

**Taiwan Steel Union Co., Ltd.**

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

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Taiwan Steel Union Co., Ltd.

### **Opinion**

We have audited the accompanying parent company only financial statements of Taiwan Steel Union Co., Ltd. (the “Company”), which comprise the parent company only balance sheets as of December 31, 2020 and 2019, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the accompanying parent company only financial position of the Company as of December 31, 2020 and 2019, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

The key audit matter of the Company's parent company only financial statements for the year ended December 31, 2020 is as follows:

**Revenue recognition**

The Company's sales revenue from major customers was NT\$781,779 thousand, representing 52% of the Company's net sales revenue for the year ended December 31, 2020. Since sales revenue has significant changes compared to 2019, we identified the authenticity of sales revenue from major customers as a key audit matter. The accounting policy on the revenue recognition is disclosed in Note 4 to the parent company only financial statements.

The main audit procedures that we performed in respect of sales revenue from major customers included the following:

1. We obtained an understanding of the related internal controls on revenue recognition and tested the operating effectiveness of the related controls.
2. We selected samples from the transaction documents of sales revenue from major customers, including sales orders, shipping documents and receipts of payment, to confirm the authenticity of revenue recognition.
3. We received sales confirmation letters from major customers to verify the existence of revenue.

**Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements**

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

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

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

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

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

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

The engagement partners on the audits resulting in this independent auditors' report are Hsiao-Fang Yen and Shu-Chin Chiang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 23, 2021

Notice to Readers

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

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

# TAIWAN STEEL UNION CO., LTD.

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

ASSETS	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 865,681	23	\$ 860,571	24
Financial assets at amortized cost - current (Notes 4 and 7)	274,842	7	-	-
Notes receivable, net (Notes 4 and 8)	314	-	302	-
Trade receivables from unrelated parties, net (Notes 4 and 8)	146,493	4	79,110	2
Trade receivables from related parties, net (Notes 4, 8 and 24)	12,240	-	11,327	-
Other receivables (Notes 4 and 8)	2,007	-	4,475	-
Inventories (Notes 4 and 9)	93,649	3	108,328	3
Other current assets (Notes 13)	13,746	-	21,590	1
Total current assets	<u>1,408,972</u>	<u>37</u>	<u>1,085,703</u>	<u>30</u>
<b>NON-CURRENT ASSETS</b>				
Investments accounted for using the equity method (Notes 4 and 10)	1,240,581	33	1,299,328	36
Property, plant and equipment (Notes 4, 11, 21, 24 and 25)	1,118,183	29	1,221,997	33
Other intangible assets (Note 4)	2,354	-	2,557	-
Deferred tax assets (Notes 4 and 19)	9,464	-	15,152	-
Prepayments for machinery and equipment (Notes 4 and 21)	19,587	1	18,526	1
Refundable deposits (Note 4)	263	-	263	-
Other financial assets - non-current (Notes 4 and 25)	14,425	-	17,070	-
Other non-current assets (Note 13)	3	-	12	-
Total non-current assets	<u>2,404,860</u>	<u>63</u>	<u>2,574,905</u>	<u>70</u>
<b>TOTAL</b>	<u><u>\$ 3,813,832</u></u>	<u><u>100</u></u>	<u><u>\$ 3,660,608</u></u>	<u><u>100</u></u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Notes payable (Note 4)	\$ -	-	\$ 4	-
Trade payables (Note 4)	32,666	1	31,347	1
Other payables (Notes 4, 14 and 24)	84,749	2	106,320	3
Current tax liabilities (Notes 4 and 19)	114,510	3	17,405	1
Other current liabilities (Notes 14 and 24)	14,520	1	51,755	1
Total current liabilities	<u>246,445</u>	<u>7</u>	<u>206,831</u>	<u>6</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 19)	-	-	13	-
Net defined benefit liabilities - non-current (Notes 4 and 15)	10,012	-	15,378	-
Total non-current liabilities	<u>10,012</u>	<u>-</u>	<u>15,391</u>	<u>-</u>
Total liabilities	<u>256,457</u>	<u>7</u>	<u>222,222</u>	<u>6</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Ordinary shares	1,112,709	29	1,112,709	31
Capital surplus	998,985	26	998,985	27
Retained earnings				
Legal reserve	382,810	10	342,842	9
Unappropriated earnings	1,062,871	28	983,850	27
Total equity	<u>3,557,375</u>	<u>93</u>	<u>3,438,386</u>	<u>94</u>
<b>TOTAL</b>	<u><u>\$ 3,813,832</u></u>	<u><u>100</u></u>	<u><u>\$ 3,660,608</u></u>	<u><u>100</u></u>

The accompanying notes are an integral part of the parent company only financial statements.

# TAIWAN STEEL UNION CO., LTD.

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

	2020	2019	2020	2019
	Amount	%	Amount	%
SALES (Notes 4, 17 and 24)	\$ 1,510,772	100	\$ 1,648,885	100
COST OF GOODS SOLD (Notes 9, 15,18 and 24)	<u>770,844</u>	<u>51</u>	<u>907,550</u>	<u>55</u>
GROSS PROFIT	<u>739,928</u>	<u>49</u>	<u>741,335</u>	<u>45</u>
OPERATING EXPENSES (Notes 15, 18, 24 and 26)				
Selling and marketing expenses	60,834	4	66,762	4
General and administrative expenses	87,365	6	84,340	5
Research and development expenses	<u>9,636</u>	<u>-</u>	<u>8,828</u>	<u>1</u>
Total operating expenses	<u>157,835</u>	<u>10</u>	<u>159,930</u>	<u>10</u>
PROFIT FROM OPERATIONS	<u>582,093</u>	<u>39</u>	<u>581,405</u>	<u>35</u>
NON-OPERATING INCOME AND EXPENSES				
Share of the loss of subsidiary accounted for using the equity method (Note 4 and 10)	(58,747)	(4)	(59,465)	(3)
Interest income (Note 4)	3,364	-	3,868	-
Other income (Note 4, 12 and 18)	9,284	1	6,344	-
Net foreign exchange loss (Notes 4 and 27)	(8,118)	(1)	(648)	-
Finance costs (Notes 4 and 18)	-	-	(1,901)	-
Other expenses	(416)	-	(226)	-
Loss on disposals of assets (Note 4)	<u>(3,853)</u>	<u>-</u>	<u>(5,472)</u>	<u>-</u>
Total non-operating income and expenses	<u>(58,486)</u>	<u>(4)</u>	<u>(57,500)</u>	<u>(3)</u>
PROFIT BEFORE INCOME TAX	523,607	35	523,905	32
INCOME TAX EXPENSE (Notes 4 and 19)	<u>116,073</u>	<u>8</u>	<u>125,080</u>	<u>8</u>
NET PROFIT FOR THE YEAR	<u>407,534</u>	<u>27</u>	<u>398,825</u>	<u>24</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 15)	949	-	1,071	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 19)	<u>(190)</u>	<u>-</u>	<u>(214)</u>	<u>-</u>
	<u>759</u>	<u>-</u>	<u>857</u>	<u>-</u>

(Continued)

# TAIWAN STEEL UNION CO., LTD.

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

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	2020		2019	
	Amount	%	Amount	%
Other comprehensive income for the year, net of income tax	759	—	857	—
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$ 408,293</b>	<b>27</b>	<b>\$ 399,682</b>	<b>24</b>
<b>EARNINGS PER SHARE (Note 20)</b>				
Basic	\$ 3.66		\$ 3.58	
Diluted	\$ 3.65		\$ 3.58	

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

**TAIWAN STEEL UNION CO., LTD.**

**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
**(In Thousands of New Taiwan Dollars, Except Dividends Per Share)**

	<b>Ordinary Shares (Note 16)</b>	<b>Capital Surplus (Note 16)</b>	<b>Legal Reserve (Note 16)</b>	<b>Unappropriated Earnings (Note 16)</b>	<b>Total Equity</b>
BALANCE AT JANUARY 1, 2019	\$ 1,112,709	\$ 998,985	\$ 264,294	\$ 1,216,845	\$ 3,592,833
Appropriation of 2018 earnings					
Legal reserve	—	—	78,548	(78,548)	—
Cash dividends - NT\$4.98 per share	—	—	—	(554,129)	(554,129)
Net profit for the year ended December 31, 2019	—	—	—	398,825	398,825
Other comprehensive income for the year ended December 31, 2019, net of income tax	—	—	—	857	857
Total comprehensive income for the year ended December 31, 2019	—	—	—	399,682	399,682
BALANCE AT DECEMBER 31, 2019	1,112,709	998,985	342,842	983,850	3,438,386
Appropriation of 2019 earnings					
Legal reserve	—	—	39,968	(39,968)	—
Cash dividends - NT\$2.6 per share	—	—	—	(289,304)	(289,304)
Net profit for the year ended December 31, 2020	—	—	—	407,534	407,534
Other comprehensive income for the year ended December 31, 2020, net of income tax	—	—	—	759	759
Total comprehensive income for the year ended December 31, 2020	—	—	—	408,293	408,293
BALANCE AT DECEMBER 31, 2020	\$ 1,112,709	\$ 998,985	\$ 382,810	\$ 1,062,871	\$ 3,557,375

The accompanying notes are an integral part of the parent company only financial statements.

# TAIWAN STEEL UNION CO., LTD.

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

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 523,607	\$ 523,905
Adjustments for :		
Depreciation expense	154,955	239,306
Amortization expense	1,876	2,171
Finance costs	-	1,901
Interest income	(3,364)	(3,868)
Share of the loss of subsidiary	58,747	59,465
Loss on disposal of property, plant and equipment	3,853	5,472
Write-down (reversal) of inventories	(2,762)	5,893
Unrealized foreign currency exchange loss (gain), net	1,724	(65)
Changes in operating assets and liabilities		
Notes receivable	(12)	313
Trade receivables	(70,067)	147,459
Other receivables	2,457	(914)
Inventories	17,717	5,372
Other current assets	7,844	(16,077)
Notes payable	(4)	(9)
Trade payables	1,319	(3,541)
Other payables	(11,115)	(2,287)
Other current liabilities	(37,235)	9,018
Net defined benefit liabilities	(4,417)	(1,172)
Cash generated from operations	645,123	972,342
Interest received	3,375	3,899
Interest paid	-	(2,521)
Income taxes paid	<u>(13,483)</u>	<u>(247,960)</u>
Net cash generated from operating activities	<u>635,015</u>	<u>725,760</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at amortized cost	(274,842)	-
Payments for property, plant and equipment	(57,464)	(263,213)
Proceeds from disposal of property, plant and equipment	2,068	577
Payments of intangible assets	(1,673)	(1,659)
Decrease in other financial assets	2,645	12,613
Decrease in other non-current assets	9	12
Increase in prepayments for machinery and equipment	<u>(11,344)</u>	<u>(23,552)</u>
Net cash used in investing activities	<u>(340,601)</u>	<u>(275,222)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of the principal portion of lease liabilities	-	(6,765)

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# TAIWAN STEEL UNION CO., LTD.

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

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	<b>2020</b>	<b>2019</b>
Dividends paid	(289,304)	(554,129)
Net cash used in financing activities	(289,304)	(560,894)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,110	(110,356)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>860,571</u>	<u>970,927</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 865,681</u>	<u>\$ 860,571</u>

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

# TAIWAN STEEL UNION CO., LTD.

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

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### 1. GENERAL INFORMATION

Taiwan Steel Union Co., Ltd (the “Company”) was formerly named Chungpei Environmental Engineering Co., Ltd, which was established in April 1995 and incorporated in August of the same year. The Company changed its name to Taiwan Steel Union Co., Ltd. in November 1996.

The Company’s main business is to dispose and reuse general industrial waste and hazardous industrial waste as well as manufacture and trade non-ferrous metal (zinc oxide) and non-metallic mineral products.

The Company obtained the permission document of treating electric arc furnace dust for general use since December 28, 2017. The Company’s shares have been listed on the Taiwan Stock Exchange (TWSE) since January 30, 2018.

The accompanying parent company only financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The accompanying parent company only financial statements were approved by the Company’s board of directors on February 23, 2021.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies.

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

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendment to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

As of the date the accompanying parent company only financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

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

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

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

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

As of the date the accompanying parent company only financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

##### **a. Statement of compliance**

The accompanying parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers..

##### **b. Basis of preparation**

The accompanying parent company only financial statements have been prepared on the historical cost basis except for net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

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

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiary. In order for the amounts of the net profit for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiary, the share of other comprehensive income of subsidiary and the related equity items, as appropriate, in these parent company only financial statements.

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

Current assets include:

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

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

e. Inventories

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

f. Investments in subsidiary

The Company uses the equity method to account for its investments in subsidiary.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiary.

g. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation.

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

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

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

h. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

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

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

j. Financial instruments

Financial assets and financial liabilities are recognized when an entity in the Company becomes a party to the contractual provisions of the instruments.

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

1) Financial asset

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

a) Measurement categories

Financial asset is classified as financial assets at amortized cost.

Financial assets at amortized cost

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such financial asset.

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

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including notes receivable and trade receivables).

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

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

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

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

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

k. Revenue recognition

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

Revenue from the sale of goods is recognized as revenue and trade receivables when the goods are delivered to the customer's specific locations or when the goods are shipped because it is the time when the customer has the ownership of the goods and bears the risks.

Revenue from waste disposal and clean-up is recognized when the service is rendered, and when the performance obligations are fulfilled.

A contract liability is recognized when the Company receives consideration from a customer, has obligations to transfer products to a customer, or has obligations to perform services for a customer.

l. Leases

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

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the parent company only balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Company by the end of the lease terms or if the costs of right-of-use assets reflect that the Company will exercise a purchase option, the Company depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the parent company only balance sheets.

m. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as a deduction from the carrying amount of the relevant assets and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

n. Employee benefits

1) Short-term employee benefits

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

## 2) Retirement benefits

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

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

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

## o. Taxation

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

### 1) Current tax

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

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

### 2) Deferred tax

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

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

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

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

3) Current and deferred taxes for the year

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

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

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

The Company considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

**6. CASH AND CASH EQUIVALENTS**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Cash on hand and revolving funds	\$ 72	\$ 72
Checking accounts and demand deposits	858,343	490,791
Cash equivalents		
Time deposits with original maturities of three months or less	<u>7,266</u>	<u>369,708</u>
	<u><u>\$ 865,681</u></u>	<u><u>\$ 860,571</u></u>

**7. FINANCIAL ASSETS AT AMORTIZED COST**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Current</u>		
Time deposits with original maturities of more than three months	<u>\$ 274,842</u>	<u>\$ -</u>

**8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES**

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Notes receivable from unrelated parties	<u>\$ 314</u>	<u>\$ 302</u>

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b><u>Trade receivables from unrelated parties</u></b>		
At amortized cost		
Gross carrying amount	\$ 146,652	\$ 79,269
Less: Allowance for impairment loss	<u>(159)</u>	<u>(159)</u>
	<u><u>\$ 146,493</u></u>	<u><u>\$ 79,110</u></u>
Trade receivables from related parties	<u><u>\$ 12,240</u></u>	<u><u>\$ 11,327</u></u>
<b><u>Other receivables</u></b>		
Tax refund receivable	\$ 1,782	\$ 4,337
Others	<u>225</u>	<u>138</u>
	<u><u>\$ 2,007</u></u>	<u><u>\$ 4,475</u></u>

The average credit period of sales of goods is 60 to 90 days. No interest is charged on trade receivables. The Company adopted a policy of only dealing with entities that have good credit ratings and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company uses other publicly available financial information or its own trading records to rate its major customers. The Company obtains credit reports from independent rating agencies for those customers who have higher risk. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix approach considering the past default experience of the customer, the customer's current financial position, economic condition of the industry in which the customer operates. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off trade receivables when there is evidence indicating that the customer is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and trade receivables.

	<b>Not Past Due</b>
<u>December 31, 2020</u>	
Expected credit loss rate	0%
Gross carrying amount	\$ 159,206
Loss allowance (Lifetime ECLs)	<u>(159)</u>
Amortized cost	<u><u>\$ 159,047</u></u>

**Not Past Due**

December 31, 2019

Expected credit loss rate	0%
Gross carrying amount	\$ 90,898
Loss allowance (Lifetime ECLs)	<u>(159)</u>
Amortized cost	<u>\$ 90,739</u>

The movements of the allowance for impairment loss recognized on notes receivable and trade receivables were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Beginning and ending balance	\$ 159	\$ 159

## 9. INVENTORIES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Raw materials	\$ 62,492	\$ 55,028
Finished goods	<u>31,157</u>	<u>53,300</u>
	<u>\$ 93,649</u>	<u>\$ 108,328</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 was \$545,063 thousand and \$733,194 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 included inventory reversed of \$2,762 thousand and inventory write-downs of \$5,893 thousand, respectively. Previous write-downs were reversed by the Company as a result of inventory actively being consumed.

## 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investment in subsidiary

<b>Investee</b>	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Taiwan Steel Resources Co., Ltd. (“TSR”)	\$ 1,240,581	\$ 1,299,328
	<b>% of Ownership</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
TSR	100	100

The Company set up TSR, a 100% owned company in July 2016, and the company started operation in November 2019.

The investments in subsidiary accounted for using the equity method and the share of profit or loss of the investments for the years ended December 31, 2020 and 2019 were based on the subsidiary 's financial statements which have been audited for the same years.

## 11. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2020						
	Beginning Balance	Additions	Disposals	Reclassified Amount	Ending Balance		
<u>Cost</u>							
Land	\$ 550,606	\$ -	\$ -	\$ -	\$ 550,606		
Land improvements	60,928	-	-	-	60,928		
Buildings	472,773	5,320	(1,309)	-	476,784		
Machinery equipment	2,188,858	36,078	(29,356)	1,682	2,197,262		
Transportation equipment	151,649	11,743	(3,058)	675	161,009		
Miscellaneous equipment	33,214	1,564	(556)	-	34,222		
Construction in progress	117	-	-	-	117		
	<u>3,458,145</u>	<u>\$ 54,705</u>	<u>\$ (34,279)</u>	<u>\$ 2,357</u>	<u>3,480,928</u>		
<u>Accumulated depreciation</u>							
Land improvements	49,133	\$ 3,497	\$ -	\$ -	52,630		
Buildings	195,501	22,607	(941)	-	217,167		
Machinery equipment	1,870,109	112,233	(24,208)	-	1,958,134		
Transportation equipment	100,291	12,632	(2,807)	-	110,116		
Miscellaneous equipment	21,114	3,986	(402)	-	24,698		
	<u>2,236,148</u>	<u>\$ 154,955</u>	<u>\$ (28,358)</u>	<u>\$ -</u>	<u>2,362,745</u>		
		<u><u>\$ 1,221,997</u></u>			<u><u>\$ 1,118,183</u></u>		
For the Year Ended December 31, 2019							
	Beginning Balance	Adjustments on Initial Application of IFRS 16	Beginning Balance (Restated)	Additions	Disposals	Reclassified Amount	Ending Balance
<u>Cost</u>							
Land	\$ 254,728	\$ -	\$ 254,728	\$ 76,333	\$ -	\$ 219,545	\$ 550,606
Land improvements	60,520	-	60,520	408	-	-	60,928
Buildings	464,255	-	464,255	5,562	(828)	3,784	472,773
Machinery equipment	2,142,991	-	2,142,991	54,569	(18,279)	9,577	2,188,858
Transportation equipment	149,082	-	149,082	3,245	(678)	-	151,649
Leased assets	219,545	(219,545)	-	-	-	-	-
Miscellaneous equipment	28,493	-	28,493	5,061	(340)	-	33,214
Construction in progress	117	-	117	-	-	-	117
	<u>3,319,731</u>	<u>\$ (219,545)</u>	<u>3,100,186</u>	<u>\$ 145,178</u>	<u>\$ (20,125)</u>	<u>\$ 232,906</u>	<u>3,458,145</u>
<u>Accumulated depreciation</u>							
Land improvements	45,670	\$ -	45,670	\$ 3,463	\$ -	\$ -	49,133
Buildings	174,317	-	174,317	21,898	(714)	-	195,501
Machinery equipment	1,684,720	-	1,684,720	197,989	(12,600)	-	1,870,109
Transportation equipment	89,056	-	89,056	11,743	(508)	-	100,291
Miscellaneous equipment	17,155	-	17,155	4,213	(254)	-	21,114
	<u>2,010,918</u>	<u>\$ -</u>	<u>2,010,918</u>	<u>\$ 239,306</u>	<u>\$ (14,076)</u>	<u>\$ -</u>	<u>2,236,148</u>
		<u><u>\$ 1,308,813</u></u>		<u><u>\$ 1,089,268</u></u>			<u><u>\$ 1,221,997</u></u>

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets:

Land improvements	2-13 years
Buildings	
Main buildings	25-50 years
Others	2-48 years
Machinery equipment	2-20 years
Transportation equipment	1-12 years
Miscellaneous equipment	2-12 years

Owner-occupied property, plant and equipment pledged as collateral for bank borrowings were set out in Note 25.

## 12. LEASE ARRANGEMENTS

### Material leasing activities and terms

On October 16, 1998, the Company leased a land which has 27,788.75 square meters in total from the Changhua Coastal Industrial Park of Industrial Development Bureau (IDB), Ministry of Economic Affairs. The rental amount is calculated at an annual rental rate of 5.6% of the market price of \$10,542 per square meter at the time the Company contracted with the local government, adjusted for any changes in long-term loan interest rates announced by the Executive Yuan on January 1 and July 1 of each year and in the consumer price index. The rent is recalculated according to the current annual rental rate. According to the lease terms, the rental cost was zero in both the first and second years. The actual rentals paid in both the third and fourth years shall be calculated at 60% of the rental amount which is calculated on the basis as previously described. The rentals paid in both the fifth and sixth years shall be calculated at 80% of the rental amount calculated on the basis as previously described. The rental from the seventh year shall revert to the rental amount determined at the inception of the lease. According to the provisions of the Guidelines for Land Leases in Changhua Coastal Industrial Park, the lease terms specified that the minimum rental period is 6 years and the maximum rental period is 20 years.

According to the provisions of the Guidelines for Land Leases in Changhua Coastal Industrial Park, the lessee has the option to purchase the land. If the application for the purchase is approved, the purchase price will consist of the price of the land at the inception of the lease and charges for industrial park development and management funding. The rental and deposits paid may offset the purchase price of the land without interest. The maximum offset amount is limited to 100% of the sale price at the point of application.

Due to the adjustment of the long-term loan interest rate promulgated by the Executive Yuan, the benefit of the contingent rental paid by the Company was \$6,303 thousand in 2019.

On April 24, 2019, the Company's board of directors approved the application to purchase the leased land located in Changhua Coastal Industrial Park as described above from the Ministry of Economic Affairs. The total purchase price was \$200,521 thousand, and the amount was paid in July 2019. The processes of acquisition and land ownership transfer were completed in August 2019.

### 13. OTHER ASSETS

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b><u>Current</u></b>		
Prepayments	\$ 13,444	\$ 20,786
Tax overpaid retained	302	579
Temporary payments	-	225
	<u>\$ 13,746</u>	<u>\$ 21,590</u>
<b><u>Non-current</u></b>		
Long-term prepayments	\$ 3	\$ 12

### 14. OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<b><u>Other payables</u></b>		
Payables for salaries and bonuses	\$ 28,487	\$ 26,652
Payables for purchases of equipment	7,794	18,203
Payables for remuneration of directors	7,200	7,200
Payables for annual leave	2,915	2,658
Payables for donations	2,049	2,025
Others	36,304	49,582
	<u>\$ 84,749</u>	<u>\$ 106,320</u>
<b><u>Other current liabilities</u></b>		
Contract liabilities (Note 17)	\$ 14,222	\$ 51,442
Temporary credits (receipts under custody)	298	313
	<u>\$ 14,520</u>	<u>\$ 51,755</u>

### 15. RETIREMENT BENEFIT PLANS

#### a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

#### b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Act is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 8% of total monthly salaries and wages to a pension fund administered by the pension

fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the parent company only balance sheets in respect of the Company's defined benefit plans are as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Present value of defined benefit obligation	\$ 29,010	\$ 28,519
Fair value of plan assets	<u>(18,998)</u>	<u>(13,141)</u>
Deficit	<u>10,012</u>	<u>15,378</u>
Net defined benefit liabilities	<u>\$ 10,012</u>	<u>\$ 15,378</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2019	<u>\$ 28,126</u>	<u>\$ (10,505)</u>	<u>\$ 17,621</u>
Service cost			
Current	821	-	821
Net interest expense (income)	<u>279</u>	<u>(106)</u>	<u>173</u>
Recognized in profit or loss	<u>1,100</u>	<u>(106)</u>	<u>994</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(364)	(364)
Actuarial gain - experience adjustments	<u>(707)</u>	<u>-</u>	<u>(707)</u>
Recognized in other comprehensive income	<u>(707)</u>	<u>(364)</u>	<u>(1,071)</u>
Contributions from the employer	<u>-</u>	<u>(2,166)</u>	<u>(2,166)</u>
Balance at December 31, 2019	<u>28,519</u>	<u>(13,141)</u>	<u>15,378</u>
Service cost			
Current	808	-	808
Net interest expense (income)	<u>197</u>	<u>(91)</u>	<u>106</u>
Recognized in profit or loss	<u>1,005</u>	<u>(91)</u>	<u>914</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(435)	(435)
Actuarial gain - experience adjustments	<u>(514)</u>	<u>-</u>	<u>(514)</u>
Recognized in other comprehensive income	<u>(514)</u>	<u>(435)</u>	<u>(949)</u>
Contributions from the employer	<u>-</u>	<u>(5,331)</u>	<u>(5,331)</u>
Balance at December 31, 2020	<u>\$ 29,010</u>	<u>\$ (18,998)</u>	<u>\$ 10,012</u>

Through the defined benefit plans under the Labor Standards Act, the Company is exposed to the following risks:

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

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rates	0.3%	0.7%
Expected rates of salary increase	3%	3%
Mortality rate	Taiwan Life Insurance Industry 5th Mortality Table	Taiwan Life Insurance Industry 5th Mortality Table
Turnover rate	0.71%	0.67%

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Discount rate		
0.25% increase	\$ (583)	\$ (611)
0.25% decrease	<u>\$ 599</u>	<u>\$ 629</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 581</u>	<u>\$ 613</u>
0.25% decrease	<u>\$ (569)</u>	<u>\$ (599)</u>

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Expected contributions to the plan for the next year	<u>\$ 619</u>	<u>\$ 638</u>
Average duration of the defined benefit obligation	8 years	8 years

## 16. EQUITY

### a. Share capital

	December 31	
	2020	2019
Shares authorized (in thousands of shares)	160,000	160,000
Shares authorized	<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>
Shares issued and fully paid (in thousands of shares)	111,271	111,271
Shares issued	<u>\$ 1,112,709</u>	<u>\$ 1,112,709</u>

The authorized shares included 2,000 thousand shares allocated for the exercise of employee share options.

### b. Capital surplus

	December 31	
	2020	2019
Issuance of ordinary shares	\$ 997,847	\$ 997,847
Expired employee share options	<u>1,138</u>	<u>1,138</u>
	<u><u>\$ 998,985</u></u>	<u><u>\$ 998,985</u></u>

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

### c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors, refer to compensation of employees and remuneration of directors in Note 18-e.

In addition, under the dividends policy set forth in the Articles, the Company may distribute dividends in cash or shares. If the Company decides to distribute in cash, in principle, the cash dividends shall not be lower than 10% of share dividends. The final decision will be made in the shareholders' meeting.

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

The Company held shareholders' meetings on May 28, 2020 and May 29, 2019, and the appropriations of earnings for 2019 and 2018 have been approved in the meetings, respectively, as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Legal reserve	\$ 39,968	\$ 78,548		
Cash dividends	289,304	554,129	\$ 2.6	\$ 4.98

The appropriation of earnings for 2020, which were proposed by the Company's board of directors on February 23, 2021, were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 40,829	
Cash dividends	333,813	\$ 3

The appropriation of earnings for 2020 will be resolved by the shareholders in their meeting to be held on May 27, 2021.

## 17. REVENUE

### a. Revenue from contracts with customers

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Revenue from sale of Zinc	\$ 1,090,167	\$ 1,381,744
Revenue from waste disposal	420,479	267,136
Other operating revenue	126	5
	<u>\$ 1,510,772</u>	<u>\$ 1,648,885</u>

### b. Contract balance

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>January 1, 2019</u>
Notes receivable and trade receivables (Note 8)	\$ 159,047	\$ 90,739	\$ 239,081
Contract liabilities (Note 14)	\$ 14,222	\$ 51,442	\$ 42,429

## 18. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other revenue

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Contingent rentals (Note 12)	\$ -	\$ 6,303
Government grants	8,721	-
Other	<u>563</u>	<u>41</u>
	<u><u>\$ 9,284</u></u>	<u><u>\$ 6,344</u></u>

### b. Finance costs

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	<u><u>\$ -</u></u>	<u><u>\$ 1,901</u></u>
c. Depreciation and amortization		

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Property, plant and equipment	\$ 154,955	\$ 239,306
Other intangible assets	<u>1,876</u>	<u>2,171</u>
	<u><u>\$ 156,831</u></u>	<u><u>\$ 241,477</u></u>

An analysis of depreciation by function		
Operating costs	\$ 147,177	\$ 231,590
Operating expenses	<u>7,778</u>	<u>7,716</u>
	<u><u>\$ 154,955</u></u>	<u><u>\$ 239,306</u></u>
An analysis of amortization by function		
Operating costs	\$ 516	\$ 475
Operating expenses	<u>1,360</u>	<u>1,696</u>
	<u><u>\$ 1,876</u></u>	<u><u>\$ 2,171</u></u>

### d. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 103,037	\$ 99,586
Post-employment benefits		
Defined contribution plans	3,063	3,055
Defined benefit plans (Note 15)	<u>914</u>	<u>994</u>
	<u><u>3,977</u></u>	<u><u>4,049</u></u>
Other employee benefits	<u><u>10,838</u></u>	<u><u>11,607</u></u>
	<u><u>\$ 117,852</u></u>	<u><u>\$ 115,242</u></u>

**For the Year Ended December 31**  
**2020** **2019**

An analysis of employee benefits expense by function

Operating costs	\$ 65,876	\$ 65,874
Operating expenses	<u>51,976</u>	<u>49,368</u>
	<u><u>\$ 117,852</u></u>	<u><u>\$ 115,242</u></u>

**For the Year Ended December 31, 2020**

Operating Cost	Operating Expenses	Total
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Employee benefits expenses

Employee salaries	\$ 56,186	\$ 36,566	\$ 92,752
Labor insurance and health insurance	4,485	2,508	6,993
Post –employment benefits	2,427	1,550	3,977
Remuneration of directors	-	10,285	10,285
Other employee benefits	2,778	1,067	3,845
	<u>\$ 65,876</u>	<u>\$ 51,976</u>	<u>\$ 117,852</u>

**For the Year Ended December 31, 2019**

Operating Cost	Operating Expenses	Total
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Employee benefits expenses

Employee salaries	\$ 55,440	\$ 33,893	\$ 89,333
Labor insurance and health insurance	4,645	2,589	7,234
Post –employment benefits	2,553	1,496	4,049
Remuneration of directors	-	10,253	10,253
Other employee benefits	3,236	1,137	4,373
	<u>\$ 65,874</u>	<u>\$ 49,368</u>	<u>\$ 115,242</u>

For the year ended December 31, 2020 and 2019, the average number employees of the Company was both 101, which included 10 non- employee directors for both years. The calculation basis is consistent with employee benefits expense.

For the year ended December 31, 2020 and 2019, the average of employee benefits expense were \$1,182 and \$1,154 thousand, respectively; as of 2020 and 2019, the average of employee salaries were \$1,019 and \$982 thousand, respectively, and the change of the average employee salaries was 4%. The company has set up an audit committee to replace the supervisor, so there is no supervisor's remuneration. The remuneration of the directors, managers, and employees of the company is based on the positions held, the responsibilities assumed, personal performance, company operating performance, as well as the level of the same industry.

**e. Compensation of employees and remuneration of directors**

According to the Company's Articles, the Company accrues compensation of employees and remuneration of directors at rates of no less than 1% and no higher than 3%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors. The compensation of employees and remuneration of directors for the years ended December 31, 2020 and 2019, which were approved by the Company's board of directors on January 29, 2021 and January 15, 2020, respectively, are as follows:

For the Year Ended December 31			
2020		2019	
Accrual rate	Amount	Accrual rate	Amount
Compensation of employees	4.02%	\$ 22,230	3.68% \$ 20,326
Remuneration of directors	1.30%	7,200	1.30% 7,200

If there is a change in the amounts after the annual parent company only financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of compensation of employees and remuneration of directors paid and the amounts recognized in the parent company only financial statements for the year ended December 31, 2019. There was an adjustment made for 2018 because of the actual performances; therefore, the amount had a difference of \$32 thousand between the actual amount of compensation of employees and the amount recognized in the parent company only financial statements for the year ended December 31, 2018. The difference was recognized in profit or loss in 2019.

For the Year Ended December 31, 2018		
	Compensation of employees	Remuneration of Directors
Amount approved in the board of director's meeting	\$ 28,549	\$ 7,200
Amount recognized in the annual financial statements	\$ 28,517	\$ 7,200

Information on the compensation of employees and remuneration of directors resolved by the Company's board of directors in 2021 and 2020 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 19. INCOME TAXES

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

For the Year Ended December 31		
	2020	2019
Current tax		
In respect of the current year	\$ 111,099	\$ 113,859
Income tax on unappropriated earnings	3,520	7,424
Adjustments for prior years	(4,031)	(1,537)
	110,588	119,746
Deferred tax		
In respect of the current year	5,485	5,334
Income tax expense recognized in profit or loss	\$ 116,073	\$ 125,080

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

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Profit before income tax	<u>\$ 523,607</u>	<u>\$ 523,905</u>
Income tax expense calculated at the statutory rate	\$ 104,722	\$ 104,781
Non-deductible expenses in determining taxable income	11,862	14,412
Income tax on unappropriated earnings	3,520	7,424
Adjustments for prior years' tax	<u>(4,031)</u>	<u>(1,537)</u>
Income tax expense recognized in profit or loss	<u>\$ 116,073</u>	<u>\$ 125,080</u>

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

b. Deferred tax assets and liabilities

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

	<b>For the Year Ended December 31, 2020</b>			
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other</b>	<b>Closing Balance</b>
<b><u>Deferred tax assets</u></b>				
Temporary differences				
Defined benefit obligation	\$ 3,076	\$ (884)	\$ (190)	\$ 2,002
Unrealized intercompany profit	5,927	(4,456)	-	1,471
Inventory write-downs	5,618	(552)	-	5,066
Payables for annual leave	531	52	-	583
Effects of foreign currency exchange differences	<u>-</u>	<u>342</u>	<u>-</u>	<u>342</u>
	<u>\$ 15,152</u>	<u>\$ (5,498)</u>	<u>\$ (190)</u>	<u>\$ 9,464</u>
<b><u>Deferred tax liabilities</u></b>				
Temporary differences				
Effects of foreign currency exchange differences	<u>\$ (13)</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ -</u>

For the Year Ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other	Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized donations	\$ 442	\$ (442)	\$ -	\$ -	\$ -
Defined benefit obligation	3,524	(234)	(214)		3,076
Unrealized intercompany profit	11,613	(5,686)	-		5,927
Inventory write-downs	4,440	1,178	-		5,618
Payables for annual leave	519	12	-		531
Depreciation expense	40	(40)	-		-
Effects of foreign currency exchange differences	109	(109)	-		-
	<u>\$ 20,687</u>	<u>\$ (5,321)</u>	<u>\$ (214)</u>	<u>\$ 15,152</u>	
<u>Deferred tax liabilities</u>					
Temporary differences					
Effects of foreign currency exchange differences	<u>\$ -</u>	<u>\$ (13)</u>	<u>\$ -</u>	<u>\$ (13)</u>	

c. Income tax assessments

The income tax returns of the Company through 2018 have been assessed by the tax authorities.

## 20. EARNINGS PER SHARE

	<b>Net profit Attributable to Owners of the Company</b>	<b>Shares (In Thousands of Shares)</b>	<b>Earnings Per Share (NT\$)</b>
<u>For the Year Ended December 31, 2020</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Company	\$ 407,534	111,271	<u>\$3.66</u>
Effect of potentially dilutive ordinary shares Compensation of employees	—	302	
Diluted earnings per share			
Profit for the year attributable to owners of the Company plus effect of potentially dilutive ordinary shares	\$ 407,534	111,573	<u>\$3.65</u>
<u>For the Year Ended December 31, 2019</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Company	\$ 398,825	111,271	<u>\$3.58</u>
Effect of potentially dilutive ordinary shares Compensation of employees	—	264	
Diluted earnings per share			
Profit for the year attributable to owners of the Company plus effect of potentially dilutive ordinary shares	\$ 398,825	111,535	<u>\$3.58</u>

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

## 21. NON-CASH TRANSACTIONS

The Company entered into the following non-cash investing and financing activities for the years ended December 31, 2020 and 2019:

	<b>For the Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Non-cash transactions for investing and financing activities</u>		
Remeasurement of defined benefit plans	\$ 949	\$ 1,071
Transfers from prepayments for equipment to property, plant and equipment	\$ 2,357	\$ 13,361
Transfers from prepayments for equipment to inventories	\$ 276	\$ —
Reclassified from right-of-use assets to property, plant and equipment	\$ —	\$ 219,545

## 22. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising share capital, capital surplus, and retained earnings).

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

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

## 23. FINANCIAL INSTRUMENTS

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

The management personnel of the Company determined that the carrying amount of financial assets and financial liabilities not measured at fair value approximates to their fair value or their fair value is unable to be measured reliably.

### b. Categories of financial instruments

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets</u>		
Financial assets at amortized cost (1)	\$ 1,316,265	\$ 973,118
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (2)	117,415	137,671
1) The balances included financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, notes receivable, trade receivables, other receivables, refundable deposits, and other financial assets.		
2) The balances included financial liabilities measured at amortized cost, which comprise notes payable, trade payables, and other payables.		

c. Financial risk management objectives and policies

The Company's major financial instruments include cash and cash equivalents, trade receivables, and trade payables. The Company's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The corporate treasury and sales function report regularly to the management personnel of the Company. The management personnel oversee the impact of the financial risks.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below).

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

a) Foreign currency risk

The Company have foreign currency denominated sales, which exposes the Company to foreign currency risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities are set out in Note 27.

Sensitivity analysis

The Company is mainly exposed to the USD. The following table details the Company's sensitivity to a 1% increase and decrease in New Taiwan dollars (i.e., the functional currency) against USD. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the year for a 1% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit with the New Taiwan dollars strengthening 1% against USD. For a 1% weakening of the New Taiwan dollars against USD, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

	<u>For the Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Profit before income tax	\$ 1,081	\$ 54

b) Interest rate risk

The Company is exposed to interest rate risk because entities in the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetites ensuring the most cost-effective hedging strategies are applied.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value interest rate risk		
Financial assets	\$ 282,108	\$ 369,708
Cash flow interest rate risk		
Financial assets	872,768	507,861

Sensitivity analysis

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

If interest rates had been 1% higher and all other variables were held constant, the Company's per-tax profit for the years ended December 31, 2020 and 2019 would have increased by \$8,728 thousand and \$5,079 thousand, respectively, which was mainly a result of bank deposits with floating rate and of the Company.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. At the end of the year, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to failure of counterparties to discharge its obligations and due to the financial guarantees provided by the Company, could be equal to the carrying amount of the respective recognized financial assets as stated in the parent company only balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties. In order to minimize credit risk, based on the Credit Management Guidelines, the management of the Company has delegated a team responsible for determining credit limits, credit approvals, and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables.

The Company assesses the financial positions of the customers with trade receivables continuously.

3) Liquidity risk

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

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

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

	<b>Less Than</b> <b>1 Year</b>	<b>Over 1 Year</b>
<u>December 31, 2020</u>		
Non-interest bearing	\$ 117,415	\$ -
<u>December 31, 2019</u>		
Non-interest bearing	137,671	-

## 24. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed as follows.

a. Related party name and category

<b>Related Party Name</b>	<b>Related Party Category</b>
TAIWAN STEEL RESOURCES CO., LTD (“TSR”)	The Company’s subsidiary
FENG HSIN STEEL CO., LTD. (“Feng Hsin Co.”)	The Company’s key management personnel
TUNG HO STEEL ENTERPRISE CORP. (“Tung Ho Co.”)	The Company’s key management personnel
HAI KWANG ENTERPRISE CORPORATION (“Hai Kwang Co.”)	The Company’s key management personnel
SHYEH SHENG FUAT STEEL & IRON WORKS CO., LTD. (“Shyeh Sheng Fuat Co.”)	The Company’s key management personnel
CHIEN SHUN STEEL CO., LTD. (“Chien Shun Co.”)	The Company’s key management personnel
UNITED STEEL CORPORATION (“United Co.”)	The Company’s key management personnel
MARK LIN	The Company’s key management personnel

b. Sales

<b>Line Item</b>	<b>Related Party Category/Name</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Service revenue	The Company's key management personnel		
	Feng Hsin Co.	\$ 78,640	\$ 30,515
	Tung Ho Co.	61,751	25,627
	Others	78,152	38,723
		<u>\$ 218,543</u>	<u>\$ 94,865</u>

There is no major difference for sales and payments terms between related parties and normal customers.

c. Operating costs

<b>Line Item</b>	<b>Related Party Category</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Environmental expenditures	The Company's subsidiary	\$ 66,629	\$ 687
Other expense	The Company's subsidiary	<u>-</u>	<u>55</u>
		<u>\$ 66,629</u>	<u>\$ 742</u>

d. Operating expenses

<b>Line Item</b>	<b>Related Party Category</b>	<b>For the Year Ended December 31</b>	
		<b>2020</b>	<b>2019</b>
Service fees	The Company's key management personnel	\$ <u>-</u>	\$ <u>20</u>

e. Trade receivables from related parties

<b>Line Item</b>	<b>Related Party Category</b>	<b>December 31</b>	
		<b>2020</b>	<b>2019</b>
Trade receivables	The Company's key management personnel	\$ <u>12,240</u>	\$ <u>11,327</u>

The outstanding trade receivables from related parties are unsecured. For the year ended December 31, 2020 and 2019, no impairment losses were recognized for trade receivables from related parties.

f. Other payables

<b>Line Item</b>	<b>Related Party Category</b>	<b>December 31</b>	
		<b>2020</b>	<b>2019</b>
Other accrued expenses payable	The Company's subsidiary	\$ <u>14,659</u>	\$ <u>721</u>

g. Contract liabilities

Line Item	Related Party Category/Name	December 31	
		2020	2019
Other current liabilities	The Company's key management personnel		
	Feng Hsin Co.	\$ 2,603	\$ 3,424
	Tung Ho Co.	1,622	2,644
	Others	1,363	4,176
		<u>\$ 5,588</u>	<u>\$ 10,244</u>

h. Disposal of property, plant and equipment

Related Party Category	For the Year Ended December 31	
	2020	2019
Subsidiary	Proceeds \$ 1,043	Gain(Loss) on Disposal \$ -

i. Endorsements and guarantees

Endorsements and guarantees provided by the Company

Related Party Category	December 31	
	2020	2019
Subsidiary		
Guaranteed amounts	\$ 1,299,680	\$ 1,304,930
Actual borrowing amount	<u>\$ 1,170,993</u>	<u>\$ 847,870</u>

Obtain endorsements and guarantees

Related Party Category	December 31	
	2020	2019
The Company's key management personnel		
Guaranteed amounts	\$ -	\$ 200,000
Actual borrowing amount	<u>\$ -</u>	<u>\$ -</u>

j. Remuneration of key management personnel

Remuneration of directors and key management personnel was as follows:

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ 23,723	\$ 22,113
Post-employment benefits	<u>203</u>	<u>140</u>
	<u>\$ 23,926</u>	<u>\$ 22,253</u>

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

## 25. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for guarantees, bank borrowings, and capital leases:

	December 31	
	2020	2019
Property, plant and equipment	\$ 254,728	\$ 254,728
Other financial assets - non-current	<u>14,425</u>	<u>17,070</u>
	<u><u>\$ 269,153</u></u>	<u><u>\$ 271,798</u></u>

## 26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

a. The Company's unrecognized commitments were as follows:

	December 31	
	2020	2019
Property, plant and equipment	<u>\$ 16,141</u>	<u>\$ 14,918</u>
b. Under the environmental protection agreement of clearance and recycling EAF dust, the Company has to make profit-sharing payments to Shengang Township and Xianxi Township, Changhua County. The payments would depend on the amount of clearance and recycling EAF dust each month. The profit-sharing payments are recognized as operating expenses, which amounted to \$22,087 thousand and \$21,637 thousand in 2019 and 2020, respectively.		

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

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

	December 31, 2020		
	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary item USD	\$ 3,879	28.48 (USD:NTD)	<u>\$ 110,469</u>
<u>Financial liabilities</u>			
Monetary item USD	83	28.48 (USD:NTD)	<u>\$ 2,359</u>

	December 31, 2019		
	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary item			
USD	\$ 490	29.98 (USD:NTD)	\$ 14,680
<u>Financial liabilities</u>			
Monetary item			
USD	310	29.98 (USD:NTD)	\$ 9,289

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

Foreign Currencies	For the Year Ended December 31		
	2020		2019
	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate
USD	28.48 (USD:NTD)	\$ 8,142	29.98 (USD:NTD)
			\$ 664

## **28. SEPARATELY DISCLOSED ITEMS**

- a. Information about significant transactions and investees:
  - 1) Financing provided to others. (None)
  - 2) Endorsements/guarantees provided. (Table 1)
  - 3) Marketable securities held (excluding investments in subsidiary, associates and joint ventures). (None)
  - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
  - 9) Trading in derivative instruments. (None)
  - 10) Information on investees. (Table 2)
- b. Information on investments in mainland China (None)
- c. Information of major shareholders: list all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 3)

**TABLE 1****TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY**
**ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2020**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsements/ Guarantees Given on Behalf of Each Party (Notes 3 and 5)	Maximum Amount Endorsed/ Guaranteed During the Year (Note 4)	Outstanding Endorsements/ Guarantees at the End of the Year (Note 4)	Actual Amount Borrowed	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsements/ Guarantees to Net Equity in Latest Financial Statements (%)	Aggregate Endorsements/ Guarantees Limit (Notes 3 and 5)	Endorsements/ Guarantees Given by Parent on Behalf of Subsidiaries	Endorsements/ Guarantees Given by Subsidiaries on Behalf of Parent	Endorsements/ Guarantees Given on Behalf of Companies in Mainland China
		Name	Relationship (Note 2)										
0	The Company	Taiwan Steel Resources Co., Ltd.	(2)	\$ 1,743,114	\$ 1,299,680 (NT\$ 1,200,000 and US\$ 3,500)	\$ 1,299,680 (NT\$ 1,200,000 and US\$ 3,500)	\$ 1,170,993	\$ -	36.53	\$ 1,778,688	Y	N	N

Note 1: 1) Taiwan Steel Union Co., Ltd. is numbered 0.

2) Subsidiaries are numbered starting from 1.

Note 2: The relationship between endorser/guarantor and the endorsee/guarantee can be classified into the following four categories:

- 1) The companies with which it has business relations.
- 2) Subsidiaries in which the company held more than 50% of its total outstanding ordinary shares.
- 3) The companies in which the parent company and the subsidiary together held more than 50% of its outstanding ordinary shares.
- 4) The parent company which held, directly or indirectly through a subsidiary, more than 50% of its outstanding ordinary shares.

Note 3: The maximum amount of the endorsements/guarantees provided by the Company and its subsidiary shall not exceed 50% of the Company's net worth as stated in its latest financial statement. Endorsements/guarantees provided by the Company to a single enterprise shall not exceed 49% of the Company's net worth as stated in its latest financial statement.

Note 4: The ending balance and actual amount used are recorded using the prevailing exchange rate at balance sheet date.

Note 5: According to the Company's Guideline for Endorsements and Guarantees, the maximum amount of the endorsements/guarantees is based on the Company's net worth as stated in its latest audited (reviewed) financial statements. In December 2020, the Company announced that the Company's maximum amount of the endorsements/guarantees to a single enterprise is \$1,626,972 thousand and the maximum amount of the endorsements/guarantees is \$1,660,176 thousand. Because the 2020 annual financial statements have not been audited, these amounts were based on the financial statements for the nine months ended September 2020. Thus, there is a difference in between.

**TABLE 2****TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY**

**INFORMATION ON INVESTEES**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares (In Thousands)	%	Carrying Amount			
The Company	Taiwan Steel Resources Co., Ltd.	Changhua	Waste disposal	\$ 1,400,000	\$ 1,400,000	1,400,000	100	\$ 1,240,581	\$ (58,780)	\$ (58,747)	Subsidiary

**TABLE 3**

**TAIWAN STEEL UNION CO., LTD.**

**INFORMATION OF MAJOR SHAREHOLDERS**  
**DECEMBER 31, 2020**

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<b>Name of Major Shareholder</b>	<b>Shares</b>	
	<b>Number of Shares</b>	<b>Percentage of Ownership (%)</b>
Tung Ho Steel Enterprise Corp.	24,829,009	22.31%
Feng Hsin Steel Co., Ltd.	23,279,587	20.92%
Hai Kwang Enterprise Corporation	9,691,512	8.70%
Shyeh Sheng Fuat Steel & Iron Works Co., Ltd.	9,677,573	8.69%
Chien Shun Steel Co., Ltd.	6,116,469	5.49%

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preference shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

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**STATEMENT 1**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF CASH AND CASH EQUIVALENTS**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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<b>Item</b>	<b>Amount</b>
Cash on hand and petty cash	\$ 72
Cash in banks	
Demand deposits	856,129
Foreign currency deposits (Note 1)	2,214
Cash equivalents	
Time deposits (Note 2)	<u>7,266</u>
	<u><u>\$ 865,681</u></u>

Note1: Including USD 74.52 thousand (USD 1 = NTD 28.48) and EUR 2.6 thousand (EUR 1 = NTD35.02).

Note 2: Time deposits will mature before January 9, 2021.

**STATEMENT 2**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF NOTES RECEIVABLES**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars)**

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<b>Client Name</b>	<b>Amount</b>
Non-related parties	
LUNG CHING STEEL ENTERPRISE CO., LTD.	\$ <u>314</u>

**STATEMENT 3**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF TRADE RECEIVABLES**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars)**

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<b>Client Name</b>	<b>Amount</b>
Related parties	
Others (Note)	\$ <u>12,240</u>
Non-related parties	
Mitsui Mining & Smelting Co., Ltd.	56,845
Trafigura Pte Ltd.	21,352
Mitsubishi Corporation RtM Japan Ltd.	20,101
Environmental Protection Bureau Changhua County	19,561
PAN-CONTINENTAL CHEMICAL CO., LTD.	9,482
Sudamin - Rohstoff GmbH	9,217
Others ( Note )	<u>10,094</u>
	<u>146,652</u>
	<u>158,892</u>
Less: Allowance for impairment loss	( <u>159</u> )
	\$ <u>158,733</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

**STATEMENT 4**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF INVENTORY**  
**DECEMBER 31, 2020**  
**(In Thousands of New Taiwan Dollars)**

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Item	Amount	
	Cost	Net Realizable Value
Raw materials	\$ 87,822	\$ 62,492
Finishes goods	<u>31,157</u>	<u>72,946</u>
	118,979	<u>\$ 135,438</u>
Less: Write-down of inventories	( <u>25,330</u> )	
	<u>\$ 93,649</u>	

Note: Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except similar items.

**TAIWAN STEEL UNION CO., LTD.****STATEMENT OF CHANGES IN INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD****FOR THE YEAR ENDED DECEMBER 31, 2020****( In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investees	Balance at January 1,2020			Increase in Investment		Share of Loss of Subsidiary	Balance at December 31,2020			Net Assets Value
	Shares	Ownership (%)	Amount	Shares	Amount		Shares	Ownership(%)	Amount	
Taiwan Steel Resources Co., Ltd.	140,000,000	100	\$ 1,299,328	-	\$ -	\$ (58,747)	140,000,000	100	\$ 1,240,581	\$ 1,240,151

**STATEMENT 6**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF TRADE PAYABLES  
DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

---

<b>Vendor Name</b>	<b>Amount</b>
Non-related parties	
DIAFRIEND CORPORATION	\$ 8,540
TA EASE INDUSTRIAL CO., LTD.	3,844
KUNG JUNG LIME WORKS CO., LTD.	3,516
CHINA STEEL CHEMICAL CORPORATION	2,904
LIME-CROWN INDUSTRIAL CO., LTD.	2,619
SHIN FOO SHENG CO., LTD.	2,761
Others (Note)	<u>8,482</u>
	<u>\$ 32,666</u>

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

**STATEMENT 7**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF NET SALES REVENUE**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Quantities (tons)</b>	<b>Amount</b>
Revenue from sale of Zinc	52,472	\$ 1,090,167
Revenue from waste disposal		420,479
Other operating revenue		126
		<u>\$ 1,510,772</u>

**STATEMENT 8****TAIWAN STEEL UNION CO., LTD.****STATEMENT OF OPERATING COSTS****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Raw materials, beginning of year	\$ 83,120
Raw materials purchased	327,350
Gain on physical count	240
Consumables transferred to manufacturing expenses	( 41,635 )
Consumables transferred to service costs	( 74,329 )
Less: raw material, end of year	( <u>87,822</u> )
Raw material used	206,924
Direct labor	23,580
Manufacturing expenses	292,420
Finished goods, beginning of year	53,300
Others	( 4 )
Less: finished goods, end of year	( <u>31,157</u> )
Costs of goods sold	545,063
Service costs	228,788
Other operating cost	100
Inventory reversed	( 2,762 )
Gain on physical count	( 240 )
Revenue from sale of scraps	( <u>105</u> )
Operating Costs	<u>\$ 770,844</u>

**STATEMENT 9**

**TAIWAN STEEL UNION CO., LTD.**

**STATEMENT OF OPERATING EXPENSES**

**DECEMBER 31, 2020**

**(In Thousands of New Taiwan Dollars)**

---

Item	Selling and Marketing Expenses	General and Administration Expenses	Research and Development Expenses	Total
Shipping expenses	\$ 40,838	\$ 4	\$ -	\$ 40,842
Salaries	3,265	40,150	3,436	46,851
Donation expenses	-	23,378	-	23,378
Export expenses	8,223	-	-	8,223
Others (Note)	<u>8,508</u>	<u>23,833</u>	<u>6,200</u>	<u>38,541</u>
	<u><u>\$ 60,834</u></u>	<u><u>\$ 87,365</u></u>	<u><u>\$ 9,636</u></u>	<u><u>\$ 157,835</u></u>

Note: The amount included in others does not exceed 5% of the account balance