

KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries
Consolidated Financial Statements and
Independent Auditors' Report
2020 and 2019

Company Address: 6F., No. 131, Sec. 3, Heping E. Rd., Taipei City, Taiwan, R.O.C.

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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Statement of Declaration

The entities that are required to be included in the consolidated financial statements of Kedge Construction Co., Ltd. as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the consolidated financial statements is included in the consolidated financial statements. Consequently, Kedge Construction Co., Ltd. and Subsidiaries do not prepare a separate set of consolidated financial statements.

Hereby declared

Company Name: Kedge Construction Co., Ltd.

Chairman: Ai-Wei Yuan

Date: March 26, 2021

Independent Auditors' Report

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

Audit Opinion

We have audited the Consolidated Balance Sheets of Kedge Construction Co., Ltd. and its subsidiaries as of December 31, 2020, and 2019, the Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Statements of Cash Flows, and Notes to Consolidated Financial Statements (including Summary of Significant Accounting Policies) for the annual period from January 1 to December 31, 2020, and 2019.

In our opinion, the aforementioned Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Kedge Construction Co., Ltd. as of December 31, 2020, and 2019, and its consolidated financial performance and consolidated cash flows for the annual periods ended December 31, 2020, and 2019 in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," as well as International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and effected by the Financial Supervisory Commission.

Foundation of Audit Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2020 consolidated financial statements of Kedge Construction Co., Ltd. and its subsidiaries. These matters were addressed in our audit of the consolidated financial report as a whole and forming our audit opinion. We do not express a separate opinion on these matters. In our judgment, key audit matters that shall be communicated in the audit report are as follows:

I. Construction Contracts

For accounting policies regarding construction contracts, please refer to Note 4 (13) of the Consolidated Financial Statements for revenue recognition. For accounting estimates and hypothetical uncertainties of estimated total contract costs for construction contracts, please refer to Note 5 of the Consolidated Financial Statements. For details of revenue recognition, please refer to Note 6 (15) of the Consolidated Financial Statements for revenue from customer contracts.

Description of Key Audit Matters:

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

Corresponding Audit Procedures:

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

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

Other Matters

Kedge Construction Co., Ltd. has also compiled Individual Financial Statements for 2020 and 2019, and they have also received an unqualified audit opinion from our CPA for your reference.

Responsibilities of the Management and Governing Body for the Consolidated Financial Statements

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

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

The governing bodies of Kedge Construction Co., Ltd. and its subsidiaries (including the Audit

Committee) have the responsibility to oversee the process by which the financial statements are prepared.

Auditor's Responsibility for Auditing Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determined the key audit matters of the consolidated financial statements of Kedge Group of 2020. We state such matters in the audit report unless the law or regulation does not allow public disclosure of specific matters. Or in rare circumstances, we determine not to communicate specific matters in the audit report due to the reasonable probability that the negative impact of such communication is greater than the public interest.

KPMG

Taipei, Taiwan

Republic of China

March 26, 2021

Notices to Readers

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

The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

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

KEDGE CONSTRUCTION CO., LTD. and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2020, and 2019

Unit: NT\$ thousand

		2020.12.31		2019.12.31				2020.12.31		2019.12.31	
Assets		Amount	%	Amount	%		Liabilities and equity	Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (Note 6(1) and (18))	\$ 4,108,192	44	2,526,409	31	2100	Short-term loans (Note 6(8), (18) and 8)	\$ 150,000	2	150,000	2
1110	Financial assets at fair value through profit or loss - current (Note 6(2) and (18))	44,039	-	74,118	1	2130	Current contract liabilities (Note 6(15))	1,525,341	16	988,111	12
1140	Current contract assets (Note 6(15) and 7)	1,441,162	16	1,594,708	19	2150	Notes payable (Note 6(18))	335,247	3	361,911	4
1170	Notes and accounts receivable, net (Note 6(4), (15) and (18))	939,444	10	1,127,588	14	2170	Accounts payable (Note 6(18))	3,749,899	40	3,599,351	43
1180	Notes and accounts receivable - related-parties, net (Note 6(15) and (18) and 7)	1,888,856	20	1,913,375	23	2200	Other payables (Note 6(12) and (18))	315,681	3	258,940	3
1410	Prepayments	93,656	1	205,683	2	2230	Current tax liabilities	118,771	1	50,362	1
1470	Other current assets	35,855	-	22,524	1	2300	Other current liabilities (Note 6(18))	7,110	-	18,850	-
1476	Other financial assets - current (Note 6(18) and 8)	201,785	2	243,636	3			<u>6,202,049</u>	<u>65</u>	<u>5,427,525</u>	<u>65</u>
		<u>8,752,989</u>	<u>93</u>	<u>7,708,041</u>	<u>94</u>	Non-current liabilities:					
Non-current assets:						2552	Warranty long-term provisions (Note 6(9))	150,363	2	102,482	1
1550	Investments accounted for using equity method (Note 6(5))	20,507	-	20,506	-	2600	Other non-current liabilities (Note 6(18))	11,966	-	5,719	-
1517	Financial assets at fair value through other comprehensive income - non-current (Note 6(3) and (18))	363,370	4	344,872	4			<u>162,329</u>	<u>2</u>	<u>108,201</u>	<u>1</u>
1600	Property, plant and equipment (Note 6(6) and 8)	133,739	2	63,116	1	Total liabilities					
1755	Right-of-use assets	11,768	-	4,393	-			<u>6,364,378</u>	<u>67</u>	<u>5,535,726</u>	<u>66</u>
1760	Investment property, net (Note 6(7) and 8)	102,077	1	102,544	1	Equity attributable to owners of the parent company (Note 6(13)):					
1840	Deferred tax assets(Note 6(12))	34,635	-	24,060	-	3100	Share capital	1,060,357	11	1,060,357	13
1975	Defined benefit assets, net - non-current (Note 6 (11))	3,400	-	1,361	-	3200	Capital surplus	518,294	6	518,241	6
1980	Other financial assets- non-current (Note 6(18))	11,171	-	7,955	-	3300	Retained earnings	1,345,805	14	1,036,204	13
		<u>680,667</u>	<u>7</u>	<u>568,807</u>	<u>6</u>	3400	Other equity interest	144,653	2	126,159	2
		<u>\$ 9,433,656</u>	<u>100</u>	<u>8,276,848</u>	<u>100</u>		Total equity attributable to owners of the parent company	<u>3,069,109</u>	<u>33</u>	<u>2,740,961</u>	<u>34</u>
Total assets						36XX	Non-controlling interests	<u>169</u>	<u>-</u>	<u>161</u>	<u>-</u>
							Total equity	<u>3,069,278</u>	<u>33</u>	<u>2,741,122</u>	<u>34</u>
							Total liabilities and equity	<u>\$ 9,433,656</u>	<u>100</u>	<u>8,276,848</u>	<u>100</u>

(Please see the Notes to the Consolidated Financial Statements)

KEDGE CONSTRUCTION CO., LTD. and Subsidiaries
Consolidated Statements of Comprehensive Income
From January 1 to December 31, 2020 and 2019

Unit: NT\$ thousand

		2020		2019	
		Amount	%	Amount	%
4000	Operating revenue (Note 6(10), (15) and 7)	\$ 14,130,629	100	11,462,442	100
5000	Operating costs (Note 6(11) and 12)	13,072,318	93	10,744,281	94
	Gross profit	1,058,311	7	718,161	6
	Operating expenses:				
6200	General and administrative expenses (Note 6(11), (16), 7 and 12)	288,539	2	247,780	2
	Net Operating Profit	769,772	5	470,381	4
	Non-operating income and expenses:				
7100	Interest income (Note 6(17))	8,280	-	6,289	1
7010	Other income (Note 6(17))	22,315	-	18,346	-
7020	Other gains and losses (Note 6(17))	(15,167)	-	7,027	-
7050	Financial costs (Note 6(17))	(3,009)	-	(2,130)	-
7060	Share of profit and loss associates and joint ventures accounted for using the equity method (Note 6(5))	1	-	1	-
		12,420	-	29,533	1
	Net income before tax from continuing operating department	782,192	5	499,914	5
7950	Less: Income tax expenses (Note 6(12))	155,748	1	97,558	1
	Net income	626,444	4	402,356	4
8300	Other comprehensive income:				
8310	Items that will not be reclassified to profit or loss				
8311	Remeasurements of defined benefit plans	1,268	-	907	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	18,498	-	123,011	1
8300	Other comprehensive income (net of taxes)	19,766	-	123,918	1
	Total Comprehensive Income	\$ 646,210	4	526,274	5
	Net income attributable to:				
	Owners of the parent company	\$ 626,440	4	402,348	4
8620	Non-controlling interests	4	-	8	-
		\$ 626,444	4	402,356	4
	Total comprehensive income attributable to:				
	Owners of the parent company	\$ 646,202	4	526,237	5
	Non-controlling interests	8	-	37	-
		\$ 646,210	4	526,274	5
	Earnings per share (NT\$) (Note 6(14))				
9750	Basic earnings per share (NT\$)	\$ 5.91		3.79	
9850	Diluted earnings per share (NT\$)	\$ 5.87		3.79	

(Please see the Notes to the Consolidated Financial Statements)

KEDGE CONSTRUCTION CO., LTD. and Subsidiaries
Consolidated Statements of Changes in Equity
From January 1 to December 31, 2020 and 2019

Unit: NT\$ thousand

	Equity Attributable to the Owners of the Parent Company								
	Share Capital		Retained Earnings			Other equity interest	Total equity attributable to the owners of the parent company	Non-controlling interest	Total equity
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Total	Unrealized profit or loss of financial assets measured at fair value through other comprehensive income			
Balance as of January 1, 2019	\$ 1,060,357	518,208	201,235	749,821	951,056	3,177	2,532,798	124	2,532,922
Net income	-	-	-	402,348	402,348	-	402,348	8	402,356
Other Comprehensive Income	-	-	-	907	907	122,982	123,889	29	123,918
Total Comprehensive Income	-	-	-	403,255	403,255	122,982	526,237	37	526,274
Earnings appropriation and distribution:									
Legal reserve appropriated	-	-	40,751	(40,751)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(318,107)	(318,107)	-	(318,107)	-	(318,107)
Unclaimed dividends after effective period	-	33	-	-	-	-	33	-	33
Balance as of December 31, 2019	1,060,357	518,241	241,986	794,218	1,036,204	126,159	2,740,961	161	2,741,122
Net income	-	-	-	626,440	626,440	-	626,440	4	626,444
Other Comprehensive Income	-	-	-	1,268	1,268	18,494	19,762	4	19,766
Total Comprehensive Income	-	-	-	627,708	627,708	18,494	646,202	8	646,210
Earnings appropriation and distribution:									
Legal reserve appropriated	-	-	40,325	(40,325)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	(318,107)	(318,107)	-	(318,107)	-	(318,107)
Unclaimed dividends after effective period	-	53	-	-	-	-	53	-	53
Balance as of December 31, 2020	\$ 1,060,357	518,294	282,311	1,063,494	1,345,805	144,653	3,069,109	169	3,069,278

(Please see the Notes to the Consolidated Financial Statements)

KEDGE CONSTRUCTION CO., LTD. and Subsidiaries
Consolidated Statements of Cash Flows
From January 1 to December 31, 2020 and 2019

Unit: NT\$ thousand

	2020	2019
Cash flows from operating activities:		
Profit before tax	\$ 782,192	499,914
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expense	12,080	941
Net loss (gain) on financial assets and liabilities measured at fair value through profit or loss	6,095	(7,027)
Interest expense	3,009	2,130
Interest income	(8,280)	(6,289)
Dividend income	(18,131)	(12,870)
Share of profit of associates and joint ventures using equity method recognition	(1)	(1)
Total adjustments to reconcile profit (loss)	(5,228)	(23,116)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial instruments mandatorily measured at fair value through profit or loss	23,984	84
Decrease (increase) in contract assets	154,221	(384,984)
Decrease (increase) in notes and accounts receivable	188,144	(370,327)
Notes and accounts receivable - decrease in related parties	24,519	723,273
Decrease (increase) in prepayments	112,027	(27,383)
Increase in other financial instruments - current	(13,331)	(1,793)
Decrease in other financial assets	41,886	98,707
Increase in non-current net defined benefit assets-	(2,040)	(1,361)
Total changes in operating assets	529,410	36,216
Changes in operating liabilities:		
Increase in contract liabilities	537,230	27,271
Decrease in notes payable	(26,664)	(33,013)
Increase in accounts payable	150,548	942,953
Increase in other payables	56,794	12,129
Increase in liability reserve	47,881	23,221
Decrease in other current liabilities	(13,777)	(4,317)
Increases in net defined benefit liabilities	1,268	852
Increase (decrease) in other non-current liabilities	830	(1,305)
Total changes in operating liabilities	754,110	967,791
Total changes in operating assets and liabilities	1,283,520	1,004,007
Total adjustments	1,278,292	980,891
Cash inflow generated from operations	2,060,484	1,480,805
Interests received	8,245	5,813
Dividends received	18,131	12,870
Interest payment	(3,009)	(2,130)
Income taxes paid	(97,914)	(137,046)
Net cash inflows generated from operating activities	1,985,937	1,360,312
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(80,717)	-
Decrease (increase) in other financial assets	(3,215)	1,287
Net cash outflows (inflows) generated from investing activities	(83,932)	1,287
Cash flows from financing activities:		
Increase in short-term loans	581,000	321,000
Decrease in short-term loans	(581,000)	(171,000)
Increase in short-term promissory notes payable	200,000	90,000
Decrease in short-term promissory notes payable	(200,000)	(90,000)
Repayment of lease principal amount	(2,115)	(120)
Cash dividend distribution	(318,107)	(318,107)
Net cash outflows generated from financing activities	(320,222)	(168,227)
Net increase in cash and cash equivalents	1,581,783	1,193,372
Opening balance of cash and cash equivalents of the period	2,526,409	1,333,037
Ending balance of cash and cash equivalents of the period	\$ 4,108,192	2,526,409

(Please see the Notes to the Consolidated Financial Statements)

KEDGE CONSTRUCTION CO., LTD. and Subsidiaries

Notes to the Consolidated Financial Statements

2020 and 2019

(Unless otherwise stated, the unit for all amounts is in NT\$ thousands.)

1. Company Overview

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

2. The Approval Date and Procedures of the Financial Report

The consolidated financial statements were published upon approval by the Board of Directors on March 26, 2021.

3. Application of Newly Issued and Revised Standards and Interpretations

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

The consolidated company has adopted the newly recognized IFRSs specified above since January 1, 2020, and assessed that the application will not have a material impact on the consolidated financial statements.

- Amendments to IFRS 3, "Definition of a Business"
- Amendments to IFRS 9, IAS 39, and IFRS 7, "Changes in Interest Rate Indicators"
- Amendments to IAS 1 and IAS 8, "Definition of Material"
- Amendments to IFRS 16, "COVID-19-Related Rent Concessions"

(2) Impacts of IFRS Endorsed by FSC but yet to come into effect

The Consolidated Company has assessed that the application of the above newly endorsed IFRS, effective on January 1, 2021, will not result in a material impact on the consolidated financial statements.

- Amendments to IFRS 4, "Temporary Exemption from Applying IFRS 9"
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, "Interest Rate Benchmark Reform - Phase 2"

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

- (3) Newly issued and amended standards and interpretations yet to be endorsed by the FSC
For IFRSs issued by IASB but not yet endorsed by the FSC, the impact on the Consolidated Company are as follows:

<u>New or amended standards</u>	<u>Main amendments to the content</u>	<u>The effective date of issuance by IASB</u>
Amendments to IAS 1 "Classify Liabilities as Current or Non-current"	The amendments are intended to enhance the consistency of the application of the standard, in order to assist companies in determining whether debts or other liabilities with uncertain liquidation dates should be classified as current (or those that might expire within one year) or non-current on the balance sheet. The amendments also clarify the classification requirements for debts that may be repaid through convert into equity.	2023.1.1
Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"	The amendments stated that the cost of fulfilling a contract comprises the costs that relate directly to the contract. The costs include: <ul style="list-style-type: none"> • Incremental costs (for example, direct labor and materials). • Allocations of costs that relate directly to contract activities (for example, depreciation property, plant and equipment used in fulfilling the contract, etc.) 	2022.1.1

The Consolidated Company is in the process of evaluating the impact on the consolidated financial position and performance of the adoption of the standards and interpretations mentioned above, and the Consolidated Company will disclose relevant impacts when the evaluation is completed.

The Consolidated Company expects that the following newly published and amended IFRS unendorsed will not result in a material impact on the consolidated financial statements.

- Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"
- IFRS 17, "Insurance Contracts," and amendments to IFRS 17
- Amendments to IAS 16, "Property, Plant and Equipment - Proceeds before Intended Use"
- Annual Improvements to IFRS Standards during 2018 - 2020 Cycle-
- Amendments to IFRS 3, "Reference to the Conceptual Framework"
- Amendments to IAS 1, "Disclosure of Accounting Policies"
- Amendments to IAS 8, "Definition of Accounting Estimates"

4. Summary of Significant Accounting Policies

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

(1) Compliance Statement

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

(2) Foundation of Preparation

1. Foundation of Measurement

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

- (1) Financial assets measured at fair value through profit or loss;
- (2) Financial assets measured at fair value through other comprehensive income;
and
- (3) Net defined benefit liabilities (or assets) are measured by the fair value of pension fund assets minus the present value of the defined benefit obligations and the cap effects measurement mentioned in note IV (XIV).

2. Functional Currency and Presentation Currency

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

(3) Foundation of Consolidation

1. Preparation Principle of Consolidated Financial Statements

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

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

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

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

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

2. Subsidiaries Included in the Consolidated Financial Statements

Name of investment company	Subsidiaries	Nature of business	Percentage of ownership		Explanation
			2020.12.31	2019.12.31	
The Company	Guanqing Electromechanical Co., Ltd. (Guanqing Electromechanical)	Electrical equipment installation and fire safety equipment installation, etc.	99.96%	99.96%	holds directly more than 50% of the issued voting share in the subsidiary.
The Company	Jiequn Investment Co., Ltd. (Jiequn Investment)	General Investment	99.98%	99.98%	holds directly more than 50% of the issued voting share in the subsidiary.
Jointly held by Guanqing Electromechanical and Jiequn Investment	Dingtian Construction Co., (Dingtian Construction)	The comprehensive construction industry, etc.	100.00%	100.00%	holds indirectly more than 50% of the issued voting share in the subsidiary.

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

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

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

1. The asset is expected to be realized within its normal operating cycle, or it is intended to be sold or depleted;
2. The asset is held mainly for trading purposes;
3. The asset is expected to be realized within 12 months after the reporting period; or
4. The asset is cash or cash equivalent, but it will be used for the exchange of assets or settlement of liabilities at least 12 months after the reporting period, unless otherwise limited.

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

1. The liability is expected to be settled within its normal operating cycle;
2. The liabilities held are primarily for the trading purpose;
3. The liabilities are expected to settle the obligation within 12 months after the reporting period; or

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
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4. The liabilities have no unconditional right to defer the settlement for at least 12 months after the reporting period. The liabilities provisions may be settled by issuing equity instruments at the option of the counterparty, and will not impact its classification.

(5) Cash and Cash equivalents

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

(6) Financial Instruments

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

1. Financial Assets

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

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

(1) Financial Assets Measured at Amortized Cost

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

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

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

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

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

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

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

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

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

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

(4) Impairment of Financial Assets

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

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

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

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

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

historical experience, credit evaluation, and prospective information.

The consolidated company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings.-

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

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

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

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

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

(5) Derecognition of Financial Assets

The Consolidated Company only derecognizes the financial assets when the contractual rights of the assets' cash flow are terminated, or when the financial assets have been transferred and almost all the risks and remuneration

of the ownership of the asset have been transferred to other enterprises, or when almost all the risks and remuneration of the ownership have not been transferred or retained, and the control of the financial assets have not been retained.

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

2. Financial Liabilities and Equity Instruments

(1) Classification of Liabilities or Equities

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

(2) Equity Transactions

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

(3) Financial Liabilities

Financial liabilities are classified as amortized costs or the fair value measurement through profit or loss. Financial liabilities, if held for trading, derivatives or designated at the time of initial recognition, are classified as the fair value measurement through profit or loss. Financial liabilities measured at fair value through profit or loss are the fair value measurement, and the related net profit and loss, including any interest paid, are recognized in profit and loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and exchange gains and losses are recognized in profit or loss. Any profit or loss at the time of derecognize is also recognized in profit and loss.

(4) Derecognition of Financial Liabilities

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

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

(5) Offsetting of Financial Assets and Financial Liabilities

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

(6) Financial Guarantee Contract

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

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

(7) Investments in Associates

Associates refer to those for which the Consolidated Company has a material influence upon their financial and operating policies but without controlling or joint controlling.

The Consolidated Company adopts the equity method for handling the equity of associates. Under the equity method, the initial acquisition is recognized according to the cost, and the investment cost includes the transaction cost. The carrying amount of invested associates includes the goodwill recognized at the time of initial investment less any accumulative impairment loss.

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

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

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

(8) Investment Property

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

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

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

(9) Property, Plant and Equipment

1. Recognition and Measurement

Property, plant, and equipment items are measured by cost (including capitalized borrowing costs) less accumulated depreciation and any accumulated impairment.

When the useful life of a material component of property, plant, and equipment is different, it shall be treated as a separate item (main component) of property, plant, and equipment.

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

2. Subsequent Cost

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

3. Depreciation

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

No depreciation shall be recognized for the land.

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

- (1) 5 to 53 years for houses and buildings
- (2) 5 years for transportation equipment
- (3) 3 to 5 years for other equipment

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

(10) Leases

1. Lease Judgment

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

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- (1) The contract involves the use of an identified asset, which is explicitly designated in the contract or implicitly designated when it is available for use, and its substance can distinguish or represent all the actual production capacity. If the supplier poses substantive rights to replace the asset, the asset is not an identified asset; and
- (2) Have the right to obtain almost all economic benefits from the use of identified assets throughout the use period; and
- (3) Attain the right to dominate the use of identified assets when one of the following conditions is met:
 - The client has the right to dominate the use method of identified assets and the purpose of use throughout the use period.
 - The relevant decisions about the use method and purpose of use of the asset are determined in advance, and:
 - The client has the right to operate the asset throughout the use period, and the supplier has no right to change the operating instructions; or
 - The client's plan on how to use the asset and purpose of use has determined in advance for the entire period of use.

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

2. Lessee

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

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

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

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

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

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

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

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

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

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

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

3. Lessor

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

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

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

(11) Impairments of Non-financial Assets

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

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

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

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

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

(12) Provisions

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

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

(13) Revenue Recognition

1. Revenue from Contracts with Clients

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

(1) Labor Services

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

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

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

(2) Construction Contracts

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

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

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

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

The Consolidated Company provides a standard warranty for residential property and public construction in line with the agreed specifications and has recognized the warranty liability reserve for this obligation. Please refer to Note 6 (9) for details.

2. Cost of Client Contracts

Cost of Fulfilling Contracts

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

satisfaction) of performance obligations, and expected to be recoverable.

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

(14) Employee Benefits

1. Defined Contribution Plan

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

2. Defined Benefit Plan

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

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

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

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

3. Short-term Employee Benefits

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

(15) Income Tax

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

Current income tax includes the estimated income tax payable or tax refund receivable calculated based on the taxable income (loss) of the current year, and any adjustments to

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income tax payable or tax refund receivable in previous years. The amount is the best estimate of the expected payment or receipt based on the legal tax rate or substantively enacted tax rate on the reporting date.

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

1. Assets or liabilities initially recognized in a transaction other than a business combination that at the time of the transaction does not affect accounting profit and taxable income (loss);
2. Due to temporary differences arising from investment in subsidiaries, associates and joint venture interests, the Consolidated Company can control the reversing point of temporary differences and is likely not to revert in the foreseeable future; and
3. The taxable temporary difference arising from the initial recognition of goodwill.

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

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

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

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

(16) Earnings per Share

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

(17) Segment Information

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

5. Significant Accounting Judgments and Key Sources of Estimation and Assumption Uncertainty

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

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

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

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

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

The following assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, of which the details are as follows:

(1) Revenue Recognition

The recognition of the profit and loss of the construction contract of the Consolidated Company refers to the recognition of the contract revenue and the contract cost respectively according to the complete degree of the contractual activities and the degree of completion is measured by the proportion of the contract cost incurred so far in the estimated total contract cost. The Consolidated Company considers the nature, estimated duration, contract projects, construction process, construction method, and estimated contract amount of each project to estimate the total contract cost. The above estimation basis is subject to change due to conditions of work, overall price fluctuations, and owner requirements.

The accounting policy and disclosure of the consolidated company include the adoption of fair value measurement on financial and non-financial assets and liabilities. The Consolidated Company verifies the independent source data to make the evaluation result close to the market status, confirms that the data source is independent, reliable, consistent with other resources and represents the executable price, and regularly calibrates the evaluation model, conducts backtesting, updates the input value and data required by the evaluation model and any other necessary fair value adjustments to ensure

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

that the evaluation result is reasonable. For investment property, the Consolidated Company evaluates it periodically or entrusts an external appraiser to evaluate it according to the evaluation method and parameter hypothesis announced by the FSC.

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

1. Level 1: The public offer price (unadjusted) of the same asset or liability in the active market.
2. Level 2: In addition to the public offer price included in level 1, the input parameters of assets or liabilities are directly (namely price) or indirectly (namely derived from price) observable.
3. Level 3: Input parameters of assets or liabilities are not based on observable market data (non-observable parameters).

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

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

- (I) Note VI (VII), investment property
- (II) Note VI (XVIII), financial instrument

6. Descriptions of Significant Accounting Items

(1) Cash and cash equivalents

	<u>2020.12.31</u>	<u>2019.12.31</u>
Cash and petty cash	\$ 710	710
Demand deposits	224,793	522,875
Check deposits	503,467	202,841
Time deposits	1,548	-
Cash equivalents	<u>3,377,674</u>	<u>1,799,983</u>
Cash and cash equivalents	<u>\$ 4,108,192</u>	<u>2,526,409</u>

The aforementioned cash equivalents are short-term bills, whose maturity ranges are between January and March in 2021 and 2020, and the interest rate ranges are 0.24% to 0.26% and 0.53% to 0.57%, respectively.

For the disclosed information on the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Consolidated Company, please refer to Note 6(18).

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

	<u>2020.12.31</u>	<u>2019.12.31</u>
Financial assets mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
TWSE (or TPEX) listed company shares	\$ 44,039	44,054
Funds	-	30,064
Total	<u>\$ 44,039</u>	<u>74,118</u>

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

1. The Consolidated Company has mandatorily designated the aforementioned items as non-derivative financial assets measured at fair value through profit or loss. The dividend income recognized in 2020 and 2019 was NT\$1,929,000 and NT\$1,915,000 respectively.
 2. As of December 31, 2020, and 2019, none of the financial assets of the Consolidated Company was pledged as collateral.
- (3) Financial Assets Measured at Fair Value through Other Comprehensive Income

	<u>2020.12.31</u>	<u>2019.12.31</u>
Equity instruments measured at fair value through other comprehensive income		
Stocks listed in TWSE or TPEX	\$ 357,545	338,952
Unlisted stocks	<u>5,825</u>	<u>5,920</u>
Total	<u>\$ 363,370</u>	<u>344,872</u>

1. Equity instrument investments measured at fair value through other comprehensive income
The equity instrument investment held by the Consolidated Company is a long-term strategic investment and not held for trading purposes, so it has been designated to be measured at fair value through other comprehensive income.
 2. For the equity instrument investment designated as measured at fair value through other comprehensive income, the dividend incomes recognized by the Consolidated Company in 2020 and 2019 were NT\$16,202,000 and NT\$10,955,000.
 3. The Consolidated Company did not dispose of strategic investment in 2020 and 2019, and accumulated profit and loss during that period were not transferred within the equity.
 4. None of the financial assets of the Consolidated Company has been pledged as collateral.
 5. Please refer to Note 6 (18) for credit risk (including impairment of debt instrument investment) and market risk information.
- (4) Notes and accounts receivable

	<u>2020.12.31</u>	<u>2019.12.31</u>
Accounts Receivable	\$ 939,444	1,127,588
Less: Loss allowance	<u>-</u>	<u>-</u>
	<u>\$ 939,444</u>	<u>1,127,588</u>

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

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

	2020.12.31		
	The amount of receivable accounts receivable	carrying amount of notes and accounts receivable	Weighted average expected credit loss rate
			Allowance of lifetime expected credit losses
Not past due	\$ 939,444	-	-

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

Changes of loss allowance of notes receivable and accounts receivable of the Consolidated Company is as follows:

	2020	2019
Beginning balance	\$ -	-
Impairment losses recognized	11,587	-
Reversal of impairment loss	(11,587)	-
Ending Balance	<u>\$ -</u>	<u>-</u>

As of December 31, 2020, and 2019, none of the receivables of the Consolidated Company were pledged as collateral.

(5) Investments accounted for using equity method

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

	2020.12.31	2019.12.31
ReadyCom eServices Corp.	<u>\$ 20,507</u>	<u>20,506</u>

1. Associates

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

	2020	2019
Share attributable to the Consolidated Company:		
Net income of continuing operations	<u>\$ 1</u>	<u>1</u>

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

2. Collateral

As of December 31, 2020, and 2019, none of the investments under the equity method of the Consolidated Company was pledged as collateral.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

(6) Property, Plant and Equipment

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

	Land	Houses and buildings	Transportation equipment	Others equipment	Total
Cost or deemed cost:					
Balance on January 1, 2020	\$ 62,430	14,969	1,930	407	79,736
Addition	-	21,344	-	59,373	80,717
Reclassification to contract assets	-	-	-	(811)	(811)
Balance on December 31, 2020	<u>\$ 62,430</u>	<u>36,313</u>	<u>1,930</u>	<u>58,969</u>	<u>159,642</u>
Balance on January 1, 2019	\$ 62,430	14,969	1,930	407	79,736
Balance on December 31, 2019	<u>\$ 62,430</u>	<u>14,969</u>	<u>1,930</u>	<u>407</u>	<u>79,736</u>
Depreciation and impairment losses:					
Balance on January 1, 2020	-	14,337	1,876	407	16,620
Depreciation for the year	-	1,853	11	7,554	9,418
Reclassification to contract assets	-	-	-	(135)	(135)
Balance on December 31, 2020	<u>\$ -</u>	<u>16,190</u>	<u>1,887</u>	<u>7,826</u>	<u>25,903</u>

	Land	Houses and buildings	Transportation equipment	Others equipment	Total
Balance on January 1, 2019	-	14,068	1,823	407	16,298
Depreciation for the year	-	269	53	-	322
Balance on December 31, 2019	<u>\$ -</u>	<u>14,337</u>	<u>1,876</u>	<u>407</u>	<u>16,620</u>
Carrying amount:					
December 31, 2020	<u>\$ 62,430</u>	<u>20,123</u>	<u>43</u>	<u>51,143</u>	<u>133,739</u>
January 1, 2019	<u>\$ 62,430</u>	<u>901</u>	<u>107</u>	<u>-</u>	<u>63,438</u>
December 31, 2019	<u>\$ 62,430</u>	<u>632</u>	<u>54</u>	<u>-</u>	<u>63,116</u>

Please refer to Note 8 for details of the property, plant, and equipment of the Consolidated Company pledged as collateral for the financing line as of December 31, 2020, and 2019.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

(7) Investment Property

	Land, houses and buildings
Cost or deemed cost:	
Balance on January 1, 2020	\$ 127,549
Balance on December 31, 2020	\$ 127,549
Balance on January 1, 2019	\$ 127,549
Balance on December 31, 2019	\$ 127,549
Depreciation and impairment losses:	
Balance on January 1, 2020	\$ 25,005
Depreciation for the year	467
Balance on December 31, 2020	\$ 25,472
Balance on January 1, 2019	\$ 24,539
Depreciation for the year	466
Balance on December 31, 2019	\$ 25,005
Carrying amount:	
December 31, 2020	\$ 102,077
January 1, 2019	\$ 103,010
December 31, 2019	\$ 102,544
Fair value:	
December 31, 2020	\$ 174,536
December 31, 2019	\$ 176,599

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

The fair value is evaluated by the income approach. In the absence of the current price in the active market, the evaluation considers the total aggregate estimated cash flow received from the lease of the property and discounts it with the earning rate that reflects the specific risks inherent in the net cash flow to determine the value of the property. The discount rate applied for the years ended on December 31, 2020, and 2019 ranged from 1.18% to 1.19%.

Please refer to Note 8 for details of the investment property of the Consolidated Company pledged as collateral for the financing line as of December 31, 2020, and 2019.

(8) Short-term Loans

Details on short-term loans of the Consolidated Company were as follows:

	2020.12.31	2019.12.31
Unsecured bank loans	\$ 150,000	150,000
Unused limit	\$ 4,288,003	3,571,975
Interest rate interval	1.1%	1.6%

For details of the Consolidated Company's interest rate risk and liquidity risk, please refer to Note 6(18).

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

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

(9) Provisions

	Warranty
Balance on January 1, 2020	\$ 102,482
Additional provisions for the current period	53,233
Provisions used in the current period	(5,352)
Balance on December 31, 2020	\$ 150,363
Balance on January 1, 2019	\$ 79,261
Additional provisions for the current period	27,816
Provisions used in the current period	(4,595)
Balance on December 31, 2019	\$ 102,482

In 2020 and 2019, the warranty provisions of the Consolidated Company are mainly related to construction contracting. The warranty provisions are estimated based on the historical warranty data of various constructions. The Consolidated Company expects that the liability will occur mostly one year after the construction acceptance.

(10) Operating lease

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

The maturity analysis of the lease payment is listed as follows according to the non-discounted future cash flows of lease receivable after the reporting date:

	2020.12.31	2019.12.31
Less than 1 year	\$ 6,074	6,074
1 to 2 years	580	2,715
2 to 3 years	-	580
Non-discounted future cash flows of lease	\$ 6,654	9,369

In 2020 and 2019, the rental income from investment property both was NT\$6,082,000. In addition, there was no material maintenance and servicing expense.

(11) Employee benefits

1. Defined benefit plan

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

	2020.12.31	2019.12.31
Present value of defined benefit obligations	\$ 22,148	22,317
Fair value of plan assets	(25,548)	(23,678)
Net defined benefit obligation (assets) liabilities	\$ (3,400)	(1,361)

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

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

(1) Components of plan assets

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

CMP Group's contributions to the pension funds were deposited with Bank of Taiwan, which amounted to NT\$25,548,000 on the reporting date. For the utilization of the pension fund, including the earnings rate and asset allocation of the fund, please refer to the information published on the website of the Bureau of Labor Funds of the Ministry of Labor.

(2) Changes in present value of defined benefit obligations

The changes in the present value of defined benefit obligations of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Defined benefit obligation on January 1	\$ 22,317	29,385
Current service cost and interest	201	316
Remeasurement of net defined benefit liability (asset)		
- Actuarial gain and loss arising from changes in financial assumptions	512	391
- Experience adjustments	(639)	(162)
Benefits paid by the plan	(243)	(7,613)
Defined benefit obligation on December 31	<u>\$ 22,148</u>	<u>22,317</u>

(3) Changes in fair value of plan assets

Changes in fair value of defined benefit plan assets of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Fair value of plan assets on January 1	\$ 23,678	29,330
Interest income	217	318
Remeasurement of net defined benefit liability (asset)		
- Return on plan assets (excluding current interest)	1,141	1,136
Amount contributed to the plan	755	507
Benefits paid by the plan	(243)	(7,613)
Fair value of plan assets on December 31	<u>\$ 25,548</u>	<u>23,678</u>

(4) The Consolidated Company had no upper limit impact on defined benefit plan assets in 2020 and 2019.

(5) Expenses recognized as profit and loss

The expenses recognized as profit and loss of the Consolidated Company in 2020 and 2019 are as follows:

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

	<u>2020</u>	<u>2019</u>
Net interest from net defined benefit liability (asset)	\$ <u>(16)</u>	<u>(2)</u>

Operating costs	\$ <u>(16)</u>	<u>(2)</u>
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- (6) Remeasurement of net defined benefit liability (asset) recognized as other comprehensive income

The remeasurement of the net defined benefit liability (asset) accumulated and recognized as other comprehensive income of the Consolidated Company as of December 31, 2020, and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Accumulated balance on January 1	\$ 2,635	1,728
Current recognition	1,268	907
Accumulated balance on December 31	\$ <u>3,903</u>	<u>2,635</u>

- (7) Actuarial assumption

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

	<u>2020.12.31</u>	<u>2019.12.31</u>
Discount rate	0.80%	1.00%
Future salary increase	2.00%	1.75%

Based on the actuarial report, the Consolidated Company is expected to make a contribution payment of NT\$755,000 to the defined benefit plans for the one-year period after the reporting date of 2020.

The weighted average lifetime of the defined benefit plans is 12.5 years.

- (8) Sensitivity analysis

The impact of changes in the main actuarial assumptions to be adopted on the reporting date of December 31, 2020, and 2019 on the present value of defined benefit obligations is as follows:

	Impact on defined benefit obligations	
	<u>Increase</u>	<u>Decrease</u>
December 31, 2020		
Discount rate (change of 0.25%)	(638)	662
Future salary increase (change of 1%)	2,748	(2,427)
December 31, 2019		
Discount rate (change of 0.25%)	(646)	672
Future salary increase (change of 1%)	2,798	(2,455)

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

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

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

2. Defined Contribution Plan

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

The cost of the pension contributions to the Bureau of Labor Insurance for the years ended December 31, 2020, and 2019 amounted to NT\$22,253,000 and NT\$21,895,000, respectively.

3. Short-term Compensated Absences

Details of employee benefit liabilities of the Consolidated Company are as follows:

	<u>2020.12.31</u>	<u>2019.12.31</u>
Short-term compensated absences	<u>\$ 15,057</u>	<u>14,543</u>

(12) Income tax

1. Details of income tax expenses of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current income tax expenses		
Accrued in current year	\$ 164,674	99,498
Surtax on unappropriated earnings	3,554	4,471
Adjustments to income tax expenses of	<u>(1,905)</u>	<u>(3,337)</u>
previous period	166,323	100,632
Deferred tax expense		
Occurrence and reversal of temporary	<u>(10,575)</u>	<u>(3,074)</u>
differences		
Income tax expenses	<u>\$ 155,748</u>	<u>97,558</u>

2. The relationship between the income tax expense and the profit before tax of the Consolidated Company in 2020 and 2019 is adjusted as follows:

	<u>2020</u>	<u>2019</u>
Profit before tax	\$ 782,192	499,914
Income tax calculated according to the domestic tax rate of the location of the Company	156,438	99,983
Adjustments to income tax expenses of previous period	(1,905)	(3,337)
Surtax on unappropriated retained earnings	3,554	4,471
Tax exemption profit	(3,390)	(2,188)
Others	<u>1,051</u>	<u>(1,371)</u>
Total	<u>\$ 155,748</u>	<u>97,558</u>

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

3. Deferred tax assets

(1) Unrecognized deferred tax assets

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

	2020.12.31	2019.12.31
Deductible temporary difference	<u>\$ 803</u>	<u>803</u>

(2) Recognized deferred tax assets

The changes in deferred tax assets in 2020 and 2019 are as follows:

	Provisions	Unrealized construction loss	Cumulative compensated absences	Others	Total
January 1, 2020	\$ 20,491	-	2,905	664	24,060
Recognized in the income statements	<u>9,577</u>	<u>-</u>	<u>102</u>	<u>896</u>	<u>10,575</u>
December 31, 2020	<u>\$ 30,068</u>	<u>-</u>	<u>3,007</u>	<u>1,560</u>	<u>34,635</u>
January 1, 2019	\$ 15,847	2,160	2,314	664	20,985
Recognized in the income statements	<u>4,644</u>	<u>(2,160)</u>	<u>591</u>	<u>-</u>	<u>3,075</u>
December 31, 2019	<u>\$ 20,491</u>	<u>-</u>	<u>2,905</u>	<u>664</u>	<u>24,060</u>

4. The Consolidated Company's business income tax declaration has been approved by the collection authority until 2018, except that Kedge Construction has been approved to 2019.

(13) Capital and other equity

As of December 31, 2020, and 2019, the total authorized capital stock of the Company is NT\$1,200,000,000; the total number of shares is 120,000,000 with a par value of NT\$10 per share, and the number of issued shares is 106,036,000. The payment of all issued shares has been collected.

1. Capital surplus

Details of capital surplus was as follows:

	2020.12.31	2019.12.31
Shares premium	\$ 383,109	383,109
Premium on conversion of convertible bonds	130,766	130,766
Changes in the equity net value of associates and joint ventures recognized by the equity method	2,568	2,568
Unclaimed dividends after effective period	414	361
Others	1,437	1,437
	<u>\$ 518,294</u>	<u>518,241</u>

In accordance with the Company Act, realized capital surplus can only be distributed to shareholders based on their original shareholding percentage as new shares or cash dividends after offsetting losses. The realized capital surplus referred to in the preceding paragraph includes the overage from the issuance of shares over the par value and the proceeds from the receipt of gifts. In accordance with the provisions of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be capitalized, and the combined amount of any portions capitalized may not exceed 10% of the paid-in capital each year.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

2. Retained earnings

The Company's Articles of Association stipulates that the Company's earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance, if any, can be distributed to the shareholders as dividends, and bonus dividends according to the distribution plan proposed by the Board of Directors and submitted to the shareholders' meeting for approval.

The Company will develop towards contracting large-scale constructions and strive for growth and innovation. To continuously maintain sufficient capital to meet the needs of the business, and to take into account the cash required for shareholders, the Company's future cash dividend ratio will be no less than 20% of the total cash and share dividends to be distributed in the current year.

(1) Legal reserve

When there is no loss in the Company, the legal reserve will be used to issue new shares or cash dividends upon resolution by the Shareholders' Meeting, to the limit of the part of the reserve that has exceeded 25% of the paid-in capital.

(2) Earnings distribution

The 2019 and 2018 distributions of earnings were resolved at the shareholders' meetings on June 15, 2020 and June 17, 2019, respectively. The dividends distributed to owners are as follows:

	2019		2018	
	Dividend rate (NT\$)	Amount	Dividend rate (NT\$)	Amount
Dividends to common shareholders:				
Cash dividend	\$ 3	<u>318,107</u>	3	<u>318,107</u>

3. Other equity interest (net after tax)

	Unrealized gains and losses from financial assets at fair value through other comprehensive income	
Balance on January 1, 2020	\$	126,159
Unrealized gain (loss) from financial assets measured at fair value through other comprehensive income		<u>18,494</u>
Balance on December 31, 2020	\$	<u><u>144,653</u></u>
Balance on January 1, 2019	\$	3,177
Unrealized gain (loss) from financial assets measured at fair value through other comprehensive income		<u>122,982</u>
Balance on December 31, 2019	\$	<u><u>126,159</u></u>

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

(14) Earnings per share

The basic and diluted earnings per share of the Company in 2020 and 2019 are calculated as follows:

	2020	2019
Basic earnings per share		
Net profit attributable to ordinary equity holders of the Company	<u>\$ 626,440</u>	<u>402,348</u>
Weighted average number of ordinary shares outstanding	<u>106,036</u>	<u>106,036</u>
	<u>\$ 5.91</u>	<u>3.79</u>
Diluted earnings per share		
Net profit attributable to ordinary equity holders of the Company	<u>\$ 626,440</u>	<u>402,348</u>
Weighted average number of ordinary shares outstanding	106,036	106,036
Impact of potential ordinary shares with the dilution effect		
Influence of potentially diluted shares - employee compensation	711	185
Weighted average number of ordinary shares outstanding (after adjusting the impact of diluting potential ordinary shares)	<u>106,747</u>	<u>106,221</u>
	<u>\$ 5.87</u>	<u>3.79</u>

(15) Revenue from contracts with customers

1. Disaggregation of revenue

	2020	2019
Timing of revenue recognition:		
Gradually transferred constructions over time	\$ 14,123,630	11,456,360
Gradually transferred services over time	6,999	6,082
	<u>\$ 14,130,629</u>	<u>11,462,442</u>

2. Contract balances

	2020.12.31	2019.12.31	2019.1.1
Notes and accounts receivable (including related parties)	\$ 2,828,300	3,040,963	3,393,909
Less: Loss allowance	-	-	-
Total	<u>\$ 2,828,300</u>	<u>3,040,963</u>	<u>3,393,909</u>
Contract asset	\$ 1,441,162	1,594,708	1,209,724
Less: Loss allowance	-	-	-
Total	<u>\$ 1,441,162</u>	<u>1,594,708</u>	<u>1,209,724</u>
Contract liability	<u>\$ 1,525,341</u>	<u>988,111</u>	<u>960,840</u>
construction-			

Please refer to Note VI (IV) for the disclosure of accounts receivable and their impairment.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

The changes in contract assets and contract liabilities are mainly due to the difference between the time when the Consolidated Company transfers commodity or services to clients to meet the performance obligations and the time when clients pay. Therefore, there was no other material change in 2020 and 2019.

(16) Remuneration to employees, Directors and Supervisors

The Company's Articles of Association stipulates that, after annual earnings first offset against any deficit, a minimum of 0.5% shall be allocated as employee remuneration and a maximum of 2% as Directors' and Supervisors' remuneration. However, profits must first be taken to offset against cumulative losses if any.

The Company's estimated remuneration of employees in 2020 and 2019 are NT\$ 33,223,000 and NT\$5,105,000 respectively, and those of Directors and Supervisors are NT\$16,611,000 and NT\$10,209,000 respectively. That is based on the Company's profit before tax before deducting remuneration of employees, Directors, and Supervisors during the period multiplied by the remuneration distribution ratio of employees, Directors, and Supervisors stipulated in the Articles of Association of the Company as the estimated basis, and reported as the operating costs and operating expenses in 2020 and 2019. There is no difference between the remuneration of the employees, Directors, and Supervisors allocated by the aforesaid resolution of the Board of Directors and the amount estimated in the parent company only financial statements for 2020 and 2019. For relevant information, please refer to the Market Observation Post System (MOPS).

(17) Non-operating income and expenses

1. Interest income

Details of interest income of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Loans and receivables	\$ 7,953	5,513
Bank deposits	327	776
	<u>\$ 8,280</u>	<u>6,289</u>

2. Other income

Details of other income of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Dividend income	\$ 18,131	12,870
Rental income	11	11
Other income	4,173	5,465
	<u>\$ 22,315</u>	<u>18,346</u>

3. Other gains or losses

Details of other gains and losses of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Profit (loss) of financial assets at fair value\$ through profit or loss	(6,095)	7,027
Other expenses	(9,072)	-
	<u>\$ (15,167)</u>	<u>7,027</u>

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

4. Financial costs

Details of the financial cost of the Consolidated Company in 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Interest expense		
Bank loans	\$ 2,721	2,044
Others	288	86
	<u><u>\$ 3,009</u></u>	<u><u>2,130</u></u>

(18) Financial instruments

1. Credit Risk

(1) Credit risk exposure

The carrying amount of financial assets represents the maximal amount of credit risk exposure.

(2) The concentration of credit risk

The revenues of the Consolidated Company in 2020 and 2019 are derived from the sales to domestic clients; the clients of the Consolidated Company are concentrated in the construction industry and public works, but mainly companies in the Group, creditworthy companies and government agencies. Therefore, no material concentration of credit risk is found in the evaluation of the Consolidated Company. The Consolidated Company still regularly evaluates the possibility of recovery of accounts receivable and provides the allowance for bad debts also the loss of bad debts is within the expectation of the management.

2. Liquidity Risk

The following table shows the contractual maturity of financial liabilities, including estimated interest but excluding the impact of net amount agreements.

	<u>Carrying amount</u>	<u>Contract cash flow</u>	<u>Within 1 year</u>	<u>1 to 3 years-</u>	<u>3 to 5 years-</u>	<u>Over 5 years</u>
December 31, 2020						
Non-derivative financial liabilities						
Unsecured bank loans	\$ 150,000	151,100	151,100	-	-	-
Notes payable	335,247	335,247	335,247	-	-	-
Accounts payable	3,749,899	3,749,899	1,855,504	1,894,395	-	-
Other payables	315,681	315,681	315,681	-	-	-
Other current liabilities (leases liabilities)	2,159	2,652	2,652	-	-	-
Other non-current liabilities (leases liabilities)	9,722	10,601	-	4,474	1,682	4,445
	<u><u>\$ 4,562,708</u></u>	<u><u>4,565,180</u></u>	<u><u>2,660,184</u></u>	<u><u>1,898,869</u></u>	<u><u>1,682</u></u>	<u><u>4,445</u></u>
December 31, 2019						
Non-derivative financial liabilities						
Unsecured bank loans	\$ 150,000	151,400	151,400	-	-	-
Notes payable	361,911	361,911	361,911	-	-	-
Accounts payable	3,599,351	3,599,351	2,106,886	1,492,465	-	-
Other payables	74,167	74,167	74,167	-	-	-
Other current liabilities (leases liabilities)	122	197	197	-	-	-
Other non-current liabilities (leases liabilities)	4,305	5,427	-	393	393	4,641
	<u><u>\$ 4,189,856</u></u>	<u><u>4,192,453</u></u>	<u><u>2,694,561</u></u>	<u><u>1,492,858</u></u>	<u><u>393</u></u>	<u><u>4,641</u></u>

The Consolidated Company does not expect that the occurrence timing of cash flow analyzed on due date would arrive significantly earlier, or the actual amount would significantly vary.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

3. Interest Rate Analysis

The risk of interest rate exposure on the financial assets and financial liabilities of the Consolidated Company is described in the liquidity risk management of this note.

The following sensitivity analysis is determined by the interest rate risk exposure of derivative and non-derivative instruments on the reporting date. For floating rate liabilities, the analysis method presumes that the amount of outstanding liabilities on the reporting date is outstanding throughout the year. The rate of change used in reporting the interest rate to the key management within the Consolidated Company is 0.5% increase or decrease in the interest rate, which also signifies the management's evaluation of the reasonable range of likely fluctuations in the interest rate.

4. Other Price Risk

On the reporting date, if the price of equity securities fluctuates (two periods of analysis are based on the same basis, assuming that other variable factors remain unchanged), the impact on the comprehensive profit and loss items is as follows:

Securities price on the reporting date	2020		2019	
	Other comprehensive income after tax	After-tax profit or loss	After-tax other comprehensive income	After-tax profit or loss
Up by 10%	\$ 35,755	4,404	33,895	4,405
Down by 10%	\$ (35,755)	(4,404)	(33,895)	(4,405)

5. Fair Value Information

(1) Type and fair value of financial instruments

Financial assets and liabilities measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income are measured at fair value on a repeatability basis. The carrying amount and fair value of various types of financial assets and financial liabilities (including fair value level information, then again the carrying amount of financial instruments not measured by fair value is a reasonable approximation, and the fair value of equity instrument investment lease liabilities without quotation in the active market that cannot be reliably measured, the fair value is not required to be disclosed according to regulations) are listed as follows:

	2020.12.31				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 44,039	44,039	-	-	44,039
Financial assets measured at fair value through other comprehensive income	\$ 363,370	357,545	-	5,825	363,370
Financial assets measured at cost after amortization					
Cash and cash equivalents	\$ 4,108,192	-	-	-	-
Notes receivable and accounts receivable (including related parties)	2,828,300	-	-	-	-
Other financial assets - current-	201,785	-	-	-	-
Other financial assets - non-current-	11,171	-	-	-	-
Subtotal	7,149,448	-	-	-	-
Total	\$ 7,556,857	401,584	-	5,825	407,409

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
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		2020.12.31			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Short-term loans	\$ 150,000	-	-	-	-
Notes payable and accounts payable	4,085,146	-	-	-	-
Other current liabilities (leases liabilities)	2,159	-	-	-	-
Other non-current liabilities (leases liabilities)	9,722	-	-	-	-
Other payables	315,681	-	-	-	-
Total	\$ 4,562,708	-	-	-	-
		2019.12.31			
		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 74,118	74,118	-	-	74,118
Financial assets measured at fair value through other comprehensive income	\$ 344,872	338,952	-	5,920	344,872
Financial assets measured at cost after amortization					
Cash and cash equivalents	\$ 2,526,409	-	-	-	-
Notes receivable and accounts receivable (including related parties)	3,040,963	-	-	-	-
Other financial assets - current-	243,636	-	-	-	-
Other financial assets - non-current-	7,955	-	-	-	-
Subtotal	5,818,963	-	-	-	-
Total	\$ 6,237,953	413,070	-	5,920	418,990
Financial liabilities measured at amortized cost					
Short-term loans	\$ 150,000	-	-	-	-
Notes payable and accounts payable	3,961,262	-	-	-	-
Other current liabilities (leases liabilities)	122	-	-	-	-
Other non-current liabilities (leases liabilities)	4,305	-	-	-	-
Other payables	74,167	-	-	-	-
Total	\$ 4,189,856	-	-	-	-

- (2) Quantitative information of fair value measurement of material unobservable inputs (Level 3)

The fair value measurement of the Consolidated Company is classified as Level 3, mainly including financial assets measured at fair value through other comprehensive income and is conducted through the income approach.

- (3) Fair value evaluation technique of financial instruments measured at fair value
Non-derivative financial instruments

If a financial instrument has a quoted price in an active market, then the active market quotation shall be the fair value. The market price of the major Exchanges and the market price of popular central government bonds judged and released by the Taipei Exchange, which is the basis of the fair values of TWSE/TPEX listed equity instruments and debt instruments with active market quotations.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

If the public quotation of a financial instrument can be obtained from an exchange, broker, underwriter, industry association, pricing service agency or competent authority in a timely and frequent manner, and the price represents the actual and regular fair market transactions, then the financial instrument has an active market quotation. If the above conditions are not met, the market is deemed not active. Generally speaking, large difference in buying and selling price, significant increase of buying and selling price, and few transactions are indexes of market not active.

If the financial instruments held by the Consolidated Company fit into an active market, their fair values are listed according to the categories and attributes as follows :

The stock of a TWSE/TPEX listed company is a financial asset with standard terms and traded in an active market, and its fair value is determined by reference to the market quotation.

In addition to the aforementioned financial instruments with an active market, the fair value of other financial instruments is acquired by valuation technique or by reference to the counterparty quotes. The fair value acquired through valuation technique can refer to the current fair value, the discounted cash flow method or other valuation techniques for financial instruments with similar substantive conditions and characteristics in essence, including the market information available on the combined reporting date using the model (such as the reference yield curve of the OTC market and the average quotation of Reuters commercial promissory note rate).

If the financial instruments held by the Consolidated Company do not fit into the active market, their fair values are listed according to the categories and attributes as follows :

The equity instrument without public quotation: The discounted cash flow model is used to estimate fair value. Its main assumption is that the expected future cash flow of the investee will be measured by discounting the rate of return, reflecting the time value of money and investment risk.

The equity instrument without public quotation: The market comparable company approach is used to estimate the fair value. Its main assumption is based on the estimated earnings before tax, interest, depreciation, and amortization of the investee and the earnings multiplier derived from the market quotation of comparable TWSE/TPEX listed companies. This estimate has adjusted the discount effect of the lack of market liquidity of the equity securities.

(4) Details of changes in Level 3

	Measured at fair value through other comprehensive income		
	Equity instruments without public		
	quotes	Bond investment	Total
January 1, 2020	<u>\$ 5,920</u>	<u>-</u>	<u>5,920</u>
December 31, 2020	<u>\$ 5,825</u>	<u>-</u>	<u>5,825</u>
January 1, 2019	<u>\$ 4,571</u>	<u>-</u>	<u>4,571</u>
December 31, 2019	<u>\$ 5,920</u>	<u>-</u>	<u>5,920</u>

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

The above total profit or loss is reported in "unrealized valuation profit (loss) of financial assets measured at fair value through other comprehensive income." Among them, the assets still held on December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Total profit or loss		
Recognized in other comprehensive income (under unrealized valuation gains and losses from "financial assets at fair value through other comprehensive income")	\$ <u>(95)</u>	<u>1,349</u>

(19) Financial Risk Management

1. Outline

The Consolidated Company is exposed to the following risks due to the use of financial instruments:

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

The notes convey the aforementioned various risk exposure of the Consolidated Company and the objectives, policies, and procedures for the measurement and risk management of the Consolidated Company. For further quantitative disclosure, please refer to the notes in the consolidated financial report.

2. Risk Management Framework

(1) Risk management policies:

In the process of operation, enterprises often encounter many uncertain factors that may threaten their operations. In order to perceive and control them as early as possible and reduce the losses caused by the occurrence of risks, a good risk management policy is essential. The Board of Directors of the Consolidated Company establishes the overall risk management policy in line with the operating strategy, operating environment and department plan. Its main subjects include the aspects of the environment, internal and external operational flow, and strategic decision-making, etc. Furthermore, the Board of Directors shall put forward risk management reports on the resolutions, deliverables, supervision, and subsequent execution process of various risk management issues. So when the future operation and management encounter similar or the same problems, it can refer to the experience and propose better solutions.

(2) Organizational structure of risk management:

Each hierarchy level or department of the Consolidated Company shall be responsible for the risks. Once the situation is found to be wrong, it shall promptly report to the auditing office or the senior executive and seek solutions as soon as possible. The decision-maker shall also take action within the shortest time.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

The organizational structure of risk management of the merged company is as follows:

Name of Organization	Scope of Responsibilities
The Board of Directors	Establish risk management policies Ensure the effective operation and resource allocation of risk management mechanism
Senior Management	Implement risk management decisions of the Board of Directors Coordinate risk management affairs across departments
Auditing Office	Conduct daily risk management audit Supervise risk management activities and report the implementation to the Board of Directors and Supervisors
Other Departments	Consolidate the implementation results of risk management activities Conduct daily risk management operations Determine the risk category depending on environmental changes, and propose the undertaking plan

3. Credit Risk

Credit risk refers to the risk of financial loss due to the failure of the Consolidated Company's clients or counterparties of financial instruments to perform their contractual obligations. It mainly comes from the accounts receivable from clients and securities investment of the Consolidated Company.

(1) Accounts receivable and other receivables

The credit risk exposure of the Consolidated Company is primarily affected by the individual circumstances of each client. The management also considers the statistical data of the Consolidated Company's client base, including the default risk of the client's industry and country, as these factors may affect the credit risk. In order to reduce the credit risk of receivables, the Consolidated Company continuously assesses the financial status of its clients and requires the counterparty to provide collaterals or guarantees when necessary.

(2) Investment

The credit risks of bank deposits, fixed-income investments, and other financial instruments are measured and monitored by the financial department of the Consolidated Company. Given that the trading counterpart and the contract performing party of the Consolidated Company are financial institutions, corporate organizations, and government agencies with good credit, there is no material credit risk because there is no significant doubt about the contract performance.

4. Liquidity Risk

Liquidity risk refers to the risk that the Consolidated Company is unable to deliver cash or other financial assets to settle financial liabilities and fails to perform relevant obligations. The method of managing the liquidity of the Consolidated Company is to ensure that the Consolidated Company has sufficient circulating capital to pay for its due liabilities under normal and stressful conditions, without any risk of unacceptable loss or damage to the reputation of the Consolidated Company.

Generally speaking, the Consolidated Company ensures that there is sufficient cash to meet the needs of expected operating expenses, including the performance of financial obligations, but excluding the potential impact that cannot be reasonably expected under extreme circumstances, such as natural disasters. Moreover, the unused comprehensive loan facilities (including NTD loans, letters of credit, and commercial paper facilities) of the Consolidated Company on December 31, 2020, and 2019 totaled NT\$4,488,003,000 and NT\$3,671,975,000.

5. Market Risk

Market risk refers to the risk that changes in market prices, such as exchange rate, interest rate, and equity instrument price will affect the earnings of the Consolidated Company or the value of the financial instruments it holds. The goal of market risk management is to control the market risk to an acceptable extent and optimize the return on investment.

(1) Interest rate risk

The policy of the Consolidated Company is to ensure that the risk of borrowing interest rate fluctuation is based on fixed interest rates. To achieve this goal, part of this is through the signing of fixed interest rate instruments, and part is through the borrowing floating interest rates, and the use of interest rate swap contracts is attributed to avoid the cash flow variability due to interest rate fluctuations.

(2) Other market price risks

The Consolidated Company has the risk of exposure in equity price due to the equity securities investment of TWSE/TPEX listed companies. The equity investment is not held for trading but a strategic investment. The Consolidated Company has not actively traded such investments, and the managing personnel of the Consolidated Company manage the risks by holding different risk investment portfolios.

(20) Capital management

The goal of the capital management of the Consolidated Company is to ensure the ability to sustain operation to continuously offer the shareholders' remuneration and other stakeholders' interests and to maintain the best capital structure to reduce the cost of capital.

In order to maintain or recapitalize structure, the Consolidated Company may adjust the dividends paid to the shareholders, refund of capital reduction to shareholders, issue new shares, or sell assets to settle the liabilities.

The Consolidated Company is the same as its peers and uses debt to capital ratio as the foundation of capital control. The ratio is calculated by dividing net indebtedness over the capitalization. Net indebtedness is the total liabilities, shown in the balance sheets, less cash and cash equivalents. Capitalization is the entire component of equity (that is, equity, capital surplus, retained earnings, other equity, and non-controlling equity) plus net indebtedness.

The capital management strategy of the Consolidated Company in 2020 is consistent with that in 2019, to ensure financing at a reasonable cost. The debt to capital ratios at December 31, 2020, and 2019 are as follows:

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
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	<u>2020.12.31</u>	<u>2019.12.31</u>
Total Liabilities	\$ 6,364,378	5,535,726
Less: Cash and cash equivalents	<u>(4,108,192)</u>	<u>(2,526,409)</u>
Net liabilities	2,256,186	3,009,317
Total Equity	3,069,278	2,741,122
Adjusted capital	<u>\$ 5,325,464</u>	<u>5,750,439</u>
Debt-to-capital ratio	<u>42%</u>	<u>52%</u>

7. Related-Party Transactions

- (1) The parent company and the ultimate controlling party

Kindom Development Co., Ltd. is the parent company of the Consolidated Company and the ultimate controller of the Group to which it belongs and holds 34.18% of the outstanding ordinary shares of the Consolidated Company. Kindom Development Co., Ltd. has prepared consolidated financial statements for public use.

- (2) Names and relation of related parties

The related parties which have trading with the Consolidated Company within the period of the financial report are as follows:

<u>Name of related parties</u>	<u>Relationship with the Consolidated Company</u>
Kindom Development Co., Ltd.	The parent company of the Company
Kindom Yu San Education Foundation	The entity's chairman is the first-degree relatives of the Company's Directors

- (3) Significant transactions with related parties

1. Sales of services to related parties

The substantial sales amount of the Consolidated Company to related party were as follows:

		<u>2020</u>			
		<u>Total contract amount</u>	<u>Valuated amount</u>	<u>Current valuation amount</u>	<u>Income recognized in the current period</u>
<u>Nature</u>					
Parent company	- Engineering construction	<u>\$ 17,709,729</u>	<u>11,592,336</u>	<u>5,733,902</u>	<u>5,304,012</u>
Kindom Development Co., Ltd.					

		<u>2019</u>			
		<u>Total contract amount</u>	<u>Valuated amount</u>	<u>Current valuation amount</u>	<u>Income recognized in the current period</u>
<u>Nature</u>					
Parent company	- Engineering construction	<u>\$ 20,037,538</u>	<u>10,158,533</u>	<u>5,000,015</u>	<u>5,629,172</u>
Kindom Development Co., Ltd.					

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
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- (1) The constructions contracted by the Consolidated Company from the related parties are compliant to the outsourcing regulations of the related parties, plus a reasonable management fee and profit in accordance with the project budget, and after the price comparison and negotiation procedures, the contract prices are determined after they are submitted to the supervisors for approval.
- (2) In 2020 and 2019, the gross profit margin of the constructions contracted by the Consolidated Company from non-related parties was approximately 1.92% to 19.90% and (1.92) % to 22.92%, and that of the related parties was about 3.74% to 4.94% and 3.85% to 4.94%, respectively.

2. Receivables from related parties and contract assets

The Consolidated Company's receivables from related parties and contract assets are as follows:

<u>Accounting items</u>	<u>Type of related parties</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Notes receivable	Parent company - Kindom Development Co., Ltd.	\$ 1,119,596	1,287,602
Accounts Receivable	Parent company - Kindom Development Co., Ltd.	769,260	625,773
Contract assets	Parent company - Kindom Development Co., Ltd.	131,468	375,043
Contract assets (retention receivables)	Parent company - Kindom Development Co., Ltd.	<u>19,774</u>	<u>21,494</u>
		<u>\$ 2,040,098</u>	<u>2,309,912</u>

The collection period of the Consolidated Company for the related parties is 100% payment with 90-day promissory notes. One or two assessments are performed on general cases in a month, 100% on spot, or 100% for 30 days, or 100% for 90 days.

3. Endorsements/guarantees

On December 31, 2020, and 2019, the Consolidated Company is the joint partner and joint debtor of parent company Kindom Development Co., Ltd. for cooperative development and construction, with the amount of NT\$28,384,000.

4. Leases

In 2020 and 2019, the Consolidated Company leased to parent company Kindom Development Co., Ltd. office building and signed a tenancy agreement concerning the rental market of offices in neighboring areas. The total contract value is NT\$ 294,000 per month. The rental income for both 2020 and 2019 is NT\$3,360,000.

The Consolidated Company leased office building from its parent company Kindom Development Co., Ltd., with a total contract value of NT\$575,000 and NT\$195,000 per month for 2020 and 2019, respectively. The rental expense for 2020 and 2019 is NT\$2,952,000 and NT\$2,229,000, respectively.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
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The Consolidated Company jointly rents office building with the parent company - Kindom Development Co., Ltd., which meets the leases defined in IFRS 16, and recognized interest expenses of NT\$75,000 and NT\$77,000 for 2020 and 2019, respectively. As of December 31, 2020, and 2019, the balance of lease liabilities was NT\$4,305,000 and NT\$4,427,000, respectively, and the amount is listed separately in current and non-current other liabilities based on the maturity date.

5. Others

- (1) In 2020 and 2019, the Consolidated Company donated NT\$5,500,000 and NT\$4,000,000 to Kindom Yu San Education Foundation, a syndicate legal entity, for the promotion of the foundation's business.
- (2) The Consolidated Company entered into a professional service contract with Kindom Development Co., Ltd., the parent company, for the provision of engineering research, recommendation, and education by the Company at a total contract price of NT\$963,000, which was fully settled as of December 31, 2020.

(4) Key management personnel transactions

Remuneration to major management personnel includes:

	2020	2019
Short-term employee benefits	\$ 101,269	66,826
Benefits after retirement	185	168
	<u>\$ 101,454</u>	<u>66,994</u>

8. Pledged Assets

Details of the carrying value of pledged assets by the Consolidated Company were as follows:

Name of assets	Pledge guarantee object	2020.12.31	2019.12.31
Other financial assets - current	Loan facilities collaterals and construction guarantees	\$ 168,484	224,488
Property, plant, and equipment - net	Loan facilities collaterals	53,200	53,200
Net amount of investment property	Loan facilities collaterals	<u>95,353</u>	<u>95,585</u>
		<u>\$ 317,037</u>	<u>373,273</u>

9. Significant Contingent Liabilities and Unrecognized Contract Commitments

(1) Significant unrecognized contract commitments:

1. On December 31, 2020, and 2019, the total amounts of material construction contracts by the Consolidated Company were NT\$44,164,036,000 and NT\$34,837,049,000 respectively, and the payments received according to the contract were NT\$19,796,069,000 and NT\$12,491,856,000 respectively.
2. Approved by the Board of Directors on December 30, 2020, and December 20, 2019, the Consolidated Company committed to donate NT\$6,000,000 and NT\$5,500,000 to the Kindom Yu San Education Foundation in 2021 and 2020 for the promotion of the foundation's business.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
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(2) Contingent liability

In relation to the construction project under Project Code 041A, the neighbor manufacturer alleged that the structural damages on the manufacturer's plants and land were as a result of the Company's construction. As both parties were not able to settle the issue in mediation, the Company and the landlord were sued by the neighbor manufacturer, in the amount of NT\$15,665,000. The Company has yet to assess any contingent liability for this litigation.

10. Significant Disaster Loss

11. Significant Events after the End of the Financial Reporting Period: None.

12. Others

The function of employee benefits, depreciation, depletion, and amortization are summarized as follows:

Function Nature	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Salaries and wages	\$ 492,997	187,774	680,771	430,607	158,989	589,596
Labor insurance and national health insurance	35,926	9,325	45,251	38,139	9,137	47,276
Pension expenses	16,428	5,809	22,237	16,689	5,204	21,893
Other employee benefits expenses	1,027	13,545	14,572	232	12,068	12,300
Depreciation expenses	3,466	8,614	12,080	466	475	941
Depletion expenses	-	-	-	-	-	-
Amortization expenses	-	-	-	-	-	-

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

13. Disclosure Notes

(1) Information on Material Transactions

In 2020, under Regulations Governing the Preparation of Financial Reports by Securities Issuers, information related to material transactions should be disclosed by the Consolidated Company is as the following:

1. Loan of funds to others: none.
2. Endorsement/guarantees for others:

Unit: NT\$ thousand

NO.	Name of endorsement/guarantee provider	Subject of endorsements/guarantees		Limit of Endorsements/guarantees for a Single Entity (Note II)	Maximum balance for this period	Outstanding Endorsements/guarantees - Ending	Actual expenditure	Endorsement guarantee amount secured by the property	The ratio of accumulated endorsement guarantee amount to the net value of the latest financial statements	Limit of Endorsements/guarantees (Note II)	Endorsement/guarantees provided by subsidiaries to parent company	Endorsement/guarantees provided by parent company to subsidiaries	Endorsement/guarantee provided to subsidiary in China
		Company name	Relationship (Note I)										
0	Kedge Construction Co., Ltd.	Kindom Development Co., Ltd.	Parent/Subsidiary Company	\$ 6,138,218	14,192	14,192	14,192	-	0.46%	6,138,218	-	Y	-
1	Dingtian Construction Co., Ltd.	Kindom Development Co., Ltd.	Parent/Subsidiary Company	54,187	14,192	14,192	14,192	-	26.19%	54,187	-	Y	-
1	"	Kedge Construction Co., Ltd.	"	8,128,105	1,376,500	1,376,500	1,376,500	-	2,540.28%	16,256,210	-	Y	-

Note I: Listed below are 7 types of relationship between the endorser and the endorsee, simply indicating the type will do:

- (1) A company with which the Company has business relationship.
- (2) A company in which the Company directly or indirectly holds more than 50% of the voting shares.
- (3) A company that directly or indirectly holds more than 50% of the voting shares in the Company.
- (4) Companies in which the Company holds directly or indirectly 90% or more of the voting rights.
- (5) Where a company fulfills its contractual obligations by providing mutual endorsements for another company in the same industry or for joint builders for purposes of undertaking a construction project.
- (6) Where all capital contributing shareholders make endorsements for their jointly invested company in proportion to their shareholding percentages.
- (7) Where companies in the same industry provide among themselves joint and several securities for a performance bond of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note II: 1. The Company's endorsement method is that the total amount of external endorsements shall not exceed 200% of the net value of the Company's latest financial statements, and the endorsement amount for a single enterprise shall not exceed 200% of the net value of the Company's latest financial statements. The aggregate amount of endorsements/guarantees on all construction projects shall not exceed 10 times of its net equity as stated in its latest financial statement, and the aggregate amount of endorsements/guarantees on a single construction project shall not exceed 5 times of its net equity as stated in its latest financial statements.

2. The endorsement method of Dingtian Construction Co., Ltd. is that the total amount of external endorsement shall not exceed 100% of the net value of the latest financial statements of the Company, and the endorsement amount for a single enterprise shall not exceed 100% of the net value of the latest financial statements of the Company. The aggregate amount of endorsements/guarantees on all construction projects shall not exceed 300 times of its net equity as stated in its latest financial statement, and the aggregate amount of endorsements/guarantees on a single construction project shall not exceed 150 times of its net equity as stated in its latest financial statements.

Note III: The above transactions have been written off at the time of preparation of the consolidated financial statements.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

3. Securities held at the end of the period (excluding investment in subsidiaries, associates and interest in joint ventures):

Unit: NT\$ thousand

Holding company	Types and names of securities	Relationship with the securities issuer	Accounting item	End of period				Maximum shareholding or contribution during the period	Remarks
				Number of shares (thousand shares)	Carrying amount	Shareholding Ratio	Fair value		
Kedge Construction Co., Ltd.	Shares - Kindom Development Co., Ltd.	Kedge Construction Co., Ltd. is its subsidiary	Financial assets measured at fair value through other comprehensive income - non-current	500	\$ 16,825	0.10 %	16,825	0.10%	
Jiequn Investment Co., Ltd.	Shares - Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - current	472	22,043	- %	22,043	- %	
"	Shares - SinoPac Financial Holdings Co., Ltd.	-	"	211	2,417	- %	2,417	- %	
"	Shares - Kindom Development Co., Ltd.	Jiequn Investment is the second-tier subsidiary of that company.	Financial assets measured at fair value through other comprehensive income - non-current	8,518	286,645	1.69 %	286,645	1.69%	
"	Shares - Taiwan Calcom International Computer Graphic Co., Ltd.	-	"	405	-	0.78 %	-	0.78%	
Guanqing Electromechanical Co., Ltd.	Shares - Kindom Development Co., Ltd.	Guanqing Electromechanical is the second-tier subsidiary of that company.	"	1,607	54,075	0.32 %	54,075	0.32%	
"	Shares - Global Views-Commonwealth Publishing Co.	-	"	132	5,825	0.59 %	5,825	0.59%	
"	Shares - Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - current	419	19,579	- %	19,579	- %	

- Accumulated to buy or sell the same marketable securities amount to NT\$300 million or more than 20% of the paid-up capital: None.
- The amount of property acquired reaches NT\$300 million or more than 20% of the paid-in capital: none.
- The amount of property disposal reaches NT\$300 million or more than 20% of the paid-in capital: none.
- Where the amount of goods purchased or sold with related parties reaches NT\$100 million or more than 20% of the paid-in capital: none.

Unit: NT\$ thousand

Purchases (Sales) Company	Name of transaction counterpart	Relationship	Transaction situation				The situation and reason for the difference between the transaction terms and the general transaction		Notes/accounts receivable (or payable)		Remarks
			Purchases/sales	Amount (Note)	As a percentage of total purchase (sales)	Loan period	Unit Price	Loan period	Balance	Ratio to total notes and accounts receivable (payable)	
Kedge Construction Co., Ltd.	Kindom Development Co., Ltd.	An investment company that evaluates Kedge Construction Co., Ltd. by the equity method	041B etc.	\$ (5,733,902)	(37.99)%	Payment by installment following the contract is equivalent to the general transaction.	Equivalent to other transactions	Slightly longer than normal	1,908,630	48.95%	
"	Dingtian Construction Co., Ltd.	Investee of Kedge Construction accounted for using the equity method	043A etc	195,988	1.50%	Payment by installment following the contract is equivalent to the general transaction.	"	Equivalent to other transactions	(19,719)	(0.50)%	
"	Guanqing Electromechanical Co., Ltd.	"	023A etc	128,132	0.98%	"	"	"	(32,994)	(0.83)%	
Dingtian Construction Co., Ltd.	Kedge Construction Co., Ltd.	"	043A etc	(195,988)	(100.00)%	Payment by installment following the contract is equivalent to the general transaction.	"	"	19,719	100.00%	
Guanqing Electromechanical Co., Ltd.	"	"	023A etc	(128,132)	(70.17)%	"	"	"	32,994	68.55%	

Note: Refers to the valuation amount for current period.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Unit: NT\$ thousand

The companies that record such transactions as receivables	Name of transaction counterpart	Relationship of	Balance of receivables from related parties	Turnover rate	Overdue receivables from related parties		Recovery amount of receivables from related parties after the period	Provisions for loss allowance
					Amount	Treatment Method		
Kedge Construction Co., Ltd.	Kindom Development Co., Ltd.	An investment company that evaluates Kedge Construction Co., Ltd. by the equity method	\$ 1,908,630	2.76	-	-	507,020	-

9. Derivative financial instrument transactions: None.

10. Business relationship and significant transactions between parent company and subsidiaries:

No.	Trader's name	Name of the transaction counterpart	Nature of Relationship	Transactions			Ratio consolidated total operating revenue or total assets
				Account	Amount	Terms of transaction	
0	Kedge Construction Co., Ltd.	Guanqing Electromechanical Co., Ltd.	1	Contract liabilities	\$ 11,541	Equivalent to general transactions	0.12%
0	"	"	1	Notes and accounts payables	32,994	"	0.35%
0	"	"	1	Operating costs	134,216	"	0.95%
0	"	Dingtian Construction Co., Ltd.	1	Contract liabilities	8,098	"	0.09%
0	"	"	1	Notes and accounts payables	19,719	"	0.21%
0	"	"	1	Operating costs	177,373	"	1.26%
1	Guanqing Electromechanical Co., Ltd.	Kedge Construction Co., Ltd.	2	Contract assets	11,541	"	0.12%
1	"	"	2	Notes and accounts receivable	32,994	"	0.35%
1	"	"	2	Operating revenue	134,216	"	0.95%
2	Dingtian Construction Co., Ltd.	"	2	Contract assets	8,098	"	0.09%
2	"	"	2	Notes and accounts receivable	19,719	"	0.21%
2	"	"	2	Operating revenue	177,373	"	1.26%

Note I: Instruction for numbering.

1. The parent company is numbered 0.
2. Subsidiaries are numbered in sequence, starting with Arabic numeral 1 according to company type.

Note II: The type of relations with transaction party is marked as follows:

1. Parent company to subsidiary.
2. Subsidiary to parent company.

**Notes to the Consolidated Financial Statements of KEDGE CONSTRUCTION CO., LTD.
and Subsidiaries (continued)**

Note III. The above transactions have been written off at the time of preparing the consolidated financial report.

(2) Information on Reinvestment

The information on the reinvestment of the Consolidated Company in 2020 is as follows:

Unit: thousand NTD/thousand shares

Name of investment company	Investee	Location	Principal business	Original investment amount		Holdings at the end of the period			Highest Ownership Level or Capital Invested during the Period Or Investment Details	Net income (loss) of the investee	Share of profit/loss of investee	Remarks
				End of this period	End of last year	Number of Shares	Ratio	Carrying amount				
Kedge Construction Co., Ltd.	Jiequn Investment Co., Ltd.	Taiwan	General Investment	\$ 163,935	163,935	16,396	99.98%	395,247	99.98%	10,544	10,542	Subsidiary
Kedge Construction Co., Ltd.	Guangqing Electromechanical Co., Ltd.	Taiwan	Electrical equipment installation and fire safety equipment installation, etc.	81,326	81,326	7,747	99.96%	210,000	99.96%	4,082	4,080	"
Jiequn Investment Co., Ltd.	Dingtian Construction Co., Ltd.	Taiwan	The comprehensive construction industry, etc.	16,500	16,500	-	30.00%	16,256	30.00%	757	227	Second-tier subsidiary
Guangqing Electromechanical Co., Ltd.	Dingtian Construction Co., Ltd.	Taiwan	The comprehensive construction industry, etc.	11,105	11,105	-	70.00%	37,931	70.00%	757	530	"
Dingtian Construction Co., Ltd.	ReadyCom eServices Corp.	Taiwan	Information software services and management consultants, etc.	15,000	15,000	1,400	46.67%	20,507	46.67%	1	-	Investments accounted for using equity method

Note: The transactions of the above subsidiaries and second-tier subsidiaries have been written off at the time of preparing the consolidated financial statements.

(3) Information on Investments in Mainland China:

1. Relevant information incl. names and principal business of investees in Mainland China: None.
2. Limit of investment in Mainland China: None.
3. Material transactions with investee companies in Mainland China: None.

(4) Information on Major Shareholders:

Expressed in shares

Name of Major Shareholders	Shareholding (shares)	Shareholding Ratio
Kindom Development Co., Ltd.	36,247,768	34.18%
Yute Investment Co., Ltd.	8,785,536	8.28%

14. Segment Information

The operation department of the Consolidated Company which should be reported is only the construction segment. The construction segment is mainly responsible for the integrated operation and maintenance of construction, management, and other overall works. The information on segment profit and loss, segment assets, and segment liabilities are consistent with the financial statements. Please refer to the consolidated balance sheets and consolidated statements of comprehensive income for details.