="list-style-type: none"> 1. Update the M01 working platform of the galvanizing class. 2. Renew the filter cloth of the bag-type dust collector in the galvanized M01 process. 3. Renovation of washing tower. 	<ol style="list-style-type: none"> 1. Addition of wastewater resin. 2. Replacement of 4 chimneys. 3. Renovation of washing tower. 4. Replacement of two cloth pipes (400pcs). 5. Renovation of boilers. 	<ol style="list-style-type: none"> 1. Resin replacement. 2. Renovation of washing tower. 3. Replacement of two cloth pipes (440 pcs). 4. Renovation of boilers.
Expected improvements	<ol style="list-style-type: none"> 1. Ensure the safety of sampling work. 2. Improve the air pollution of the working environment and reduce the discharge of particulate matter. 3. Save air pollution fees. 	<ol style="list-style-type: none"> 1. Maintain the efficiency of wastewater treatment 2. Improve waste gas emission. 3. Improve the air pollution of the working environment and reduce the discharge of particulate matter. 4. Save air pollution fees. 5. Improve safety and production efficiency. 	<ol style="list-style-type: none"> 1. Maintain the efficiency of wastewater treatment 2. Improve the air pollution of the working environment and reduce the discharge of particulate matter. 3. Save air pollution fees. 4. Safety and production efficiency.

Amount	Approximately NTD2.7 million	Approximately NTD6 million	Approximately NTD5 million
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3. Estimated impact of environmental capital expenditures
 - Can reduce costs, and improve Company image and competitiveness.
 - Avoid affecting production and sales due to environmental protection or industrial safety issues.
4. Portion of countermeasures not taken: Not applicable.

V. Labor Relations

□ The Company's various employee welfare measures, advanced education, training, retirement systems and their implementation status, as well as the agreements between labor and management and various employee rights protection measures.

1. Employee welfare measures

Established an employee welfare committee to handle welfare matters for all colleagues:

Employee children education subsidy

Employee children scholarships

Employee gift money and tourism activities for Spring Festival, Dragon Boat Festival, Mid-Autumn Festival

Employee marriage stipend

Funeral stipend for employees and parents

Employee group life insurance, accident insurance, hospitalization allowance, and cancer insurance

2. Status of employees' continuing education and training

Each year, annual internal and external personnel training plans are scheduled for the needs of various departments according to the Company's operating policies and budget goals. To enhance the professional quality of personnel. Recently, a "reserved talent pool" has been established. Each unit recommends and selects outstanding colleagues, and invites professional training institutions to visit the Company for intensive lectures. Those who pass the test will be issued professional certificates and professional salary increases. Then the "reserve talent pool" selects colleagues with leadership skills and actively trains group leaders to solve the problems of supervisory faults.

3. Retirement system

The Company's retirement matters are based on the provisions of the Labor Standards Act. Additionally, in line with implementation of the Labor Pension Act. in place starting from July 1, 2005 (the "New System"), employees who originally applied the old system may choose the old system or the new system according to their personal wishes. If service years after the new system are selected or if employees who take up the job after the implementation of the new system, they will be changed to a defined contribution plan and no less than 6% of their monthly salaries shall be paid by the Company on a monthly basis and deposited in special retirement pension accounts.

4. Other important agreements

In order to maintain a harmonious relationship between labor and management, the Company and the industrial union exert team spirit, improve work efficiency, increase profit, sharing due rights and due obligations, and they have also signed a group agreement and held regular labor-management meetings. In addition, we have formulated

employee behavior and responsibility standards.

Losses due to labor disputes in the last three years

	2018	2019	2020
1. Status of labor disputes	None	None	None
2. Amount of loss that has occurred	—	—	—
3. Estimated possible future loss	—	—	—
4. The Company's countermeasures	<p>The Company upholds the business philosophy of "Fairness, Honesty, Thrift, Industry" and maintains a harmonious relationship with labor and management of the labor union. There have been no major labor disputes over the years. In the future, it will further enhance the harmony between labor and management, and continue to promote revenue and expenditure, lower costs, improve work efficiency, increase profits, and create opportunities for enterprise development.</p>		

VI. Important contracts

Contract nature	Parties	Contract start and end date	Main content	Restriction clause
Purchase contract	China Steel Corporation	January 1, 2021~ December 31, 2021	Hot rolled steel products	—
Purchase contract	Sorin Corporation	January 1, 2021~ December 31, 2021	Zinc slab	—

Six Financial Overview

I. Concise balance sheet and comprehensive income statement information for the most recent five years

Concise balance sheet

Unit: NTD Thousand

Item \ Year	Financial data for the most recent five years (Note 1)					Financial information from the current year through March 31, 2021	
	2016	2017	2018	2019	2020		
Current assets	1,257,536	1,766,843	1,522,992	1,401,772	1,597,660	1,648,447	
Property, plant and equipment	1,730,739	1,692,798	1,626,992	1,578,543	1,539,887	1,535,660	
Intangible assets	34	—	—	—		—	
Other assets	2,421,895	1,975,380	2,084,862	2,181,147	3,524,647	3,571,383	
Total assets	5,410,204	5,435,021	5,234,846	5,161,462	6,662,194	6,755,490	
Current liabilities	Before distribution	2,089,249	2,519,949	2,612,379	2,463,006	2,931,970	2,954,409
	After distribution	2,089,249	2,519,949	2,612,379	2,463,006	Note 2	
Non-current liabilities	266,906	262,265	254,845	253,787	958,066	950,384	
Total liabilities	Before distribution	2,365,174	2,782,214	2,867,224	2,716,793	3,890,036	3,904,793
	After distribution	2,365,174	2,782,214	2,867,224	2,716,793	Note 2	
Equity interest attributable to owner of the parent company	3,045,030	2,652,807	2,367,622	2,444,669	2,772,158	2,850,697	
Share capital	2,479,423	2,231,523	2,008,523	2,008,523	2,008,523	2,008,523	
Capital surplus	115,213	113,335	75,159	75,159	75,159	75,159	
Retained earnings	Before distribution	912,629	691,491	558,117	442,196	444,762	516,054
	After distribution	912,629	691,491	558,117	442,196	Note 2	
Other equity interest	(212,456)	(122,366)	(274,177)	(81,209)	243,714	250,961	
Treasury stock	(49,779)	(261,176)	0	0	0	0	
Non-controlling interest	0	0	0	0	0	0	
Total equity	Before distribution	3,045,030	2,652,807	2,367,622	2,444,669	2,772,158	2,850,697
	After distribution	3,045,030	2,652,807	2,367,622	2,444,669	Note 2	

Note 1: The financial statements have all been certified by an accountant.

Note 2: Resolution not yet forthcoming from the Shareholders' Meeting.

□ Comprehensive income statement

Unit: NTD Thousand

Item \ Year	Financial data for the most recent five years (Note 1)					Financial information from the current year through March 31, 2021
	2016	2017	2018	2019	2020	
Operating revenue	1,128,045	1,270,214	1,413,110	1,142,137	962,510	273,665
Operating margin	15,582	(27,334)	(21,455)	(4,328)	22,021	20,141
Operating profit and loss	(99,278)	(145,961)	(164,220)	(123,293)	(68,622)	(2,827)
Non-operating income and expenses	(46,797)	(78,566)	24,243	(813)	37,537	(9,856)
Net profit before tax	(146,075)	(224,527)	(139,977)	(124,106)	(31,085)	(12,683)
Profit from continuing operations	(146,075)	(224,527)	(139,977)	(124,106)	(31,085)	(12,683)
Profit or loss from discontinued operations	0	0	0	0	0	0
Net profit (loss) for the period	(146,075)	(224,527)	(176,411)	(124,106)	(32,794)	(12,683)
Other comprehensive income for the period (net after tax)	175,952	93,479	(126,882)	201,153	360,283	91,222
Total comprehensive income for the period	29,877	(131,048)	(303,293)	77,047	327,489	78,539
Net profit attributable to owner of the parent company	(146,075)	(224,527)	(176,411)	(124,106)	(32,794)	(12,683)
Net profit attributable to non-controlling interest	0	0	0	0	0	0
Total comprehensive income attributable to owners of the parent company	29,877	(131,048)	(303,293)	77,047	327,489	78,539
Total comprehensive profit and loss attributable to non-controlling interests	0	0	0	0	0	0
Earnings and losses per share	(0.59)	(1.02)	(0.88)	(0.62)	(0.16)	(0.06)

Note 1: The financial statements have all been certified by an accountant.

CPA name and audit opinion for the most recent five years

Year	Names of CPAs	Accountant's audit opinion	Reason for changing accountants
2016	Chen Kuo-Tsung, Yang Po-Jen	Unqualified opinion	Note
2017	Chen Kuo-Tsung, Yang Po-Jen	Unqualified opinion	
2018	Chen Kuo-Tsung, Yang Po-Jen	Unqualified opinion	
2019	Chen Kuo-Tsung, Hsu Chen-Lung	Unqualified opinion	
2020	Chen Kuo-Tsung, Hsu Chen-Lung	Unqualified opinion	

Note: In 2019, due to the adjustment of the internal organization of KPMG Taiwan, the Board of Directors approved a change in the CPAs of the Company from accountants Chen Kuo-Tsung and Yang Po-Jen originally to accountants Chen Kuo-Tsong and Hsu Chen-Lung.

II. Financial analysis for the last five years

□ Financial analysis

Analysis item		Financial analysis for the last five years (Note 1)					From the current year through March 31, 2021
		2016	2017	2018	2019	2020	
Financial structure (%)	Debt to asset ratio	44	51	55	53	58	58
	The ratio of long-term funds to property, plant, and equipment	176	156	146	155	180	186
Solvency (%)	Current ratio	60	70	58	57	54	56
	Quick ratio	46	34	36	35	38	38
	Interest coverage ratio	(340)	(439)	(226)	(174)	25	5
Operating ability	Accounts receivable turnover (times)	12	13	22	18	10	10
	Average cash collection days	30	29	16	21	35	35
	Inventory turnover (times)	3	3	3	2	2	2
	Payables turnover	36	33	29	28	30	17
	Average sales days	112	117	138	172	197	179
	Turnover rate of property, plant and equipment (times)	0.65	0.75	0.86	0.72	0.62	0.72
	Total asset turnover rate (times)	0.20	0.23	0.26	0.22	0.14	0.16
Profitability	Return on assets (%)	(2.13)	(3.50)	(2.66)	(1.69)	0	(0.03)
	Return on equity (%)	(4.45)	(7.88)	(7.02)	(5.15)	(1.25)	(0.45)
	Net profit before tax to paid-in capital ratio (%)	(6)	(10)	(7)	(6)	(2)	(1)
	Net profit rate (%)	(13)	(18)	(12)	(11)	(3)	(5)
	Earnings per share (NTD)	(0.59)	(1.01)	(0.88)	(0.61)	(0.16)	(0.06)
Cash flows	Cash flow adequacy ratio (%)	(9.12)	(13.42)	(5.81)	(2.44)	2.5	(0.56)
	Cash flow adequacy ratio (%)	(170)	(161)	(110)	(116)	(44)	(45)
	Cash reinvestment ratio (%)	(2)	(3)	(3)	(1)	(1)	(0)
Leverage	Operating leverage	(1.50)	(0.72)	(0.93)	(0.73)	(1.88)	(15.5)
	Financial leverage	0.74	0.77	0.79	0.73	0.62	0.17
Please explain reasons for changes in various financial ratios in the last two years. (If the increase or decrease does not reach 20%, the analysis is exempt)							

Financial analysis calculation formulas:

1. Financial structure

- Liabilities to assets ratio = total liabilities/total assets.
- The ratio of long-term funds to property, plant, and equipment = (total equity + non-current liabilities) / net property, plant, and equipment.

2. Solvency

- Current ratio = current assets/current liabilities.
- Quick ratio = (current assets-inventory-prepaid expenses) / current liabilities.
- Interest coverage ratio = net profit before income tax and interest expense/interest expense in the current period.

3. Operating ability

- Accounts receivable (including accounts receivable and notes receivable due to business) turnover rate = net sales / average receivables in each period (including accounts receivable and notes receivable due to business) balance.
- Average cash collection days=365/receivable turnover rate.
- Inventory turnover rate = cost of goods sold / average inventory value.
- Payables (including accounts payable and bills payable due to business) turnover rate = cost of goods sold / average payables in each period (including accounts payable and bills payable due to business) balance.
- Average sales days = 365 / inventory turnover rate.
- Turnover rate of property, plant, and equipment = net sales/average net property, plant, and equipment.
- Total asset turnover ratio = net sales/total assets.

4. Profitability

- Return on assets = [after-tax profit and loss + interest expense × (1-tax rate)]/average total assets.
- Return on equity = profit and loss after tax/average net equity.
- Net profit rate = after-tax profit and loss/net sales.
- Earnings per share = (profit and loss attributable to owners of the parent company-preferred share dividends) / weighted average number of issued shares.

5. Cash flow

- Cash flow ratio = net cash flow from operating activities/current liabilities.
- Net cash flow ratio = net cash flow from operating activities in the last five years / the last five years (capital expenditure + inventory increase + cash dividend)

Cash reinvestment ratio = (net cash flow from operating activities-cash dividends) / (gross property, plant, and equipment + long-term investment + other non-current assets + working capital)

6. Leverage:

Operating leverage = (net operating income variable operating costs and expenses) / business interests.

Financial leverage = operating profit / (business profit - interest expense)

□ Explanation of reasons for changes in various financial ratios in the last two years:

Item	2020	2019	Rate of change % increase (decrease)	Explanation
Gross profit margin	2.29%	(0.38%)	702.63%	Analysis of gross profit margin changes
Inventory turnover	1.85%	2.12%	(12.74%)	Analysis of changes in inventory turnover rate
Accounts receivable turnover	10.44%	17.68%	(40.95%)	Analysis of changes in accounts receivable turnover rate

Analysis of gross profit margin changes:

	Net operating income	Operating costs	Operating margin	Gross profit margin (%)
2019	1,142,137	1,146,4658	(4,328)	(0.38)
2020	962,510	940,489	22,021	2.29
Explanation of major changes in gross profit margin:				
The price raised and cost of raw materials hit the lowest in the current period.				

Analysis of changes in inventory turnover rate:

	Inventory turnover (times)	Average sales days
2019	2.12	172
2020	1.85	197
Explanation of changes in inventory turnover rate:		
Decrease in the sale volume in the current period from the previous period.		

Analysis of changes in accounts receivable turnover rate:

	Accounts receivable turnover (times)	Average cash collection days
2019	17.68	21
2020	10.44	35
Explanation of major changes in accounts receivable turnover rate:		
The increase in output value at the end of the period from the previous period.		

III. Audit Committee's audit report for the most recent year

Audit Report of the Audit Committee

The Board of Directors prepared the Company's 2020 annual business report, financial statements and loss make-up proposal. Among them, the financial statements have been checked by KPMG Taiwan and an audit report has been issued.

The above-mentioned business report, financial statements and loss make-up proposal have been reviewed by the Audit Committee and found to have no inconsistencies. This report is issued in accordance with relevant provisions of the Securities and Exchange Act and the Company Act.

As above

2021 Annual General Meeting of Shareholders of the Company

Kao Hsing Chang Iron & Steel Corp.

Convener of Audit Committee: 

March 11, 2021

VII. The most recent annual financial reports

Independent Auditor's Report

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

Audit opinion

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

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

Basis of Audit Opinion

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

Key audit items

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

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I. Impairment assessment for property, plant and equipment

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

Explanation of key audit issues:

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

Audit procedures:

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

II. Inventory valuation

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

Explanation of key audit issues:

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

Audit procedures:

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

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

III. Impairment assessment of investment real estate

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

Explanation of key audit issues:

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

Audit procedures:

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

Responsibilities of the management and governance body to the financial statements

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

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

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

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

Auditors' responsibilities in the audit of financial statements

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

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

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

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

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

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

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

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

KPMG Taiwan

Accounting:

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

March 11, 2021

Based on unaudited version of transaction from the Chinese edition.

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

Unit: NTD Thousand

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

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

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

Unit: NTD Thousand

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

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

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

Unit: NTD Thousand

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

(Please refer to the attached notes to financial statements)

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

Based on unaduted version of transaction from the Chinese edition.

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

Unit: NTD Thousand

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

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadutied version of transaction from the Chinese edition.

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

Unit: NTD Thousand

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

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Head of Accounting: Feng-Yuan Huang

Based on unadited version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Notes to Financial Statements

2020 and 2019

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

I. Company history

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

II. Financial statement approval date and procedures

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

III. Application of new and amended standards and interpretations

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

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

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

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

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

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

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

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

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

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

IV. Summary of significant accounting policies

(I) Statement of compliance

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

(II) Basis of preparation

1. Basis for measurement

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

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

2. Functional currency and presentation currency

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

(III) Foreign currency

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

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

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1. Equity instruments designated to be carried at fair value through other comprehensive income;
2. Financial liabilities designated to hedge net investment in foreign operations, within the effective scope of hedge; or
3. Qualifying cash flow hedge, within the effective scope of hedge.

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

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

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

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

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

(V) Cash and cash equivalents

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

(VI) Financial instruments

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

Based on unadutied version of transaction from the Chinese edition.

financial component are initially measured at transaction price.

1. Financial assets

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

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

(1) Financial assets carried at cost after amortization

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

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

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

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

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

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

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

basis.

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

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

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

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

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

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

(4) Impairment on financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

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

(5) Removal of financial assets

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

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

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

Debt and equity instruments issued by the Company are classified into financial liabilities or equity depending on the terms of the underlying contract and the definitions of financial liability and equity used.

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

(2) Equity transactions

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

(3) Treasury stock

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

(4) Financial liabilities

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

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

(5) Removal of financial liabilities

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

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

(6) Offset of financial assets and liabilities

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

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

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

(VII) Inventories

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

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

(VIII) Investment in associated companies

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

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

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

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

(IX) Investment property

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

(X) Property, plant, and equipment

1. Recognition and measurement

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

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

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

2. Subsequent costs

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

3. Depreciation

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

No depreciation is provided on land.

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

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

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

(XI) Leases

1. Determination of lease arrangement

Based on unadutied version of transaction from the Chinese edition.

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

2.

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

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

3. As a lessee

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

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

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

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

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

4. Lessor

Based on unadutied version of transaction from the Chinese edition.

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

5.

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

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

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

(XII) Intangible assets

1. Recognition and measurement

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

2. Subsequent expenses

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

3. Amortization

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

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

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

(XIII) Impairment on non-financial assets

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

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

exhibit any of the signs will have recoverable amount estimated.

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

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

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

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

(XIV) Income recognition

1. Revenue from contracts with customers

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

(1) Sale of merchandise

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

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

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

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

(2) Financial component

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

2. Cost of contracts with customers

(1) Additional costs of contract establishment

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

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

(2) Cost of fulfilling contractual obligations

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

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

(XV) Government subsidies

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

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

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

(XVI) Employee benefits

1. Defined contribution plan

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

2. Defined benefit plan

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

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

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

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

3. Short-term employee benefits

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

(XVII) Income taxes

Based on unadutied version of transaction from the Chinese edition.

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

(XVIII)

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

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

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

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

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

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

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

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

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

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

(XIX) Earnings per share

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

(XX) Segment information

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

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

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

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

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

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

(I) Impairment assessment for property, plant and equipment

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

(II) Inventory valuation

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

(III) Impairment assessment of investment real estate

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

VI. Notes to major accounts

(I) Cash and cash equivalents

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

None of the above financial assets was pledged as collateral.

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

(III) Notes and accounts receivable

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

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

	<u>2020.12.31</u>		
	<u>Book value of notes and accounts receivable</u>	<u>Weighted average expected credit loss rate</u>	<u>Provision for expected credit loss over the remaining duration</u>
Not overdue	\$ 105,316,666	-	-
Overdue	-	-	-
	<u><u>\$ 105,316,666</u></u>		<u><u>-</u></u>
	<u>2019.12.31</u>		
	<u>Book value of notes and accounts receivable</u>	<u>Weighted average expected credit loss rate</u>	<u>Provision for expected credit loss over the remaining duration</u>
Not overdue	\$ 78,991,528	-	-
Overdue	-	-	-
	<u><u>\$ 78,991,528</u></u>		<u><u>-</u></u>

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

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

Based on unadutied version of transaction from the Chinese edition.

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

The Company held no collateral over the above mentioned balances.

(IV) Other receivables and notes

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

Others mainly comprise proceeds from the sale of scraps.

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

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

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

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

(V) Inventories

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

Detailed breakdown of sales cost:

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

Based on unadutied version of transaction from the Chinese edition.

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

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

(VI) Investments accounted for using equity method

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

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

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

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

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

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

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

1. Associated companies

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

(3) Summary financial information of Sunward Refractories Co., Ltd.

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

2. Collateral

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

(VII) Property, plant, and equipment

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

Based on unadited version of transaction from the Chinese edition.

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

(VIII) Right-of-use asset

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

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

(IX) Investment property

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

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

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

(X) Other current assets

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

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

(XI) Short-term loan

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

(XII) Other current liabilities

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

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

(XIII) Long term borrowings

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

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

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

(XIV) Operating lease

- As a lessee

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

- As a lessor

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

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

Based on unadutied version of transaction from the Chinese edition.

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

(XV) Employee benefits

1. Defined benefit plan

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

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

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

(1) Composition of plan assets

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

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

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

(2) Changes in present value of defined benefit obligations

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

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

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

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

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

(4) Expenses recognized in profit and loss

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

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

Based on unaudited version of transaction from the Chinese edition.

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

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

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

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

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

- (6) Actuarial assumptions

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

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

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

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

- (7) Sensitivity analysis

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

2. Defined contribution plan

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

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

3. Short-term employee benefits

Below are details of employee benefit liabilities:

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

(XVI) Income taxes

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

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

Based on unadutied version of transaction from the Chinese edition.

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

2. Deferred income tax assets and liabilities

(1) Items not recognized as deferred income tax asset

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

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

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

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

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

(2) Recognized deferred income tax liabilities

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

Based on unadutied version of transaction from the Chinese edition.

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

(XVII) Capital and other equity items

1. Common share capital

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

2. Capital reserve

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

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

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

3. Retained earnings

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

(1) Statutory reserve

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

(2) Special reserve

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

(3) Profit distribution

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

(XIX) Revenue from contracts with customers

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

1. Breakdown of income

	<u>2020</u>		
	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Total</u>
Main regions and markets:			
Taiwan	\$ 878,542,298	70,329,146	948,871,444
North America	6,256,068	-	6,256,068
Northeast Asia	<u>7,382,909</u>	<u>-</u>	<u>7,382,909</u>
	<u>\$ 892,181,275</u>	<u>70,329,146</u>	<u>962,510,421</u>
Key products/services:			
Steel pipes	\$ 892,181,275	-	892,181,275
Steel coils	-	61,942,370	61,942,370
Rental income	<u>-</u>	<u>8,386,776</u>	<u>8,386,776</u>
	<u>\$ 892,181,275</u>	<u>70,329,146</u>	<u>962,510,421</u>
	<u>2019</u>		
	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Total</u>
Main regions and markets:			
Taiwan	\$ 799,334,548	77,441,879	876,776,427
North America	241,966,662	-	241,966,662
Northeast	<u>23,393,753</u>	<u>-</u>	<u>23,393,753</u>
Total	<u>\$ 1,064,694,963</u>	<u>77,441,879</u>	<u>1,142,136,842</u>
Key products/services:			
Steel pipes	\$ 1,064,694,963	-	1,064,694,963
Steel coils	-	73,414,947	73,414,947
Rental income	<u>-</u>	<u>4,026,932</u>	<u>4,026,932</u>
Total	<u>\$ 1,064,694,963</u>	<u>77,441,879</u>	<u>1,142,136,842</u>

Based on unadutied version of transaction from the Chinese edition.

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

2. Contract balance

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

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

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

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

(XX) Remuneration of employees and directors

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

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

(XXI) Non-operating revenue and expenses

1. Interest income

Details of interest income recognized in 2020 and 2019:

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

2. Other income

Details of other income recognized in 2020 and 2019:

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

3. Other gains and losses

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

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

4. Financial cost

Details of financial costs recognized in 2020 and 2019:

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

(XXII) Financial instruments

1. Credit risk

(1) Credit risk exposure

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

(2) Credit risk concentration

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

(3) Credit risk of receivables

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

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

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

Based on unaudited version of transaction from the Chinese edition.

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

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

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

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

2. Liquidity risk

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

December 31, 2019

Non-derivative instruments

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

Based on unadited version of transaction from the Chinese edition.

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

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

3. Exchange rate risk

(1) Exchange rate risk exposure

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

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

(2) Sensitivity analysis

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

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

4. Interest rate analysis

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

5. Other price risks

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

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

(4.1) Non-derivative instruments

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

(4.2) Derivative instruments

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

(5) Change between level 1 and level 2

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

(6) Reconciliation of Level 3 fair values

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

Based on unadited version of transaction from the Chinese edition.

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

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

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

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

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

Quantitative information of significant and unobservable inputs:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant and unobservable input</u>	<u>Relationship between fair value and significant and unobservable input</u>
Financial assets at fair value through other comprehensive income - equity instruments without active market	Market approach	<ul style="list-style-type: none"> Discount for lack of liquidity (17.5% for 2020.12.31 and 2019.12.31) 	<ul style="list-style-type: none"> The higher discount for lack of liquidity, the lower the fair value

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

(XXIII) Financial risk management

1. Overview

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

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

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

2. Risk management framework

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

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

3. Credit risk

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

(1) Accounts, notes, and other receivables

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

(2) Cash in banks

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

4. Liquidity risk

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

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

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

5. Market risk

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

(1) Exchange rate risk

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

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

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

(2) Interest rate risk

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

(3) Equity instrument price risk

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

(XXIV) Capital management

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

(XXV) Non-cash investing and financing activities

Reconciliation of liabilities associated with financing activities is explained below:

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

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

VII. Related party transactions

(I) Related parties and relationships

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

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

Based on unadutied version of transaction from the Chinese edition.

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

Sunward Refractories Co., Ltd.

Associated companies of the Company

(II) Significant transactions with related parties

1. Income from sale of scrap

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

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

2. Leases

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

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

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

Based on unadited version of transaction from the Chinese edition.

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

3. Amounts received in subsequent period

Details of related party receivables are shown below:

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

4. Others

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

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

Based on unadited version of transaction from the Chinese edition.

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

(III) Transactions involving key management personnel

Compensation to key management personnel includes the following:

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

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

Based on unaudited version of transaction from the Chinese edition.

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

VIII. Pledged assets

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

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

IX. Major contingent liabilities and unrecognized contractual commitments

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

X. Losses from major disasters: None.

XI. Major post-balance sheet events: None.

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

XII. Others

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

XIII. Other disclosures

- (I) Information related to significant transactions

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

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

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

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

Based on unadited version of transaction from the Chinese edition.

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

(II) Information on business investments:

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

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

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

(IV) Information on principal shareholders:

Unit: Shares

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

XIV. Segment information

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

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

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

Disclosure and reconciliation of segment information:

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

Based on unadutied version of transaction from the Chinese edition.

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

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

Based on unadutied version of transaction from the Chinese edition.

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

Significant reconciliation of information between the reporting segments mentioned above:

1. Unallocated profit/loss of reported segment:

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

2. Assets not attributable to reported segment:

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

(II) Regional disclosure

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

(III) Information on major customers

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

Based on unadutied version of transaction from the Chinese edition.

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

Kao Hsing Chang Iron & Steel Corp.

Schedule of cash and cash equivalents

December 31, 2020

Unit: NTD

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other notes receivable

December 31, 2020

Unit: NTD

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

Schedule of net accounts receivable

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other net receivables

December 31, 2020

Unit: NTD

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of inventories

December 31, 2020

Unit: NTD

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

Schedule of other current assets

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

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

December 31, 2020

Unit: NTD

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

Based on unadutied version of transaction from the Chinese edition.

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of changes in investments accounted for using equity method

January 1 to December 31, 2020

Unit: NTD

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

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

January 1 to December 31, 2020

Unit: NTD

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

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

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

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

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

Based on unadutied version of transaction from the Chinese edition.

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

Unit: NTD

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

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

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

Schedule of guarantee deposits paid
December 31, 2020

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of short-term loans

December 31, 2020

Unit: NTD

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

Schedule of bills payable

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other bills payable

December 31, 2020

Unit: NTD

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

Schedule of accounts payable

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of other payables

December 31, 2020

Unit: NTD

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

Schedule of other current liabilities

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

Based on unadited version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of long-term loans

December 31, 2020

Unit: NTD

		Amount					
		Due after					
Creditor	Summary	Due within one year	one year or more	Total	Contract period	Interest rate	Mortgage or guarantee
Changhua Bank	Secured loans	\$ -	700,000,000	700,000,000	2020.10.23~2030.10.	1.8%	Land

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

Schedule of deferred income tax liabilities

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

Schedule of guarantee deposits received

Item	Summary	Amount
Guarantee deposits received	Land lease deposit	\$ 5,040,000

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of net operating income

January 1 to December 31, 2020

Unit: NTD

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of operating costs

January 1 to December 31, 2020

Unit: NTD

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

Based on unadutied version of transaction from the Chinese edition.

Kao Hsing Chang Iron & Steel Corp.

Schedule of selling expenses

January 1 to December 31, 2020

Unit: NTD

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

Schedule of management expenses

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

Based on unadited version of transaction from the Chinese edition.

Schedule of non-operating income and expenses

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

V. In the most recent year and as of the publication date of the Annual Report, if any financial difficulties occur among the Company and its affiliated companies, their effect on the Company's financial status should be stated:
None.

Seven. Financial status and financial performance review analysis and risk issues

I. Financial status

Unit: NTD Thousand

Item \ Year	2020	2019	Difference	
			Amount	%
Current assets	1,597,660	1,401,772	195,888	13.97
Non-current assets	5,064,534	3,759,690	1,304,844	34.71
Total assets	6,662,194	5,161,462	1,500,732	29.08
Current liabilities	2,931,970	2,463,006	468,964	19.04
Non-current liabilities	958,066	253,787	704,279	277.51
Total liabilities	3,890,036	2,716,793	1,173,243	43.18
Share capital	2,008,523	2,008,523	0	0
Capital surplus	75,159	75,159	0	0
Retained earnings	444,762	442,196	2,566	0.58
Other equity interest	243,714	(81,209)	324,923	400.11
Treasury stock	0	0	0	0
Total equity	2,772,158	2,444,669	327,489	13.40
Net value per share (NTD)	13.8	12.17	1.63	13.39

Description of major changes:

1. The increase in current assets by NTD195,888 thousand was mainly due to the increase in financial assets measured at fair value through other comprehensive income.
2. The increase in noncurrent assets by NTD1,304,844 thousand was mainly due to recognition of the increase in financial assets measured at fair value through other comprehensive income by NTD137,591 thousand resulting from acquisition of the land and building in Renwu District, valuing NTD1.1 billion, and investment under equity method, on a pro rata basis.
3. The increase in current liabilities by NTD468,964 thousand was mainly due to the increase in short-term loan.
4. The increase in current liabilities by NTD704,279 thousand was mainly due to the increase in long-term loans from Chang Hwa Bank.
5. The increase in other equity by NTD324,923 thousand was mainly due to the increase in unrealized valuation gain or loss on equity investments at fair value through other comprehensive income.

II. Financial performance

□ Financial performance

Unit: NTD Thousand

Item	Year	2020	2019	Amount of increase or decrease	Change in ratios (%)
		Total	Total		
Operating income	\$	962,510	\$ 1,142,137	(179,627)	(15.73)
Operating costs		940,489	1,146,465	(205,976)	(17.97)
Operating margin (loss)		22,021	(4,328)	26,349	608.80
Marketing fees		25,679	51,077	(25,398)	(49.72)
Management expenses		64,964	67,888	(2,924)	(4.31)
Operating expenses		90,643	118,965	(28,322)	(23.81)
Operating profit (loss)		(68,622)	(123,293)	54,671	44.34
Non-operating income and expenses		37,537	(813)	38,350	4717.10
Net profit before tax for continuing operations (loss)		(31,085)	(124,106)	93,021	74.95
Income tax expense (benefit)		1,709	—	1,709	—
Net profit (loss) for the period	\$	(32,794)	\$ (124,106)	\$ 91,312	73.58
Other comprehensive income (net amount)		360,283	201,153	159,130	79.11
Total comprehensive income for the period		327,489	(77,047)	250,442	325.05
Earnings per share (NTD)		(0.16)	(0.62)	0.46	74.19

Analysis and explanation of increases and decreases in ratios:

1. Increase in operating margin: Primarily due to the selling price was increasing but the cost of raw materials hit the lowest.
2. Decrease in operating expenses: Mainly due to the drastic decrease in export volume resulting in the decrease in export-related expenses.
3. Increase in non-operating revenue and expenses: Mainly due to the increase in dividend revenue by NTD21,329 thousand and subsidy granted under the government bailout policy, NTD20,906 thousand, in 2020.

4. Increase in other comprehensive income: Mainly due to the increase in unrealized valuation gains on equity instruments at fair value through other comprehensive income recognized by the Company and the investment under equity method.
- Expected sales volume and its basis and possible impact on the Company's future financial business and the corresponding plan: See Page 4 of the Annual Report.

III. Cash flow

Liquidity analysis for the recent two years

Item \ Year	2020	2019	Increase (decrease) proportion %
Cash flow ratio	2.5%	(2.44)%	202.46%
Cash flow adequacy ratio	(44.52)%	(116.05)%	61.64%
Cash reinvestment ratio	1.01%	(0.98)%	203.06%

Analysis and explanation of increases and decreases in ratios:

1. The increase in cash flow ratios was mainly due to the gross profit margin turning from negative to positive and increase in cash flow from operating activities in 2020.
2. The increase in cash flow adequacy ratio was mainly due to the increase in net cash outflow from operating activities in the last five years compared with the cumulative five years through 2019.
3. The increase in the cash reinvestment ratio was mainly due to the net cash inflow from operating activities in 2020 and net cash outflow from operating activities in 2019.

Analysis of cash liquidity in the coming year

Unit: NTD Thousand

Year	Beginning cash balance	Projected annual net cash inflow from operating activities	Projected annual net cash outflow from investing activities	Projected annual net cash inflow from financing activities	Projected cash surplus (insufficiency) amount	Remedial measures for cash shortages
						Financing plan
2021	275,370	21,030	(60,892)	26,816	291,626	—

Analysis of the changes in cash flows in 2021:

1. The net cash inflow from operating activities was mainly due to the projected net cash inflow from operating profit.
2. The net cash outflow from investing activities was mainly due to the projected update on equipment and spare parts, and re-investment.
3. The net cash inflow from financing activities was mainly due to the projected loan.
4. Remedial measures and liquidity analysis for expected cash shortage: Not applicable.

IV. The impact of major capital expenditures in recent years on financial operations: Not applicable.

V. Reinvestment policy in the most recent year, main reasons for its profit or loss, improvement plan and investment plan for the next year:

Explanation:

1. The Company's reinvestment policy is mainly to act in line with its deep cultivation of the steel industry, with a main focus on enhancing product competitiveness. This is supplemented by diversified operations to maximize the benefits of investment and enhance shareholder rights.
2. Reinvestment policy in the most recent year and main reasons for its profit or loss: None.
3. Investment plan for the coming year:
Taking the steel industry as the priority investment target and depending on overall industry conditions and the Company's development needs, cases will be submitted to the Board of Directors for approval after careful evaluation. There is currently no specific investment plan as yet.

VI. Risk analysis

The following matters shall be analyzed and evaluated in the most recent year and up to the date of publication of the Annual Report:

- The impact of interest rates, exchange rate changes, and inflation on the Company's profit and loss and future countermeasures

1. Credit risk:

- Credit risk exposure

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

- Credit risk concentration

Since the Company does not significantly concentrate transactions with a single customer and the sales area is diverse, therefore, the credit risk of accounts receivable and bills is not likely to be significantly concentrated. To reduce credit risk, the Company also regularly and continuously evaluates the financial status of customers.

2. Liquidity risk:

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

	<u>Book value</u>	<u>Contractual cash flow</u>	<u>Below 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
December 31, 2020							
Non-derivative instruments							
Short-term loans (floating rate)	\$ 2,822,722,585	(2,851,609,879)	(775,318,783)	(2,076,291,096)	-	-	-
Notes payable (non-interest bearing)	20,279,699	(20,279,699)	(20,279,699)	-	-	-	-
Other notes payable (non-interest bearing)	7,560,858	(7,560,858)	(7,560,858)	-	-	-	-
Accounts payable (non-interest)	21,732,568	(21,732,568)	(21,732,568)	-	-	-	-

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

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

3. Exchange rate risk:

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

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

Sensitivity analysis

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

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

4. Inflation:

- The Company's main raw material is hot rolled steel coil, and its suppliers are companies such as China Steel, Chung Hung, and Shang Chen. Due to the signing of supply contracts, the sources of raw materials are stable.
- Some products of galvanized steel pipe are outsourced for plating and recycled zinc for reuse to reduce the impact of rising zinc prices.
- Water, electricity and fuel costs: The Steel Pipe Factory accounts for approximately 13% of manufacturing expenses. In addition to actively promoting revenue and reducing expenditures, production units are also instructed to make more use of off-peak electricity prices for production and recycled water for reuse.
- Policies for engagement in high risk and high leverage investment, loaning to a third party,

guarantee/endorsement, and derivative trade, the main reason for profit or loss, and the response in the future

1. High risks engaged in by the Company in recent years: None.
2. Highly leveraged investments: None.
3. Loans to third parties: None.
4. Endorsements/guarantees provided: None.
5. Financial derivative trading

In 2020, the Company did not engage in derivative transactions.

Future R&D plans and estimated R&D expenses

The Company focuses on improving production efficiency, saving energy, preventing pollution, and improving product quality; there are currently no major R&D plans.

The impact of important domestic and foreign policies and legal changes on the Company's financial business and corresponding measures:

The Company always pays attention to changes in important political and economic policies and laws at home and abroad, and proactively proposes corresponding measures in a timely manner. In the most recent year and as of the publication date of the Annual Report, the Company has not been affected by major domestic and foreign policy and legal changes that may affect its financial operations.

The impact of technological changes and industrial changes on the Company's financial business and corresponding measures:

In view of the current market conditions of the product, the Company seeks a corresponding profit model to improve operating performance.

The impact of corporate image change on corporate crisis management and countermeasures:

The Company has a dedicated spokesperson responsible for maintaining the relationship with the public and investors, and establishing the Company's image. In the most recent year and as of the publication date of the Annual Report, no major incidents affecting the Company's corporate image have occurred.

Expected benefits and possible risks of mergers and acquisitions and countermeasures:

The Company has no plans for mergers and acquisitions in the most recent year and as of the publication date of the Annual Report. If there are merger and acquisition plans in the future, the M&A will be carefully evaluated and considered to ensure the interests of shareholders.

Expected benefits and possible risks of plant expansion and countermeasures:

The Company's operations are on track and the head office regularly communicates information with the production unit's factory area to relatively reduce the possibility of potential risks, such as: lack of materials or labor and so on.

Risks and countermeasures faced by purchase or sales concentration:

The main suppliers of raw materials purchased by the Company are China Steel, Chung Hung, and Shang Chen. Due to the signing of supply contracts, the sources of raw materials are stable and the sales targets are mostly long-term stable customers. The Company provides high-quality products and optimal services to establish close interactive relationships and improve customer satisfaction.

The influence and risk of the massive transfer of shares or the replacement of the directors or major shareholders holding more than 10% of the shares issued by the Company, and the

response:

As of the printing date of the Annual Report, the Company had experienced no massive transfer or replacement of shares of directors, supervisors, or major shareholders holding more than 10% of shares.

- The impact, risks and countermeasures of a change of management rights on the Company:
In most recent year and as of the printing date of the Annual Report, there has been no change in management rights for the Company.
- Litigation or non-litigation events impacting the Company and its directors, supervisors, General Manager, substantive persons in charge, and major shareholders whose shareholding ratio exceeds 10%, and major litigation or non-litigation events or administrative disputes confirmed or still being adjudicated for affiliated companies should be specified where the outcomes may have a significant impact on shareholders' equity or the price of securities. Disclose the facts in dispute, the amount at stake, the date of the commencement of the litigation, the main parties involved in the litigation, and the handling conditions as of the publication date of the Annual Report: None.

- Other major risks and countermeasures: Information security risk assessment.

The Company's Information Risk Assessment Report is as follows:

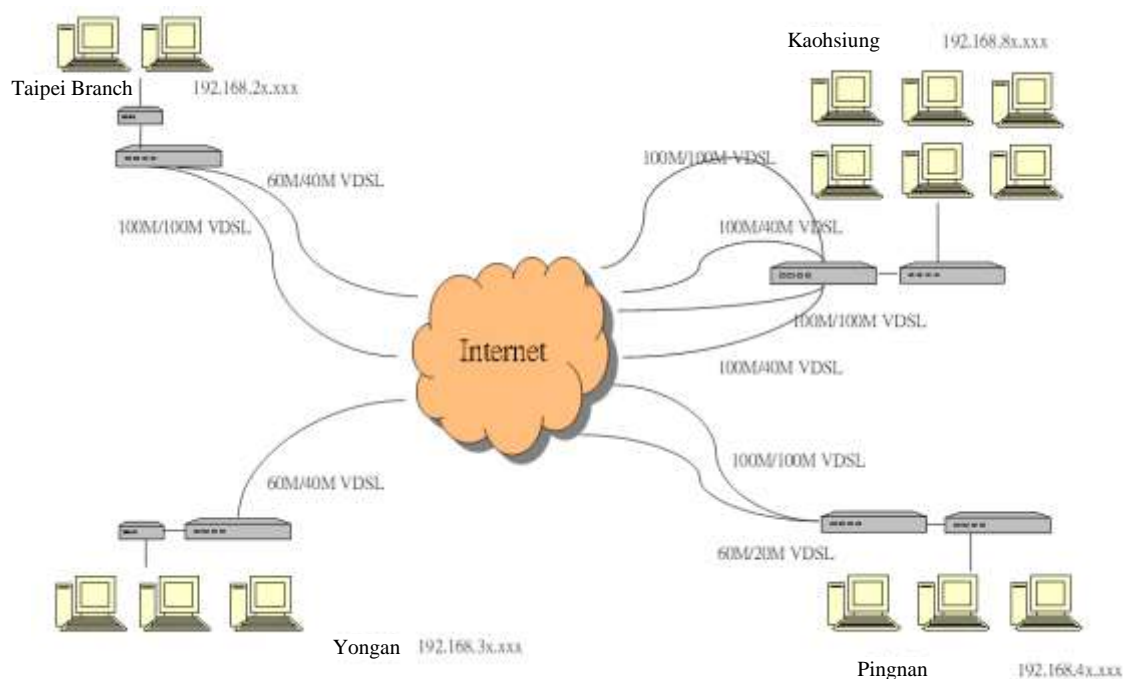
I. Purpose

In accordance with relevant laws and regulations and considering the Company's strategies and objectives, the Company shall conduct an information security risk assessment, determine the level of security requirements for various information security operations, and adopt appropriate and complete information security measures to ensure normal operations to reduce losses.

II. Description of information environment

Network architecture

The Company's branches use Chunghwa Telecom's ADSL for VPN network connections and connect multiple lines for automatic failover. Each branch has a firewall and VPN encrypted connection.



Information system

There are two major categories of Company information systems. The first category is basic general-purpose systems, such as mail systems, antivirus systems, firewall systems, NAS systems, and file server systems. The second category is application systems related to business operations, such as accounting systems, marketing systems, procurement systems, production management and manufacturing systems, and stock affairs systems, which are based on Windows servers and are built in VMware environments.

III. Information security policy

In terms of information security management, the Company has established a Computer Information Security Policy that strengthens information security, implements computer information use management, and maintains the effective use of computer resources, with a view to the smooth progress of the overall information business.

- (1) General Provisions
- (2) Personnel safety management and education training
- (3) Computer system security management
- (4) Network security management
- (5) System access control
- (6) System development and maintenance safety management
- (7) Classification and management of information assets
- (8) Sustainable operation planning for the business

IV. Information and cyber risk analysis

Name of asset	Risk event		Controllable measures or disposal
	Weakness	Derivative threat	
Server host	Operating system vulnerabilities	Causing the system to be compromised	Perform operating system vulnerability patching tests or network control from time to time
	Damaged hardware	Host is not working	Host virtualization or physical host backup
	No backup of software data	Data loss or damage	File remote backup on a regular basis
	Account password control	Data leakage or alteration	Regular changes and complexity of account passwords
	Unavoidable natural disasters	Host crash	Remote backup and storage of virtualized host data
Personal computers	Operating system vulnerabilities	Causing the system to be compromised	Unscheduled patching of operating system vulnerabilities or network control
	Computer virus	Computer is not working	Personal antivirus software installation and regular updates
Network equipment	Network protocol vulnerability	Internet is not available	Network protocol control or host firmware update
	Unavoidable natural disasters	Equipment is not working	Other related network equipment backup
Employees	Insufficient information security concepts	Computer infection or data theft	Advocacy and education of irregular information security views

Information security influence and corresponding measures

The Company has spared no effort in its investment in information systems, mainly to improve management and competitiveness, and relatively more and more rely on information systems. Therefore, strengthening the remote backup and data backup mechanism is indispensable, which is to ensure uninterrupted system services. However, recent information security incidents are frequent, and service interruptions are no longer limited to natural disasters and human negligence. Analysis is mainly caused by external attacks as major ones, followed by internal employees' lack of information security awareness and negligence. Therefore, employee education and training and system vulnerability prevention will be strengthened. The most important thing is to drill the backup recovery mechanism from time to time to prevent losses to the Company due to information security incidents.

VII. Other important matters: None.

Eight. Special Disclosures

- I. Related information of affiliated companies: Preparation unnecessary.
 - II. Where the Company has carried out a private placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, disclose the date on which the placement was approved by the Board of Directors or by a Shareholders' Meeting, the amount thus approved, the basis for and reasonableness of the pricing, the manner in which the specified persons were selected, and the reasons why the private placement method was necessary: None.
 - III. Holding or disposal of shares in the Company by the Company's subsidiaries during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report: None.
 - IV. Other necessary supplementary explanations: None.
- Nine. In the most recent year and as of the printing date of the Annual Report, the occurrence of the matters that has a significant impact on shareholders' equity or securities prices as specified in Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act: None.

Kao Hsing Chang Iron & Steel Corp.



Chairman

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