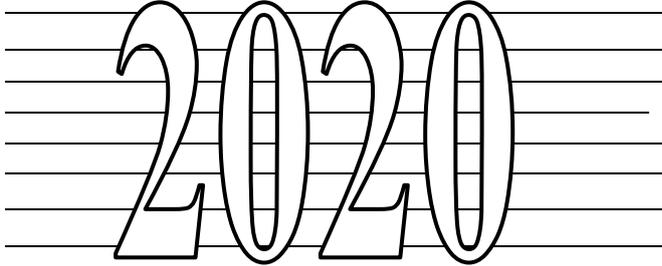


member of CSC Group 中鋼集團 



**中鴻銹鐵股份有限公司**  
**CHUNG HUNG STEEL CORPORATION**



Stock Code: 2014

The Company's website: <http://www.chsteel.com.tw>

TWSE Market Observation Post System website:

<http://mops.twse.com.tw/mops/web/index>

# **Chung Hung Steel Corporation** **2020 General Shareholders' Meeting**

# **Meeting Manual**

Time: 09:30 June 24, 2020 (Wednesday)

Venue: No. 2, Hongyi 1st Rd., Nanzi Dist., Kaohsiung City, Taiwan

CPC Corporation Hongnan Training Classroom (exit of R17 World Games MRT station)

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# **I. Agenda of the Annual Meeting of Shareholders**

Time: 09:30 a.m. (Wednesday) June 24, 2020

Venue: No. 2, Ln. 12, Hongyi 1st Rd., Nanzi Dist., Kaohsiung  
City, Taiwan  
CPC Corporation Hongnan Training Classroom (exit of  
R17 World Games MRT station)

Agenda: i. Call Meeting to Order

ii. Chairman's Speech

iii. Reports

iv. Ratification

v. Matters for Discussion

vi. Other Proposals

vii. Special Motions

viii. Meeting Adjourned

## **II. Reports**

### **i. The Company's 2019 Business and Financial Report**

#### **(i) Business Overview**

Chung Hung shall uphold the business strategy of "making full use of group resources and strengthening production management; gaining information on market trends and maintaining smooth production and sales through joint efforts; improving equipment efficiency and strengthening niche products; strengthening manpower revitalization to pass on knowledge; and commit to environmental safety and health to fulfill social responsibilities. The Company maintains a positive outlook on the steel market and works with upstream and downstream partners to create optimal results.

The short-term forecast published by the World Steel Association in October 2019 predicted that the steel demand will be 1.806 billion tons in 2020 with a 1.7% increase from 1.775 billion tons in 2019 which is lower than the 3.9% growth rate in 2019. The global economy continues to face political and economic uncertainties which affect its growth momentum even as the United States and China concluded the first phase of negotiations in mid-January. In Europe, the Brexit transition period will end on December 31, 2020 and the uncertainties brought forth by Brexit have begun to materialize as its impact on the economy of the United Kingdom and the European Union gradually appears. The military conflicts between the United States and Iran have directly contributed to fluctuations in crude oil prices. China began the year by announcing interest rate cuts which demonstrated the pressure of the immense local debts and corporate debts in China on the central government. With the spread of the epidemic, monetary easing policies will persist across the world this year. In conclusion, the real economy still faces immense challenges in 2020 and whether the epidemic, trade, and geopolitical disputes can be resolved remains undetermined. Steel demand estimates have become relatively conservative.

#### **(ii) Business Plan Implementation Results**

##### **1. Results of production:**

Steel demand has fallen in 2019 due to the impact of the trade war between the United States and China and the Company has adjusted production and sales

plan in response. The combined production of hot-rolled products, cold-rolled products, steel pipes, and galvanized products in 2019 amounted to 2.5047 million tons which was approximately 12.27% lower than the combined output in 2018.

## 2. Results of sales:

The demand for steel products in the global steel market in 2019 has declined due to the impact of the trade war between the United States and China which caused prices to continue to fall. The consolidated sales volume was 2.3044 million tons in 2019 which was a 7.05% decrease from 2018.

In terms of total product sales volume in 2019, domestic sales accounted for 47.15% and exports accounted for 52.85%. Domestic sales declined by 5.70% from the same period in the previous year. In terms of product sales, hot-rolled products accounted for the largest share with 76.47% while cold-rolled products placed second with 12.44%. Steel pipes accounted for 6.03% and galvanized products accounted for 5.06%.

### **(iii) Analysis of Operating Income/Expenses and Profitability**

The after-tax net profit was NT\$11 million in 2019. The operating revenue/expenses and profitability are as follows:

#### 1. Revenue:

The Company's consolidated operating revenue in 2019 was NT\$40.470 billion which was a decrease of approximately 16.11% from the operating revenue of NT\$48.239 billion in 2018.

#### 2. Expenditures:

The Company's consolidated operating costs and consolidated operating expenses in 2019 totaled NT\$40.688 billion which was a 10.31% decrease from NT\$45.363 billion in 2018.

#### 3. Profitability:

The decrease in sales price in 2019 was greater than the decrease in costs and it decreased pre-tax profit by NT\$3.023 billion from 2018.

### **(iv) Research and Development Status**

The Company continues to update the hot rolling, cold rolling, galvanized products, and steel pipe equipment, refine the process, and advance personal quality accountability to improve product quality. It also seeks to develop high add-value

products with steel slab suppliers to improve the Company's overall competitiveness. The Company's material R&D and quality improvement in 2019 were as follows:

1. Product development:

- (1) In terms of the development of cold rolling J4B 0.254 mm×900 mm products, we met customer demands by extending thickness downwards and expanding the scope of purchase orders to produce metal lead frames suitable for light-emitting diodes (LEDs).
- (2) In terms of the development of cold rolling HCH1B 4.15/4.20/4.25 mm products, we improved the DAVY rolling functionality and fully increased the original full hard plate thickness to more than 3.70 mm, making them suitable for hard drive voice coil motors.
- (3) In terms of the development of API 5CT K55 9" steel pipes, we responded to the state's green energy development policy and worked with domestic supply chains to develop a sleeve specifically for geothermal well drilling.
- (4) In terms of the development of API 5L X42/AS/NZS 1163 C350L0 14"×16.0 mm steel pipes, we developed new markets in New Zealand and Australia to avoid the risks of excessive reliance on the American market. The maximum production thickness was increased from 12.7mm.

2. Product quality improvements:

- (1) Reduced the break-off rust on hot-rolled API steel pipe materials in hot-rolling.
- (2) Reduced the occurrence of hot-rolled Tail Pinch.
- (3) Improved the achievement rate of crowning of fineblanking materials in hot rolling.
- (4) Improved the coiling form quality of hot-rolled steel coils.
- (5) Increased the cleanliness of the steel plate surface on the washing line in cold rolling.
- (6) Increased the flatness of pickled steel coils in the Pickling and Galvanizing Department.

3. Process research:

Improved the rust discrepancies in high-grade hot-rolled pickled steel coils.

4. Equipment technology establishment:

Improved the hot rolling skin pass mill for producing high-grade hot-rolled

pickled steel coils, No. 2 furnace boiler tube and skid replacement project, cold-rolling annealing CQ2 mechanical adjustments and establishment of carbide control technologies, update of the cold-rolling tension leveler thickness meter, refurbishment of the 10-ton boiler system for cold-rolling, additional equipment monitoring and diagnosis system for the air compressor for cold-rolling, cold-rolling chock bearing housing dismantling device, Pickling and Galvanizing Department air compressor update, Pickling and Galvanizing Department cold-rolling groundwater recycling and reuse construction, phase 2 of the electrical control system improvement project for the cranes in the Pickling and Galvanizing Department, establishment of heat treatment simulation and test capabilities for the production of steel pipes, added No. 4 pipe rolling and straightening equipment construction project for Lukang Plant, and purchased steel forging simulation and analysis software for Lukang Plant.

**(v) Summary of 2020 Business Plan**

The Company's consolidated sales target for all products this year (2020) is 2.1 million tons with 55.29% in domestic sales and 44.71% for exports. Hot-rolled products account for the largest share with 79.35% while cold-rolled products place second with 12.00%. Steel pipe products account for 5.27% and galvanized products account for 3.38%. The management team will dedicate full efforts on achieving and exceeding goals.

Faced with drastic changes in the global steel industry, Chung Hung will continue to "maintain stability in operating performance", "ensure supply of materials for slabs", and "optimize customer services and relations" to effectively consolidate Chung Hung's competitiveness and fully commit to enhancing customer services and relations, create positive cycles of mutual trust, and increase the demand of domestic users for purchasing materials from Chung Hung. In addition, as Chung Hung and China Steel Corporation are responsible for different products, we shall continue to cooperate with the Group's production and sales strategy and work closely with users to achieve better balance, make full use of complementary advantages of the Group, and create win-win for all.

**ii. The Audit Committee's Review Report on Statements for 2019**

Chung Hung Steel Corporation

Audit Committee's Audit Report

Hereby approves

The Company's 2019 Individual Financial Report and Consolidated Financial Report (audited and certified by CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu of Deloitte, Taiwan), Business Report, and Earnings Distribution Proposal prepared by the Board of Directors were audited by the Audit Committee, who found them to be compliant with regulations. The Audit Report is therefore provided in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and filed for approval.

Please review and assess the preceding items.

Respectfully submitted to

The Company's 2020 General Shareholders Meeting

Audit Committee, Chung Hung Steel Corporation

Convener: Juh-Shan Chiou

February 26, 2020

**iii. Report on the 2019 distribution of remuneration to employees and Directors.**

**Proposed by the Board of Directors**

Explanation:

- i. Processed in accordance with Article 28 of the Company's Articles of Incorporation and Jing-Shang No. 10402436190 Letter of the Ministry of Economic Affairs dated January 4, 2016.
- ii. According to Article 28 of the Articles of Incorporation passed by the shareholders' meeting on June 24, 2016, the Company's remuneration for employees and Directors shall be no lower than 1‰ and under 1% of the earnings before tax of the year before deducting remuneration for employees and Directors and after making up for losses.
- iii. The profitability shall be based on the applicable explanations provided by the Ministry of Economic Affairs after the promulgation of the amendments: The Articles of Incorporation shall include provisions on remuneration of employees as well as remuneration of Directors. When calculating employee and director remuneration, the Company shall use the profits before tax deducted by pre-tax interest for distribution of remuneration to employees and Directors.
- iv. The allocated remuneration for Directors for 2019 was NT\$0 and remuneration shall not be distributed this year. The allocated remuneration for employees was NT\$10,896 which meets requirements in Article 28 of the Company's Articles of Incorporation and all remuneration shall be distributed in cash.

**iv. Report on the Amendment of the Company's "Corporate Governance Best Practice Principles".**

**Proposed by the Board of Directors**

Explanation:

- i. The amendment is implemented in accordance with the amendment of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" promulgated by Taiwan Stock Exchange in the Tai-Zheng-Zhi-Li No. 1090002299 Letter on February 13, 2020 and the Company's actual operations.
- ii. Article 1.3, Article 2.2, Article 2.3, Article 3, Article 3.1.7, Article 3.1.8, Article 3.3.2, Article 3.4.3, Article 3.4.4, Article 3.5.1, Article 3.5.3, Article 3.6.1, Article 3.6.3, Article 3.7.5, Article 3.8.1, Article 3.10.2, Article 3.10.3, and Article 3.12 are amended.
- iii. The comparison table for revised clauses is provided in the Attachment.



## Comparison Table of Revision of Rules

### Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
1.3 The establishment, amendment, and repeal of the Principles shall be implemented after approval in a resolution of the Board of Directors.	1.3 The establishment, amendment, and repeal of the Principles shall be implemented after approval in a resolution of the Board of Directors <u>and the Principles shall be reported to the shareholders' meeting.</u>	The "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" do not require the establishment and amendment of the Principles to be reported to the Board of Directors. Therefore, the procedures for reporting to the Board of Directors are deleted.
2.2 Establishment of the internal control system The Company shall establish an effective internal control system based on the Company and its subsidiary companies' overall operation activities in accordance with the Regulations Governing Establishment of Internal Control Systems by Public Companies. The Company shall conduct reviews at any time to respond to changes in the Company's internal and external environment as well as to ensure that the system design and implementation remain effective. The Company's Board of Directors and management shall review the results of self-assessment of each unit and the audit reports at least once each year. <u>The Audit Committee shall pay attention to the results</u>	2.2 Establishment of the internal control system The Company shall establish an effective internal control system based on the Company and its subsidiary companies' overall operation activities in accordance with the Regulations Governing Establishment of Internal Control Systems by Public Companies. The Company shall conduct reviews at any time to respond to changes in the Company's internal and external environment as well as to ensure that the system design and implementation remain effective. The Company's Board of Directors and management shall review the results of self-assessment of each unit and the audit reports at least once each year. With respect to internal control system reviews, Directors	Paragraph 3 is revised in accordance with Article 3, Paragraph 2 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and the Company's actual operations.

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p><u>and implement supervision.</u> With respect to internal control system reviews, Directors shall <u>communicate with the supervisor of internal audit and follow up on improvements.</u> They shall also report to the Board of Directors <u>the implementation status of audit operations.</u> The Company is advised to establish channels and mechanisms of communication between its independent directors, the Audit Committee, and chief internal auditors <u>and disclose related information on the Company's website and Annual Report.</u></p> <p>Items below are not amended.</p>	<p>shall <u>meet</u> regularly with internal audit <u>personnel and keep minutes of discussions,</u> which shall be followed up and used to implement improvements. They shall also <u>be</u> reported to the Board of Directors. The Company is advised to establish channels and mechanisms of communication between the Audit Committee and chief internal auditors. <u>The convener of the Audit Committee shall also report on the status of communication with the internal audit manager in the shareholders' meeting.</u></p> <p>Items below are not amended.</p>	
<p>2.3 The Company shall designate a corporate governance officer as the highest-ranking officer responsible for related corporate governance affairs <u>in accordance with regulations of the competent authority or Taiwan Stock Exchange Corporation.</u> The officers shall be required to have obtained attorney or accountant licenses or work experience in the securities, financial or futures management field or served in a management role in the legal affairs, <u>compliance, internal audit,</u> finance, stock affairs or related corporate governance units of a public company for more than three years.</p> <p>Items below are not amended.</p>	<p>2.3 The Company shall designate a corporate governance officer as the highest-ranking officer responsible for related corporate governance affairs. The officers shall be required to have obtained attorney or accountant licenses or work experience in the securities, financial or futures management field or served in a management role in the legal affairs, finance, stock affairs, or related corporate governance units of a public company for more than three years.</p> <p>Items below are not amended.</p>	<p>Paragraph 1 of this article is revised in accordance with Article 3-1, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
3. Implementation procedures	3. Implementation instructions	Revised wording.
<p>3.1.7 The Company shall respect the shareholders' right to know, comply with applicable rules regarding information disclosure, and regularly publish Company information with respect to finances, sales, insider shareholdings and corporate governance on the Market Observation Post System or the Company's website to provide information to shareholders.</p> <p><u>To treat all shareholders equally, it is advisable that the Company concurrently disclose the information under the preceding paragraph in English.</u></p> <p>To protect shareholder interests and implement fair treatment of shareholders, the Company shall establish internal regulations stipulating that employees shall not use undisclosed information to engage in the transaction of marketable securities.</p> <p><u>The aforementioned regulations should include the stock exchange control and management measures to be implemented starting from the day the insiders of the companies listed on TWSE or TPEx obtains the Company's financial reports or related business performances.</u></p>	<p>3.1.7 The Company shall respect the shareholders' right to know, comply with applicable rules regarding information disclosure, and regularly publish Company information with respect to finances, sales, insider shareholdings and corporate governance on the Market Observation Post System or the Company's website to provide information to shareholders.</p> <p>To protect shareholder interests and implement fair treatment of shareholders, the Company shall establish internal regulations stipulating that employees shall not use undisclosed information to engage in the transaction of marketable securities.</p>	<p>Paragraphs 2 and 4 of this article are revised in accordance with Article 10, Paragraphs 2 and 4 of the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies".</p> <p>The original Paragraph 2 is moved to Paragraph 3.</p>
3.1.8 Shareholders have the right to share the Company's earnings. In order to protect the investment	3.1.8 Shareholders have the right to share the Company's earnings. In order to protect the investment	A provision to allow the shareholders' meeting to examine

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
interests of shareholders, the shareholder meetings may, pursuant to Article 184 of the Company Act, examine the records and books prepared and submitted by the Board of Directors <u>and the reports of the Audit Committee</u> , and decide profit distributions or loss makeup plans by resolution. The shareholders' meeting may appoint an examiner to conduct the aforementioned examination. Items below are not amended.	interests of shareholders, the shareholder meetings may, pursuant to Article 184 of the Company Act, examine the records and books prepared and submitted by the Board of Directors and decide profit distributions or loss makeup plans by resolution. The shareholders' meeting may appoint an examiner to conduct the aforementioned examination.  Items below are not amended.	reports of the Audit Committee is added to Paragraph 1 of this article in accordance with Article 11, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".
3.3.2 <u>Unless otherwise provided by the law and regulations, a managerial officer of the Company may not serve as a managerial officer of its affiliated enterprises.</u>  A Director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the shareholders' meeting the essential contents of such an act and secure its approval.	3.3.2 A Director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the shareholders' meeting the essential contents of such an act and secure its approval.	Paragraph 1 of this article is added in accordance with Article 15, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies". The original Paragraph 1 is moved to Paragraph 2.
3.4.3 The Company <u>shall follow the regulations of the competent authority</u> and specify that the <u>election of Directors must</u> be implemented with the candidate nomination system in the Articles of Incorporation. It shall carefully review the qualifications of the nominees and whether any of them exhibit circumstances as	3.4.3 The Company follows the regulations in the <u>Company Act</u> and specifies the candidate nomination system for the <u>election of Directors in</u> the Articles of Incorporation. It shall carefully review the qualifications of the nominees and whether any of them exhibit circumstances as prescribed in Article 30 of the	This article is revised in accordance with Article 22 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
prescribed in Article 30 of the Company Act. The process shall be completed in accordance with Article 192-1 of the Company Act.	Company Act. The process shall be completed in accordance with Article 192-1 of the Company Act.	
3.4.4 The responsibilities of the Company's Chairman and President shall be clearly divided. The Chairman and President should not be the same individual.  Items below are not amended.	3.4.4 The responsibilities of the Company's Chairman and President shall be clearly divided. The Chairman and President should not be the same individual. <u>Where the Chairman and President are the same individual, spouses, or relatives within the first degree of kinship, the Company should appoint additional Independent Directors and more than half of the Directors should not be comprised of employees or managerial officers.</u>  Items below are not amended.	The second half of Paragraph 2 of this article is deleted in accordance with Article 23, Paragraph 2 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".
3.5.1 The Company <u>shall</u> appoint more than three Independent Directors in accordance with the Articles of Incorporation. The number of Independent Directors shall not be lower than 1/5 of all Directors.  Items below are not amended.	3.5.1 The Company <u>may</u> appoint more than three Independent Directors in accordance with the Articles of Incorporation. The number of Independent Directors shall not be lower than 1/5 of all Directors.  Items below are not amended.	Paragraph 1 of this article is revised in accordance with Article 24, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".
3.5.3 The Company and other members of the Board of Directors may not obstruct, refuse, or deny Independent Directors in their performance of business. The Company shall determine the	3.5.3 The Company and other members of the Board of Directors may not obstruct, refuse, or deny Independent Directors in their performance of business. The Company shall determine the	This article is revised in accordance with Article 26, Paragraph 2 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
remuneration of Directors according to the related regulations, <u>which shall fully reflect individual performance and long-term operation performance of the Company, and the risk of the Company's operation shall be taken into consideration.</u> It may establish a separate but reasonable set of remuneration rules for Independent Directors.	remuneration of Directors according to the related regulations and it may establish a separate but reasonable set of remuneration rules for Independent Directors.	
3.6.1 The Company's Board of Directors may establish an Audit Committee, Remuneration Committee, and other functional committees to strengthen supervision functions and management based on the Company's scale, nature of business, and the number of board members.  Items below are not amended.	3.6.1 The Company's Board of Directors may establish an Audit Committee, Remuneration Committee, and other functional committees to strengthen supervision functions and management based on the Company's scale, nature of business, <u>scale of the Board of Directors, and number of Independent Directors.</u>  Items below are not amended.	Paragraph 1 of this article is revised in accordance with Article 27, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".
3.6.3 The Company has established a Remuneration Committee and more than half of the member <u>shall</u> consist of Independent Directors. Their professional qualifications of the members, exercise of powers, establishment of its organization structure, and related items shall be processed in accordance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed	3.6.3 The Company has established a Remuneration Committee and more than half of the member <u>should</u> consist of Independent Directors. Their professional qualifications of the members, exercise of powers, establishment of its organization structure, and related items shall be processed in accordance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed	This article is amended in accordance with Article 12, Paragraph 1 of the "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
on the Stock Exchange or Traded Over the Counter” and the Company’s Charter of the Remuneration Committee.	on the Stock Exchange or Traded Over the Counter” and the Company’s Charter of the Remuneration Committee.	Powers”.
3.7.5 The following issues shall be raised for discussion in board meetings of the Company: (1) The Company’s Business Plan. (2) The Annual Financial Report. (3) Establishment or amendment to the internal control system and review of its effectiveness. (4) Establishment or amendments to asset acquisition/disposal procedures, derivative trading procedures, procedures on loans to others, endorsement and guarantee procedures, and other procedures of major financial consequences. (5) Offering, issuance, or private placement of securities with equity characteristics. (6) <u>Performance assessment and the standard of remuneration of the managerial officers.</u> (7) <u>Structure and system for the remuneration of Directors.</u> (8) Appointment and removal of the financial, accounting, or internal auditing officers. (9) Donations to related parties or major donations to non-related parties. However, in the event of a major natural disaster, emergency aids of charitable nature can be made	3.7.5 The following issues shall be raised for discussion in board meetings of the Company: (1) The Company’s Business Plan. (2) The Annual Financial Report. (3) Establishment or amendment to the internal control system and review of its effectiveness. (4) Establishment or amendments to asset acquisition/disposal procedures, derivative trading procedures, procedures on loans to others, endorsement and guarantee procedures, and other procedures of major financial consequences. (5) Offering, issuance, or private placement of securities with equity characteristics.  (6) Appointment and removal of the financial, accounting, or internal auditing officers. (7) Donations to related parties or major donations to non-related parties. However, in the event of a major natural disaster, emergency aids of charitable nature can be made	1. Paragraph 1 of this article is revised in accordance with Article 35, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies". A provision is added to require the proposals for the performance evaluation and remuneration standards of managerial officers and the structure and system for the remuneration of Directors to be filed to the Board of Directors for discussion. 2. Revised numbering of the articles.

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>first and ratified later in the next board meeting.</p> <p>(10) Decisions that shall be resolved through a shareholders' meeting or a board meeting according to Article 14-3 of the Securities and Exchange Act, the Articles of Incorporation or other laws, and any major issues prompted by the competent authority.</p> <p>Items below are not amended.</p>	<p>first and ratified later in the next board meeting.</p> <p>(8) Decisions that shall be resolved through a shareholders' meeting or a board meeting according to Article 14-3 of the Securities and Exchange Act, the Articles of Incorporation or other laws, and any major issues prompted by the competent authority.</p> <p>Items below are not amended.</p>	
<p>3.8.1 Board members shall perform duties and exercise due care of a prudent manager. They shall also exercise their powers with high levels of self-discipline and prudence. Business operations shall be executed pursuant to the resolutions to be adopted by the Board of Directors except for matters that require resolutions of the shareholders' meeting as specified in laws or the Articles of Incorporation of the Company.</p> <p><u>The performance evaluation of the Company's Board of Directors shall be processed in accordance with the "Regulations Governing the Evaluation of the Performance of the Board of Directors".</u></p>	<p>3.8.1 Board members shall perform duties and exercise due care of a prudent manager. They shall also exercise their powers with high levels of self-discipline and prudence. Business operations shall be executed pursuant to the resolutions to be adopted by the Board of Directors except for matters that require resolutions of the shareholders' meeting as specified in laws or the Articles of Incorporation of the Company.</p>	<p>Paragraph 2 of this article is added in accordance with the Company's "Regulations Governing the Evaluation of the Performance of the Board of Directors".</p>
<p>3.10.2 To ensure the accurate and timely disclosure of important information of the Company, Vice Presidents with a comprehensive understanding of the Company's finances and business or who is able to</p>	<p>3.10.2 To ensure the accurate and timely disclosure of important information of the Company, Vice Presidents with a comprehensive understanding of the Company's finances and business or who is able to</p>	<p>Paragraph 3 of this article is revised in accordance with Article 2.7 of the Company's "Management Procedures for</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<p>coordinate with departments to provide relevant information and speak on behalf of the Company to external parties shall be appointed as the Company's spokesperson and deputy spokespersons.</p> <p>The Company shall also appoint deputy spokespersons. Deputy spokespersons shall be able to stand in when the spokesperson is unable to perform its duties.</p> <p>To ensure effective use of the spokesperson, the Company <u>established regulations for processing internal material information</u> and requires the management and employees to comply with duties of confidentiality regarding financial data and refrain from making any unauthorized external disclosure of information.</p> <p>Items below are not amended.</p>	<p>coordinate with departments to provide relevant information and speak on behalf of the Company to external parties shall be appointed as the Company's spokesperson and deputy spokespersons.</p> <p>The Company shall also appoint deputy spokespersons. Deputy spokespersons shall be able to stand in when the spokesperson is unable to perform its duties.</p> <p>To ensure effective use of the spokesperson, the Company shall require management and employees to comply with duties of confidentiality regarding financial data and refrain from making any unauthorized external disclosure of information.</p> <p>Items below are not amended.</p>	<p>Handling Internal Material Information and Prevention of Insider Trading".</p>
<p>3.10.3 The Company <u>shall</u> take advantage of Internet resources and establish a website to provide financial data of the Company and information on corporate governance for shareholders and stakeholders. An English version website should be available to provide information on corporate governance and other information.</p> <p>Items below are not amended.</p>	<p>3.10.3 The Company <u>should</u> take advantage of Internet resources and establish a website to provide financial data of the Company and information on corporate governance for shareholders and stakeholders. An English version website should be available to provide information on corporate governance and other information.</p> <p>Items below are not amended.</p>	<p>Paragraph 1 of this article is revised in accordance with Article 57, Paragraph 1 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".</p>
<p>3.12 The Company shall at all times <u>monitor domestic and</u></p>		<p>This article is added in accordance with</p>

Name of Rules: Corporate Governance Best Practice Principles

Clause after Revision	Existing Clauses	Description
<u>international developments in corporate governance as a basis for review and improvement of the company's own corporate governance mechanisms to enhance their effectiveness.</u>		Article 60 of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies".

**v. Implementation status of the Company's first tranche of unsecured ordinary corporate bonds in 2020.**

**Proposed by the Board of Directors**

Explanation:

- i. It is processed in accordance with Article 246 of the Company Act.
- ii. The Company completed the issuance of its first tranche of unsecured ordinary corporate bonds in 2020 totaling NT\$2 billion on March 27, 2020. The corporate bonds issuance conditions were as follows:
  1. Total issuance amount: NT\$2 billion.
  2. Issuance period: 5 years from March 27, 2020 to March 27, 2025.
  3. Par value: NT\$1 million.
  4. Issuing price: Issued at 100% of face value on the issuance date.
  5. Coupon rate: Fixed annual interest rate at 0.78%.
  6. Interest repayment method: Paid once each year at simple interest starting from the issuance date based on the coupon rate.
  7. Principal repayment method: Principal repayment in full at the expiry of the issuance period.

### **III. Ratification**

**Agenda item #1**

**Proposed by the Board of Directors**

Agenda: The Company's 2019 business report and financial statements are filed for ratification.

Explanation: The Company's 2019 Individual Financial Statements and Consolidated Financial Statements have been audited and certified by CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu of Deloitte, Taiwan. The Audit Committee submitted the Audit Report which found them to be compliant with regulations.

Resolution:

## Attachment

### 2019 Business Report

#### i. Business Strategy

Vision: Chung Hung maintains ethical business operations and strives to become a sustainable, reliable, and approachable steel company.

Philosophy: Flexibility in response to changes, streamlined efficiency, development of niches, and value creation

Tangible actions: ◎ Making full use of group resources and strengthening production management

◎ Gaining information on market trends and maintaining smooth production and sales through joint efforts

◎ Improving equipment efficiency and strengthening niche products

◎ Strengthening manpower revitalization to pass on knowledge

◎ Commit to environmental safety and health to fulfill social responsibilities

#### ii. Implementation Overview

1.The Company's consolidated operating revenue in 2019 was NT\$40.470 billion which was a decrease of approximately 16.11% from the operating revenue of NT\$48.239 billion in 2018. Consolidated operating costs and consolidated operating expenses totaled NT\$40.688 billion which was a 10.31% decrease from NT\$45.363 billion in 2018.

2.The following new products were developed in 2019: Development of cold-rolling J4B 0.254 mm×900 mm products, cold-rolling HCH1B 4.15/4.20/4.25 mm products, API 5CT K55 9" steel pipes, and API 5L X42/AS/NZS 1163 C350L0 14"×16.0 mm steel pipes.

3.The Company continues to update various plant equipment, make improvements, and optimize the process control system to improve product quality and grade and expand the variety of steel types for production. The specific accomplishments in 2019 are as follows:

- (1)Reduced the break-off rust on hot-rolled API steel pipe materials in hot-rolling.
  - (2)Increased the flatness of pickled steel coils in the Pickling and Galvanizing Department.
- 4.The Company implements occupational safety systems such as ISO 45001 and CNS 45001 and it received the following honors from related agencies for its outstanding performance:
- (1)The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2018" and received the "2018 Outstanding Occupational Safety and Health Unit" award from the Ministry of Labor, Executive Yuan on September 10, 2019.
  - (2)The Section Chief Ming-Lung Sun of the Cold Rolling Department was recognized as an "Excellent Employee for Promoting Occupational Safety and Health in Kaohsiung City in 2018" and received the "2018 Excellent Employee for Promoting Occupational Safety and Health Award" from the Ministry of Labor, Executive Yuan on September 10, 2019.
  - (3)The Hot Rolling Department, Cold Rolling Department, and Dafa Steel Pipe Plant received the "Special Award" for safety and health performance in 2018 from Taiwan Steel & Iron Industries Association on November 5, 2019.
  - (4)The Cold Rolling Department received the "Health Management Award" for outstanding workplace health in 2019 from the Health Promotion Administration of the Ministry of Health and Welfare on December 12, 2019.
- 5.The Company implements ISO 14001 and ISO 50001 to strengthen environment and energy management, actively conserve energy and reduce waste, and fulfill its corporate social responsibilities. It received recognition for its outstanding performance as company responsible for air quality improvements in Kaohsiung Clean Air Quality Region in 2018 from the Environmental Protection Bureau of Kaohsiung City Government on March 8, 2019.
- 6.Certifications:
- (1)The Hot Rolling Department passed the product licensing exchange review in Thailand (TIS).
  - (2)The Pickling and Galvanizing Department passed "Steel and Iron Industry Radiation Personnel Detection Operations Certification".

- (3)The Hot Rolling Department and Cold Rolling Department passed the product licensing exchange review in Malaysia (MS).
- (4)The Hot Rolling Department passed the SIRIM certification (English version) exchange review in Malaysia.
- (5)Lukang Steel Pipe Plant updated the API-5CT certificate.
- (6)Dafa Steel Pipe Plant completed the renewal of the CNS Mark certificate.
- (7)Passed ISO 45001:2018 Management System certification.
- (8)Passed CNS 45001:2018 Management System certification.
- (9)Passed ISO 50001:2018 Management System certification.
- (10)The Pickling and Galvanizing Department passed IATF 16949:2016 certification.
- (11)Passed ISO/IEC 17025:2017 Laboratory Management System certification.
- (12)Received the 2019 Sports Company Certification from the Sports Administration.

#### 7.Awards received:

- (1)Received recognition for 2018 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City Government on June 5, 2019.
- (2)Received the 2018 Award for International Trade (Best Trade Contribution Award) from the Bureau of Foreign Trade of the Ministry of Economic Affairs on October 23, 2019.
- (3)Received the Corporate Sustainability Report Award and Top 50 Corporate Comprehensive Performance Award in the 2019 Taiwan Corporate Sustainability Awards on November 28, 2019.

### **iii. Business Plan Implementation Results**

#### 1.Production plan implementation status:

Steel demand declined in 2019 due to the impact of the trade war between the United States and China. The Company adjusted its production and sales plan in response and the product output compared to the previous year is listed as follows:

Item \ Year	2019 Output (10,000 tons)	2018 Output (10,000 tons)	Difference (10,000 tons)	Difference%
Hot-rolled products	209.11	225.25	-16.14	-7.17%
Cold-rolled products	26.28	39.98	-13.70	-34.27%
Steel pipe products	13.68	17.40	-3.72	-21.38%
Galvanized products	1.40	2.86	-1.46	-51.05%
Total	250.47	285.49	-35.02	-12.27%

## 2.Sales plan implementation status:

The demand for steel products in the global steel market in 2019 has declined due to the impact of the trade war between the United States and China which caused prices to continue to fall. The consolidated sales volume was 2.3044 million tons in 2019 which was a 7.05% decrease from 2018.

## iv. Analysis of Operating Income/Expenses and Profitability

The after-tax net profit was NT\$11 million in 2019. The operating revenue/expenses and profitability are as follows:

### 1.Revenue:

The consolidated operating revenue in 2019 was NT\$40.470 billion which was a decrease of approximately 16.11% from the operating revenue of NT\$48.239 billion in 2018.

### 2.Expenditures:

Consolidated operating costs and consolidated operating expenses totaled NT\$40.688 billion in 2019 which was a 10.31% decrease from NT\$45.363 billion in 2018.

### 3.Profitability:

The decrease in sales price in 2019 was greater than the decrease in costs and it decreased pre-tax profit by NT\$3.023 billion from 2018.

## v. **Research and Development Status**

The Company continues to update the hot rolling, cold rolling, galvanized products, and steel pipe equipment, refine the process, and advance personal quality accountability to improve product quality. It also seeks to develop high add-value products with steel slab suppliers to improve the Company's overall competitiveness. The Company's material R&D and quality improvement in 2019 were as follows:

### 1. Product development:

- (1) In terms of the development of cold rolling J4B 0.254 mm×900 mm products, we met customer demands by extending thickness downwards and expanding the scope of purchase orders to produce metal lead frames suitable for light-emitting diodes (LEDs).
- (2) In terms of the development of cold rolling HCH1B 4.15/4.20/4.25 mm products, we improved the DAVY rolling functionality and fully increased the original full hard plate thickness to more than 3.70 mm, making them suitable for hard drive voice coil motors.
- (3) In terms of the development of API 5CT K55 9" steel pipes, we responded to the state's green energy development policy and worked with domestic supply chains to develop a sleeve specifically for geothermal well drilling.
- (4) In terms of the development of API 5L X42/AS/NZS 1163 C350L0 14"×16.0 mm steel pipes, we developed new markets in New Zealand and Australia to avoid the risks of excessive reliance on the American market. The maximum production thickness was increased from 12.7mm.

### 2. Product quality improvements:

- (1) Reduced the break-off rust on hot-rolled API steel pipe materials.
- (2) Reduced the occurrence of hot-rolled Tail Pinch.
- (3) Improved the achievement rate of crowning of fineblanking materials in hot rolling.
- (4) Improved the coiling form quality of hot-rolled steel coils.
- (5) Increased the cleanliness of the steel plate surface on the washing line in cold rolling.

(6)Increased the flatness of pickled steel coils in the Pickling and Galvanizing Department.

3.Process research:

Improved the rust discrepancies in high-grade hot-rolled pickled steel coils.

4.Equipment technology establishment:

Improved the hot rolling skin pass mill for producing high-grade hot-rolled pickled steel coils, No. 2 furnace boiler tube and skid replacement project, cold-rolling annealing CQ2 mechanical adjustments and establishment of carbide control technologies, update of the cold-rolling tension leveler thickness meter, refurbishment of the 10-ton boiler system for cold-rolling, additional equipment monitoring and diagnosis system for the air compressor for cold-rolling, cold-rolling chock bearing housing dismantling device, Pickling and Galvanizing Department air compressor update, Pickling and Galvanizing Department cold-rolling groundwater recycling and reuse construction, phase 2 of the electrical control system improvement project for the cranes in the Pickling and Galvanizing Department, establishment of heat treatment simulation and test capabilities for the production of steel pipes, added No. 4 pipe rolling and straightening equipment construction project for Lukang Plant, and purchased steel forging simulation and analysis software for Lukang Plant.

Chairman:  
Min-Hsiung Liu

Managerial Officer:  
Kung-Ching Wu

Chief Accounting Officer:  
Pei-Yu Lee

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the shareholders  
Chung Hung Steel Corporation

### **Opinion**

We have audited the accompanying standalone financial statements of Chung Hung Steel Corporation (the "Corporation"), which comprise the standalone balance sheets as of December 31, 2019 and 2018, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying standalone financial statements present fairly, in all material respects, the standalone financial position of the Corporation as of December 31, 2019 and 2018, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Corporation's standalone financial statements for the year ended December 31, 2019 are stated as follows:

#### Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2019 the carrying amount of inventories held by the Corporation was NT\$6,577,637 thousand, which accounted for 21% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel the industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

For the accounting policies on inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the standalone financial statements, respectively.

We focused on the inventory valuation at the end of the reporting period, including evaluation of obsolete inventory and the measurement of inventories during the year. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory and evaluated the adequacy of inventory provision for obsolete goods;
2. We obtained the year-end inventory aging profile and verified its accuracy based on supporting documents and we confirmed that the provision for slow-moving and obsolete inventory was made according to the Corporation's policy;
3. We evaluated the appropriateness of the methodology used to value the inventory at the yearend.
4. We checked the calculation of inventory provision, the market value of inventory from supporting documents and the amounts of inventory.

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 26, 2020

Notice to Readers

*The accompanying standalone financial statements are intended only to present the standalone 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 standalone financial statements are those generally applied in the Republic of China.*

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

# CHUNG HUNG STEEL CORPORATION

## STANDALONE BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 66,137	-	\$ 195,675	1
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	181,351	1	217,281	1
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	791,311	3	802,899	2
Accounts receivable (Notes 4 and 9)	466,017	1	948,932	3
Accounts receivable from related parties (Notes 4, 9 and 29)	45,733	-	183,440	-
Other receivables (Note 9)	6,031	-	16,002	-
Other receivables from related parties (Notes 9 and 29)	539,939	2	344,560	1
Current tax assets (Note 25)	349	-	392	-
Inventories (Notes 4, 5 and 10)	6,577,637	21	8,240,151	25
Prepayments (Note 11)	228,531	1	373,650	1
Non-current assets held for sale (Notes 4 and 12)	-	-	22,525	-
Other financial assets - current (Notes 12, 13 and 30)	300,000	1	302,897	1
Other current assets	1,690	-	6,590	-
<b>Total current assets</b>	<b>9,204,726</b>	<b>30</b>	<b>11,654,994</b>	<b>35</b>
<b>NONCURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4 and 8)	44,843	-	51,219	-
Investments accounted for using equity method (Notes 4 and 14)	2,553,395	9	2,493,577	7
Property, plant and equipment (Notes 4, 15, 30 and 31)	12,552,287	41	13,249,030	40
Right-of-use assets (Notes 3, 4 and 16)	74,901	-	-	-
Investment properties (Notes 4, 12 and 17)	5,984,073	20	5,907,018	18
Prepayments for equipment (Note 31)	42,549	-	57,694	-
Refundable deposits	5,632	-	5,632	-
<b>Total noncurrent assets</b>	<b>21,257,680</b>	<b>70</b>	<b>21,764,170</b>	<b>65</b>
<b>TOTAL</b>	<b>\$ 30,462,406</b>	<b>100</b>	<b>\$ 33,419,164</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 18, 29 and 30)	\$ 5,154,867	17	\$ 6,381,773	19
Short-term bills payable (Note 18)	1,799,550	6	3,198,953	10
Contract liabilities - current (Notes 4, 12 and 23)	285,052	1	96,445	-
Accounts payable (Note 19)	29,672	-	45,304	-
Accounts payable to related parties (Notes 19 and 29)	65,597	-	595,764	2
Other payables (Note 20 and 29)	503,188	2	1,013,366	3
Lease liabilities - current (Notes 3, 4 and 16)	13,273	-	-	-
Current portion of long-term bank borrowings (Notes 18 and 30)	480,000	2	950,000	3
Refund liabilities - current	153,612	-	115,720	-
Other current liabilities	16,434	-	30,974	-
<b>Total current liabilities</b>	<b>8,501,245</b>	<b>28</b>	<b>12,428,299</b>	<b>37</b>
<b>NONCURRENT LIABILITIES</b>				
Long-term bank borrowings (Notes 18 and 30)	4,130,000	13	3,900,000	12
Long-term bills payable (Note 18)	2,609,138	9	1,679,558	5
Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
Lease liabilities - noncurrent (Notes 3, 4 and 16)	62,044	-	-	-
Net defined benefit liabilities (Notes 4, 5 and 21)	373,860	1	430,719	1
Guarantee deposits received (Note 17)	35,000	-	35,120	-
<b>Total noncurrent liabilities</b>	<b>7,392,264</b>	<b>24</b>	<b>6,227,619</b>	<b>19</b>
<b>Total liabilities</b>	<b>15,893,509</b>	<b>52</b>	<b>18,655,918</b>	<b>56</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 22)</b>				
Ordinary shares	14,355,444	47	14,355,444	43
Capital surplus	903	-	903	-
Retained earnings				
Legal reserve	90,450	-	-	-
Special reserve	497,607	2	-	-
Unappropriated earnings	174,071	1	904,506	3
Total retained earnings	762,128	3	904,506	3
Other equity	(549,578)	(2)	(497,607)	(2)
<b>Total equity</b>	<b>14,568,897</b>	<b>48</b>	<b>14,763,246</b>	<b>44</b>
<b>TOTAL</b>	<b>\$ 30,462,406</b>	<b>100</b>	<b>\$ 33,419,164</b>	<b>100</b>

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## STANDALONE STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 29)				
Sales	\$ 39,930,527	99	\$ 47,565,824	99
Service revenue	475,462	1	600,922	1
Other operating revenue	<u>61,527</u>	<u>-</u>	<u>66,975</u>	<u>-</u>
Total operating revenue	40,467,516	100	48,233,721	100
OPERATING COSTS (Notes 10, 24 and 29)	<u>39,225,201</u>	<u>97</u>	<u>43,853,999</u>	<u>91</u>
GROSS PROFIT	<u>1,242,315</u>	<u>3</u>	<u>4,379,722</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,147,701	3	1,117,746	2
General and administrative expenses	<u>312,146</u>	<u>1</u>	<u>390,078</u>	<u>1</u>
Total operating expenses	<u>1,459,847</u>	<u>4</u>	<u>1,507,824</u>	<u>3</u>
PROFIT (LOSS) FROM OPERATIONS	<u>(217,532)</u>	<u>(1)</u>	<u>2,871,898</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)				
Other income	175,463	1	129,822	-
Other gains and losses	73,899	-	79,374	-
Finance costs	(123,047)	-	(139,883)	-
Share of the profit of associates	<u>102,102</u>	<u>-</u>	<u>92,012</u>	<u>-</u>
Total non-operating income and expenses	<u>228,417</u>	<u>1</u>	<u>161,325</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	10,885	-	3,033,223	6
INCOME TAX (Notes 4, 5 and 25)	<u>94</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>10,791</u>	<u>-</u>	<u>3,033,223</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				

(Continued)

## CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

### STANDALONE STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Remeasurement of defined benefit plans	\$ (9,614)	-	\$ (128,800)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,359)	-	(13,975)	-
Share of the other comprehensive income of associates	<u>(38,612)</u>	<u>-</u>	<u>(52,861)</u>	<u>-</u>
	<u>(61,585)</u>	<u>-</u>	<u>(195,636)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<u>\$ (50,794)</u>	<u>-</u>	<u>\$ 2,837,587</u>	<u>6</u>
<b>EARNINGS PER SHARE (Note 26)</b>				
Basic	<u>\$ 0.01</u>		<u>\$ 2.11</u>	
Diluted	<u>\$ 0.01</u>		<u>\$ 2.11</u>	

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## STANDALONE STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)			Other Equity		Total	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for- sale Financial Assets		
BALANCE AT JANUARY 1, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ (2,083,776)	\$ -	\$ (346,912)	\$ (346,912)	\$ 11,925,659
Effect of retrospective application	-	-	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	-	-	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	14,355,444	903	-	-	904,506	(497,607)	-	(497,607)	14,763,246
Appropriation of 2018 earning (Note 22)									
Legal reserve	-	-	90,450	-	(90,450)	-	-	-	-
Special reserve	-	-	-	497,607	(497,607)	-	-	-	-
Cash dividends	-	-	-	-	(143,555)	-	-	-	(143,555)
Net profit for the year ended December 31, 2019	-	-	-	-	10,791	-	-	-	10,791
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	(9,614)	(51,971)	-	(51,971)	(61,585)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,177	(51,971)	-	(51,971)	(50,794)
BALANCE AT DECEMBER 31, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ (549,578)	\$ -	\$ (549,578)	\$ 14,568,897

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## STANDALONE STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 10,885	\$ 3,033,223
Adjustments for:		
Depreciation expense	1,213,635	1,181,132
Net loss (gain) on financial assets at fair value through profit or loss	32,516	(3,057)
Finance costs	123,047	139,883
Interest income	(2,012)	(4,154)
Dividend income	(47,601)	(41,894)
Share of the profit of associates	(102,102)	(92,012)
Loss on disposal of property, plant and equipment	8,491	-
Gain on disposal of non - current assets held for sale	(871)	-
Write-downs of inventories	4,624	417,871
Reversal of impairment loss	(77,532)	-
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	3,414	1,240
Accounts receivable	482,915	342,852
Accounts receivable from related parties	137,707	(15,253)
Other receivables	10,140	(5,579)
Other receivables from related parties	(195,379)	53,949
Inventories	1,657,890	(3,638,397)
Prepayments	144,172	(171,006)
Other current assets	4,900	(198)
Contract liabilities	191,497	(67,300)
Accounts payable	(15,632)	(10,856)
Accounts payable to related parties	(530,167)	(623,501)
Other payables	(497,330)	309,457
Other current liabilities	(14,540)	8,666
Net defined benefit liabilities	(66,473)	(63,837)
Refund liabilities	37,892	(47,715)
Cash generated from operations	2,514,086	703,514
Income taxes paid	(51)	(113)
Net cash generated from operating activities	<u>2,514,035</u>	<u>703,401</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	962
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,605	4,962
Proceeds from the capital reduction on investments accounted for using equity method	674	-
Proceeds from disposal of non-current assets held for sale	20,506	-
Acquisition of property, plant and equipment	(507,531)	(412,440)
Proceeds from disposal of property, plant and equipment	123	-

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## STANDALONE STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Decrease in refundable deposits	\$ -	\$ 215
Decrease in other financial assets	2,897	199,488
Interest received	2,012	4,164
Dividends received from subsidiaries and associates	2,829	1,036
Dividends received from others	<u>47,601</u>	<u>41,894</u>
Net cash used in investing activities	<u>(426,284)</u>	<u>(159,719)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	76,681,921	109,451,453
Repayments of short-term borrowings	(77,908,827)	(110,534,495)
Increase in short-term bills payable	8,700,597	6,870,101
Decrease in short-term bills payable	(10,100,000)	(4,340,997)
Proceeds from long-term borrowings	7,550,000	3,500,000
Repayments of long-term borrowings	(7,790,000)	(3,900,000)
Proceeds from long-term bills payable	2,589,580	1,600,496
Repayments of long-term bills payable	(1,660,000)	(3,070,000)
Decrease in guarantee deposits	(120)	-
Repayments of principal of lease liabilities	(11,222)	-
Dividends paid to owner of the company	(143,555)	-
Interest paid	<u>(125,663)</u>	<u>(139,353)</u>
Net cash used in financing activities	<u>(2,217,289)</u>	<u>(562,795)</u>
NET DECREASE IN CASH	(129,538)	(19,113)
CASH AT THE BEGINNING OF THE YEAR	<u>195,675</u>	<u>214,788</u>
CASH AT THE END OF THE YEAR	<u>\$ 66,137</u>	<u>\$ 195,975</u>

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

(Concluded)

## **REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Chung Hung Steel Corporation as of and for the year ended December 31, 2019, 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 Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Chung Hung Steel Corporation and its subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Chung Hung Steel Corporation

By

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Min-Hsiung Liu  
Chairman

February 26, 2020

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the shareholders  
Chung Hung Steel Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of Chung Hung Steel Corporation (the "Corporation") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

#### Measurement of Inventories

Inventories are one of the significant assets in the balance sheet. As of December 31, 2019 the carrying amount of inventories held by the Group was NT\$6,577,637 thousand, which accounted for 21% of total assets. Due to the fluctuations in the prices of raw materials and finished goods in steel the industry and due to the use of accounting estimates, inventory valuation is deemed to be a key audit matter.

For the accounting policies on inventories and critical accounting estimates and judgments on inventories, refer to Note 4 and Note 5 to the consolidated financial statements, respectively.

We focused on the inventory valuation at the end of the reporting period, including evaluation of obsolete inventory and the measurement of inventories during the year. Our main audit procedures performed included the following:

1. We observed year-end inventory counts and assessed the condition of inventory and evaluated the adequacy of inventory provision for obsolete goods;
2. We obtained the year-end inventory aging profile and verified its accuracy based on supporting documents and we confirmed that the provision for slow-moving and obsolete inventory was made according to the Group's policy;
3. We evaluated the appropriateness of the methodology used to value the inventory at the yearend.
4. We checked the calculation of inventory provision, the market value of inventory from supporting documents and the amounts of inventory.

### **Other Matter**

We have also audited the standalone financial statements of the Corporation as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion and an unmodified opinion with emphasis of a matter paragraphs, respectively.

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 26, 2020

Notice to Readers

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

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 67,028	-	\$ 200,081	1
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	181,351	1	217,281	1
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	791,311	3	802,899	2
Accounts receivable (Notes 4 and 9)	466,017	1	948,932	3
Accounts receivable from related parties (Notes 4, 9 and 29)	45,733	-	183,440	-
Other receivables (Note 9)	6,031	-	16,002	-
Other receivables from related parties (Notes 9 and 29)	541,414	2	348,709	1
Current tax assets (Note 25)	661	-	420	-
Inventories (Notes 4, 5 and 10)	6,577,637	21	8,240,151	25
Prepayments (Note 11)	228,531	1	373,830	1
Non-current assets held for sale (Notes 4 and 12)	-	-	22,525	-
Other financial assets - current (Notes 12, 13 and 30)	301,700	1	302,897	1
Other current assets	1,690	-	6,590	-
Total current assets	9,209,104	30	11,663,757	35
<b>NONCURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4 and 8)	68,838	-	75,565	-
Investments accounted for using equity method (Notes 4 and 14)	2,526,222	9	2,462,217	7
Property, plant and equipment (Notes 4, 15, 30 and 31)	12,552,287	41	13,249,030	40
Right-of-use assets (Notes 3, 4 and 16)	74,901	-	-	-
Investment properties (Notes 4, 12 and 17)	5,984,073	20	5,907,018	18
Prepayments for equipment (Note 31)	42,549	-	57,694	-
Refundable deposits	5,632	-	5,632	-
Total noncurrent assets	21,254,502	70	21,757,156	65
<b>TOTAL</b>	<b>\$ 30,463,606</b>	<b>100</b>	<b>\$ 33,420,913</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 18, 29 and 30)	\$ 5,154,867	17	\$ 6,381,773	19
Short-term bills payable (Note 18)	1,799,550	6	3,198,953	10
Contract liabilities - current (Notes 4, 12 and 23)	285,052	1	96,445	-
Accounts payable (Note 19)	29,672	-	45,304	-
Accounts payable to related parties (Notes 19 and 29)	65,597	-	595,764	2
Other payables (Note 20 and 29)	504,388	2	1,014,578	3
Current tax liabilities (Note 25)	-	-	537	-
Lease liabilities - current (Notes 3, 4 and 16)	13,273	-	-	-
Current portion of long-term bank borrowings (Notes 18 and 30)	480,000	2	950,000	3
Refund liabilities - current	153,612	-	115,720	-
Other current liabilities	16,434	-	30,974	-
Total current liabilities	8,502,445	28	12,430,048	37
<b>NONCURRENT LIABILITIES</b>				
Long-term bank borrowings (Notes 18 and 30)	4,130,000	13	3,900,000	12
Long-term bills payable (Note 18)	2,609,138	9	1,679,558	5
Deferred tax liabilities (Notes 4 and 25)	182,222	1	182,222	1
Lease liabilities - noncurrent (Notes 3, 4 and 16)	62,044	-	-	-
Net defined benefit liabilities (Notes 4, 5 and 21)	373,860	1	430,719	1
Guarantee deposits received (Note 17)	35,000	-	35,120	-
Total noncurrent liabilities	7,392,264	24	6,227,619	19
Total liabilities	15,894,709	52	18,657,667	56
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 22)</b>				
Ordinary shares	14,355,444	47	14,355,444	43
Capital surplus	903	-	903	-
Retained earnings				
Legal reserve	90,450	-	-	-
Special reserve	497,607	2	-	-
Unappropriated earnings	174,071	1	904,506	3
Total retained earnings	762,128	3	904,506	3
Other equity	(549,578)	(2)	(497,607)	(2)
Total equity	14,568,897	48	14,763,246	44
<b>TOTAL</b>	<b>\$ 30,463,606</b>	<b>100</b>	<b>\$ 33,420,913</b>	<b>100</b>

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 29)				
Sales	\$ 39,930,527	99	\$ 47,565,824	99
Investment revenue	1,004	-	884	-
Service revenue	477,071	1	605,202	1
Other operating revenue	<u>61,527</u>	<u>-</u>	<u>66,975</u>	<u>-</u>
Total operating revenue	40,470,129	100	48,238,885	100
OPERATING COSTS (Notes 10, 24 and 29)	<u>39,225,201</u>	<u>97</u>	<u>43,853,999</u>	<u>91</u>
GROSS PROFIT	<u>1,244,928</u>	<u>3</u>	<u>4,384,886</u>	<u>9</u>
OPERATING EXPENSES (Note 24)				
Selling and marketing expenses	1,147,701	3	1,117,746	2
General and administrative expenses	<u>314,816</u>	<u>1</u>	<u>391,363</u>	<u>1</u>
Total operating expenses	<u>1,462,517</u>	<u>4</u>	<u>1,509,109</u>	<u>3</u>
PROFIT (LOSS) FROM OPERATIONS	<u>(217,589)</u>	<u>(1)</u>	<u>2,875,777</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 14, 17, 24 and 29)				
Other income	175,356	1	129,705	-
Other gains and losses	73,899	-	79,374	-
Finance costs	(123,047)	-	(139,883)	-
Share of the profit of associates	<u>102,266</u>	<u>-</u>	<u>88,875</u>	<u>-</u>
Total non-operating income and expenses	<u>228,474</u>	<u>1</u>	<u>158,071</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	10,885	-	3,033,848	6
INCOME TAX (Notes 4, 5 and 25)	<u>94</u>	<u>-</u>	<u>625</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>10,791</u>	<u>-</u>	<u>3,033,223</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 5, 21 and 22)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(9,614)	-	(128,800)	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	(13,710)	-	(14,477)	-

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Share of the other comprehensive income of associates	\$ (38,261)	-	\$ (52,359)	-
	<u>(61,585)</u>	<u>-</u>	<u>(195,636)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ (50,794)	-	\$ 2,837,587	6
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 10,791	-	\$ 3,033,223	6
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ (50,794)	-	\$ 2,837,587	6
EARNINGS PER SHARE (Note 26)				
Basic	\$ 0.01		\$ 2.11	
Diluted	\$ 0.01		\$ 2.11	

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings (Accumulated Deficit)			Other Equity		Total	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain (Loss) on Available-for- sale Financial Assets		
BALANCE AT JANUARY 1, 2018	\$ 14,355,444	\$ 903	\$ -	\$ -	\$ (2,083,776)	\$ -	\$ (346,912)	\$ (346,912)	\$ 11,925,659
Effect of retrospective application	-	-	-	-	84,398	(431,310)	346,912	(84,398)	-
BALANCE AFTER ADJUSTMENT AT JANUARY 1, 2018	14,355,444	903	-	-	(1,999,378)	(431,310)	-	(431,310)	11,925,659
Net profit for the year ended December 31, 2018	-	-	-	-	3,033,223	-	-	-	3,033,223
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(128,800)	(66,836)	-	(66,836)	(195,636)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	2,904,423	(66,836)	-	(66,836)	2,837,587
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	(539)	539	-	539	-
BALANCE AT DECEMBER 31, 2018	14,355,444	903	-	-	904,506	(497,607)	-	(497,607)	14,763,246
Appropriation of 2018 earning (Note 22)									
Legal reserve	-	-	90,450	-	(90,450)	-	-	-	-
Special reserve	-	-	-	497,607	(497,607)	-	-	-	-
Cash dividends	-	-	-	-	(143,555)	-	-	-	(143,555)
Net profit for the year ended December 31, 2019	-	-	-	-	10,791	-	-	-	10,791
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	(9,614)	(51,971)	-	(51,971)	(61,585)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,177	(51,971)	-	(51,971)	(50,794)
BALANCE AT DECEMBER 31, 2019	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ (549,578)	\$ -	\$ (549,578)	\$ 14,568,897

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

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 10,885	\$ 3,033,848
Adjustments for:		
Depreciation expense	1,213,635	1,181,132
Net loss (gain) on financial assets at fair value through profit or loss	32,516	(3,057)
Finance costs	123,047	139,883
Interest income	(2,026)	(4,157)
Dividend income	(48,605)	(42,778)
Share of the profit of associates	(102,266)	(88,875)
Loss on disposal of property, plant and equipment	8,491	-
Gain on disposal of non - current assets held for sale	(871)	-
Write-downs of inventories	4,624	417,871
Reversal of impairment loss	(77,532)	-
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	3,414	1,240
Accounts receivable	482,915	342,852
Accounts receivable from related parties	137,707	(15,253)
Other receivables	9,971	(5,579)
Other receivables from related parties	(192,705)	52,615
Inventories	1,657,890	(3,638,397)
Prepayments	144,352	(171,006)
Other current assets	4,900	(197)
Other financial assets	(1,700)	-
Contract liabilities	191,497	(67,300)
Accounts payable	(15,632)	(10,856)
Accounts payable to related parties	(530,167)	(623,501)
Other payables	(497,342)	309,432
Other current liabilities	(14,540)	8,666
Net defined benefit liabilities	(66,473)	(63,837)
Refund liabilities	37,892	(47,715)
Cash generated from operations	<u>2,513,877</u>	<u>705,031</u>
Income taxes paid	(872)	(242)
Net cash generated from operating activities	<u>2,513,005</u>	<u>704,789</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	962
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	4,605	4,962
Proceeds from disposal of non-current assets held for sale	20,506	-
Acquisition of property, plant and equipment	(507,531)	(412,440)

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Proceeds from disposal of property, plant and equipment	\$ 123	\$ -
Decrease in refundable deposits	-	215
Decrease in other financial assets	2,897	199,488
Interest received	2,026	4,167
Dividends received from others	<u>48,605</u>	<u>42,778</u>
Net cash used in investing activities	<u>(428,769)</u>	<u>(159,868)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	76,681,921	109,451,453
Repayments of short-term borrowings	(77,908,827)	(110,534,495)
Increase in short-term bills payable	8,700,597	6,870,101
Decrease in short-term bills payable	(10,100,000)	(4,340,997)
Proceeds from long-term borrowings	7,550,000	3,500,000
Repayments of long-term borrowings	(7,790,000)	(3,900,000)
Proceeds from long-term bills payable	2,589,580	1,600,496
Repayments of long-term bills payable	(1,660,000)	(3,070,000)
Decrease in guarantee deposits	(120)	-
Repayments of principal of lease liabilities	(11,222)	-
Dividends paid to owner of the company	(143,555)	-
Interest paid	<u>(125,663)</u>	<u>(139,353)</u>
Net cash used in financing activities	<u>(2,217,289)</u>	<u>(562,795)</u>
NET DECREASE IN CASH	(133,053)	(17,874)
CASH AT THE BEGINNING OF THE YEAR	<u>200,081</u>	<u>217,955</u>
CASH AT THE END OF THE YEAR	<u>\$ 67,028</u>	<u>\$ 200,081</u>

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

(Concluded)

To help shareholders learn more and download the contents of the full financial report,

please visit Chung Hung Steel's website

(Website: <http://www.chsteel.com.tw>)

and inquire in “Financial Information” under “Stockholder Service”

**Agenda item #2****Proposed by the Board of Directors**

Agenda: The Company's 2019 earnings distribution proposal is filed for ratification.

Explanation:

- i. The earnings distribution is processed in accordance with Article 228 of the Company Act and Article 28-1 of the Company's Articles of Incorporation.
- ii. The Company has drafted the earnings distribution statement for 2019 as follows:

**Earnings Distribution Statement**

**2019**

Unit: NT\$

Item	Amount
Balance of undistributed earnings at the beginning of the year	172,893,414
Remeasurement of defined benefit plan converted into retained earnings	(9,614,299)
Balance of retained earnings after adjustment	163,279,115
After-tax net profit of 2019	10,791,247
Minus: Statutory surplus reserves	(117,695)
Minus: Appropriation for special reserve	(51,970,387)
Distributable earnings	121,982,280
Undistributed earnings at the end of the period	121,982,280

Chairman:  
Min-Hsiung Liu

Managerial Officer:  
Kung-Ching Wu

Chief Accounting Officer:  
Pei-Yu Lee

Resolution:

## **IV. Matters for Discussion**

### **Agenda item #1**

### **Proposed by the Board of Directors**

Agenda: The amendment of the Company's "Articles of Incorporation" is filed for approval.

Explanation:

- i. Clauses of the Company's "Articles of Incorporation" are amended to provide more specific, clear, and complete dividend policies of the Company.
- ii. Article 4, Article 6, Article 9, Article 11, Article 15, Article 18, Article 22-1, Article 28-1, and Article 31 are amended.
- iii. The comparison table for revised clauses and the full clause before the revision are provided in the Attachment.

Resolution:

### Name of Rules: Articles of Incorporation

Clause after Revision	Existing Clauses	Description
Article 4: Unless otherwise stated in regulations of the <u>competent</u> authority of securities, the Company's announcements shall be made on <u>newspapers, electronic newsletters, or a website set up or designated by the central competent authority.</u>	Article 4: Unless otherwise stated in regulations of the <u>management</u> authority of securities, the Company's announcements shall be made on <u>prominent pages of a newspaper that is circulated in the area of the Company's location.</u>	<ol style="list-style-type: none"> <li>1. This article is amended in accordance with Article 28 of the "Company Act".</li> <li>2. The phrase "management authority of securities" is changed to "competent authority of securities" in accordance with Article 3 of the Securities and Exchange Act.</li> </ol>
Article 6: The Company's stocks shall not be printed. They shall be registered, numbered, and affixed with the signatures or personal seals of the director <u>representing the company.</u> They shall <u>also</u> be duly certified or authenticated <u>by the bank which is competent to certify shares under the laws</u> before issuance thereof. Stocks issued by the Company are not required to be printed. The Company, however, shall contact the centralized securities depository enterprise institution for registration of the share certificates. <u>The shares issued shall be processed in accordance with the regulations of the institution.</u>	Article 6: The Company's stocks shall not be printed and shall be registered, numbered, and signed or sealed by at <u>least three</u> Directors. The stocks shall be issued <u>after</u> the proper certification procedures in accordance with the law. Stocks issued by the Company are not required to be printed. The Company, however, shall contact the centralized securities depository enterprise institution for registration of the share certificates.	<ol style="list-style-type: none"> <li>1. Paragraph 1 of this article is amended in accordance with Article 162 of the "Company Act".</li> <li>2. Paragraph 2 of this article is amended in accordance with Article 161-2, Paragraph 2 of the "Company Act".</li> </ol>
Article 9: <u>Unless otherwise specified by law, shareholders' meetings are convened by the board of directors.</u> The Company holds general and special shareholders' meetings; the general meeting shall be convened once a year within six months of the end of each fiscal year. The Board of Directors shall notify shareholders to convene the meeting thirty days	Article 9: The Company holds general and special shareholders' meetings; the general meeting shall be convened once a year within six months of the end of each fiscal year. The Board of Directors shall notify shareholders to convene the meeting thirty days in advance. Special meetings may be convened according to the law when necessary.	Paragraph 1 of this article is added in accordance with Article 171 of the "Company Act". The original Paragraph 1 is moved to Paragraph 2.

Name of Rules: Articles of Incorporation

Clause after Revision	Existing Clauses	Description
in advance. Special meetings may be convened according to the law when necessary.		
Article 11: The Chairman of the Board shall chair shareholders' meetings <u>that are convened by the Board of Directors</u> . Where the Chairman is absent, the Chairman shall appoint one of the Directors to act on behalf of the Chairman. For shareholders' meetings convened by any authorized party other than the Board of Directors, the convener will act as the meeting chair. If there are two or more conveners at the same time, one shall be appointed from among them to chair the meeting.	Article 11: The Chairman of the Board shall chair shareholders' <u>meetings</u> . Where the Chairman is absent, the Chairman shall appoint one of the Directors to act on behalf of the Chairman. For shareholders' meetings convened by any authorized party other than the Board of Directors, the convener will act as the meeting chair. If there are two or more conveners at the same time, one shall be appointed from among them to chair the meeting.	Wording in this Article is revised in accordance with Article 9.
Article 15: The Company shall have seven to nine Directors. The election of Directors is held by nomination and the shareholders shall vote on the list of candidates. They shall serve three-year terms and they may be reelected. Among the Directors to be elected in accordance with the preceding paragraph, the number of Independent Directors shall be no less than three and they shall not represent less than one-fifth of the Directors to be elected. With respect to other requirements on Independent Directors including professional qualifications, restrictions on shareholdings and concurrent positions held, assessment of independence, method of nomination, and other compliance matters, the Company shall observe the	Article 15: The Company shall have seven to nine Directors. The election of Directors is held by nomination and the shareholders shall vote on the list of candidates. They shall serve three-year terms and they may be reelected. Among the Directors to be elected in accordance with the preceding paragraph, the number of Independent Directors shall be no less than three and they shall not represent less than one-fifth of the Directors to be elected. With respect to other requirements on Independent Directors including professional qualifications, restrictions on shareholdings and concurrent positions held, assessment of independence, method of nomination, and other compliance matters, the Company shall observe the	Same as explanation 2 provided for the amendment of Article 4.

Name of Rules: Articles of Incorporation

Clause after Revision	Existing Clauses	Description
<p>regulations announced by the <u>competent</u> authority of the securities industry. The Independent Directors and non-independent Directors shall be nominated separately and elected concurrently. The seats shall be calculated separately.</p>	<p>regulations announced by the <u>management</u> authority of the securities industry. The Independent Directors and non-independent Directors shall be nominated separately and elected concurrently. The seats shall be calculated separately.</p>	
<p>Article 18: Except for the first meeting of each newly elected Board of Directors which shall be called and chaired by the Director that received votes representing the largest portion of voting rights at the shareholders meeting in which the directors were elected, the Chairman shall convene meetings of the Board of Directors and serve as the chair. The meetings of the Board of Directors shall be convened once each quarter. A meeting notice shall be delivered to each Director at least seven days in advance to provide information on the agenda, the date and venue at which the meeting is held, the proceedings and any information deemed relevant. A meeting of the Board of Directors may be called at any time in the event of an emergency. The notice in the preceding paragraph shall be provided in print or in electronic format. Other appropriate methods may be used in the event of an emergency. Any Director may express a waiver of <u>the</u> regulations in writing. Items below are not amended.</p>	<p>Article 18: Except for the first meeting of each newly elected Board of Directors which shall be called and chaired by the Director that received votes representing the largest portion of voting rights at the shareholders meeting in which the directors were elected, the Chairman shall convene meetings of the Board of Directors and serve as the chair. The meetings of the Board of Directors shall be convened once each quarter. A meeting notice shall be delivered to each Director at least seven days in advance to provide information on the agenda, the date and venue at which the meeting is held, the proceedings and any information deemed relevant. A meeting of the Board of Directors may be called at any time in the event of an emergency. The notice in the preceding paragraph shall be provided in print or in electronic format. Other appropriate methods may be used in the event of an emergency. Any Director may express a waiver of the regulations in the <u>two preceding paragraphs in writing before or after the meeting.</u></p>	<p>For the avoidance of doubt, Paragraph 4 of this article is incorporated into Paragraph 3 and wording is revised.</p>

Name of Rules: Articles of Incorporation

Clause after Revision	Existing Clauses	Description
	Items below are not amended.	
<p>Article 22-1: The Company may purchase liability insurance for its Directors to cover their terms of service based on the compensation liabilities associated with their business liabilities to reduce and diversify the risk of any material damages to the Company and its shareholders caused by any error or negligence of its Directors.</p> <p><u>The Company shall report the insured amount, coverage, premium rate, and other major contents of the liability insurance it has purchased or renewed for Directors at the next board meeting.</u></p>	<p>Article 22-1: The Company may purchase liability insurance for its Directors to cover their terms of service based on the compensation liabilities associated with their business liabilities to reduce and diversify the risk of any material damages to the Company and its shareholders caused by any error or negligence of its Directors.</p>	<p>Paragraph 2 of this article is added in accordance with Article 193-1 of the "Company Act".</p>
<p>Article 28-1: In the event of surplus earnings after closing of annual accounts, due taxes are <u>fully</u> be paid, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, the remainder surplus shall be <u>allocated as statutory reserve in accordance with the law.</u> However, in the event that the accumulated statutory reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. The remaining profit, if any, shall be included in the accumulated undistributed earnings for the previous year, and the</p>	<p>Article 28-1: In the event of surplus earnings after closing of annual accounts, due taxes shall be <u>paid in accordance with the law</u>, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, <u>10%</u> of the remainder surplus shall be allocated as statutory reserve. However, in the event that the accumulated statutory reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. The remaining profit, if any, shall be included in the accumulated undistributed earnings for the previous year, and the</p>	<ol style="list-style-type: none"> <li>1. Wording in Paragraph 1, of this article is revised in accordance with Jing-Shang No. 10802432410 Letter of the Ministry of Economic Affairs dated January 9, 2020.</li> <li>2. Paragraph 2 of this article is added to provide more specific, clear, and complete dividend policies of the Company. The original Paragraph 2 is moved to Paragraph 3.</li> </ol>

Name of Rules: Articles of Incorporation

Clause after Revision	Existing Clauses	Description
<p>shareholder's meeting shall determine whether to distribute dividends or retain the earnings.</p> <p><u>The Company shall allocate no less than 30% for the distribution of shareholder dividends and bonuses each year. However, dividends may be canceled if the earnings available for distribution are less than 3% of the paid-up capital.</u></p> <p>The development of the Company's industry has matured. Therefore, the distribution of the shareholder dividends specified above shall be distributed with appropriate ratios of cash dividends and stock dividends. Cash dividends shall be no lower than 50%.</p>	<p>shareholder's meeting shall determine whether to distribute dividends or retain the earnings.</p> <p>The development of the Company's industry has matured. Therefore, the distribution of the shareholder dividends specified above shall be distributed with appropriate ratios of cash dividends and stock dividends. Cash dividends shall be no lower than 50%.</p>	
<p>Article 31: The Articles of Incorporation were established on January 24, 1983. The 1st amendment was on April 21, 1983. (Contents omitted). The 43rd amendment was on June 24, 2016. <u>The 44th amendment was on ○○ ○○, 2020.</u></p>	<p>Article 31: The Articles of Incorporation were established on January 24, 1983. The 1st amendment was on April 21, 1983. (Contents omitted). The 43rd amendment was on June 24, 2016.</p>	<p>Added the sequence and date of this amendment.</p>

# Chung Hung Steel Corporation Articles of Incorporation

Amended by the Board of Directors on December 22, 2015

Approved by the shareholders' meeting on June 24, 2016

## Chapter 1 General provisions

Article 1: The Company shall be incorporated as a company limited by shares in accordance with the Company Act, and it shall be named Chung Hung Steel Corporation.

Article 2: The business scope of the Company is as follows:

- i. Operations of animal husbandry business.
- ii. Manufacturing, processing, and import/export of timber, agricultural products (excluding mushrooms and asparagus) and iron wire (under 12mm).
- iii. Manufacturing, processing, wholesale, retail, and domestic sales/export of slotted angle iron, iron pipes, fish net, Tetoron fiber, plastic fiber, and iron plate.
- iv. Processing, manufacturing, domestic sales/export of steel coils, steel, steel mold, steel wire, stainless steel plate, stainless steel pipe, iron wire, galvanized iron plate and painted iron plate.
- v. Appointment of construction contractors to build public housing and commercial buildings for lease and sale and appointment of construction contractors to build general plants on industrial land for lease and sale.
- vi. Processing, manufacturing, and domestic sale/export of aluminum products and materials.
- vii. Processing, manufacturing, and domestic sale/export of steel and non-iron metal furniture.
- viii. Processing, manufacturing, and domestic sale/export of wood and plastic furniture.
- ix. Processing, manufacturing, and domestic sale/export of silicon steel sheets.
- x. Processing, manufacturing, and domestic sale/export of sports equipment (exercise bikes, rowing machines, golf clubs, strollers, trolleys, jogging

strollers, jumpers, kick scooters, surfboards, tennis rackets, and ball equipment).

- xi. Processing, manufacturing, and domestic sale/export of transportation equipment (automobile, motorcycle, and bicycle parts) and jacks.
- xii. Design, manufacturing, processing, and domestic sale/export of mechanical bodies and machinery parts.
- xiii. Processing, manufacturing, and domestic sale/export of oxidized soft and hard iron powder, magnets, magnetic materials, metallurgy powder, and ceramic materials.
- xiv. (1) F107100 Wholesale of basic chemical raw materials.  
(2) F207100 Retail sale of basic chemical materials.  
(3) C801010 Basic chemical manufacturing industry.
- xv. All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 2-1: When the Company becomes the shareholder of limited liability in other companies, its total amount of investment in such companies shall not be subject to restrictions regarding certain proportions of the total paid-up capital specified in the Company Act.

Article 2-2: The Company may provide guarantees in accordance with the Procedures for Making Endorsements and Guarantees based on business requirements.

Article 3: The Company is headquartered in Kaohsiung City. Where necessary, the Company may set up branch companies or other branch institutions at other suitable locations. Such set up or revocation shall be determined by the Board of Directors.

Article 4: Unless otherwise stated in regulations of the competent authority of securities, the Company's announcements shall be made on prominent pages of a newspaper that is circulated in the area of the Company's location.

## **Chapter 2 Shares**

Article 5: The Company has an authorized capital of NT\$30 billion, totaling to 3 billion shares, which can be raised in multiple issues at NT\$10 per share. The Company may issue special shares.

Article 6: The Company's stocks shall not be printed and shall be registered, numbered, and signed or sealed by at least three Directors. The stocks shall be issued after the proper certification procedures in accordance with the law.

Stocks issued by the Company are not required to be printed. The Company, however, shall contact the centralized securities depository enterprise institution for registration of the share certificates.

Article 7: The Company shall administer all the stock-related operations in accordance with related laws and regulations of the competent authority.

Article 8: Transfer of title for the stocks is not permitted within sixty days prior to the annual meeting of shareholders; within thirty days prior to the special meeting of shareholders; or within five days prior to the cut-off date determined for the distribution of dividends, bonus or other benefits.

### **Chapter 3 Shareholder's meeting**

Article 9: The Company holds general and special shareholders' meetings, the general meeting shall be convened once a year within six months of the end of each fiscal year. The Board of Directors shall notify shareholders to convene the meeting thirty days in advance. Special meetings may be convened according to the law when necessary.

Article 10: A shareholder who cannot attend shareholders' meeting may appoint a proxy to attend on his/her behalf by executing a power of attorney printed and issued by the Company, stating clearly the scope of the authorization.

Article 11: The Chairman of the Board shall chair shareholders' meetings. Where the Chairman is absent, the Chairman shall appoint one of the Directors to act on behalf of the Chairman. For shareholders' meetings convened by any authorized party other than the Board of Directors, the convener will act as the meeting chair. If there are two or more conveners at the same time, one shall be appointed from among them to chair the meeting.

Article 12: The Company's shareholders shall be entitled to one vote for each share held, except where shareholders are restricted or prohibited from exercising voting rights by law.

Except for trust enterprises or stock agencies approved by the competent authority in charge of the securities business, when a person concurrently acts as the proxy for two or more shareholders in a shareholders' meeting, the

number of voting right represented by him/her shall not exceed 3% of the total number of issued voting shares. Else, the portion of excessive voting right shall not be counted.

Article 13: Unless otherwise regulated by the Company Act, a shareholders' meeting resolution is passed when more than 50% of all outstanding shares are represented in the meeting, and voted in favor by more than 50% of all voting rights represented at the meeting.

Article 14: Shareholders' meeting resolutions shall be compiled into detailed minutes, and signed or sealed by the chair then disseminated to each shareholder no later than 20 days after the meeting.

The preparation and distribution of meeting minutes can be done in electronic form. The meeting minutes may be delivered by way of public announcement.

The sign-in cards and proxy authorization forms of shareholders in attendance shall be kept for at least one year. However, if a shareholder makes a litigious claim according to Article 189 of the Company Act, the abovementioned documents shall be retained until the end of the litigation.

#### **Chapter 4 Directors**

Article 15: The Company shall have seven to nine Directors. The election of Directors is held by nomination and the shareholders shall vote on the list of candidates. They shall serve three-year terms and they may be reelected.

Among the Directors to be elected in accordance with the preceding paragraph, the number of Independent Directors shall be no less than three and they shall not represent less than one-fifth of the Directors to be elected. With respect to other requirements on Independent Directors including professional qualifications, restrictions on shareholdings and concurrent positions held, assessment of independence, method of nomination, and other compliance matters, the Company shall observe the regulations announced by the competent authority of the securities industry. The Independent Directors and non-independent Directors shall be nominated separately and elected concurrently. The seats shall be calculated separately.

Article 15-1: The Company shall establish an Audit Committee in accordance with Article 14-4 of the Securities and Exchange Act. The Committee shall be composed of the entire number of Independent Directors. It shall not be fewer than three

persons in number, one of whom shall be the convener, and at least one of whom shall have accounting or financial expertise.

Resolutions at meetings of the Audit Committee shall be adopted with the approval of one half or more of the entire membership.

The exercise of the powers of the Audit Committee, its organization charter, and other matters for compliance shall be processed in accordance with the Securities and Exchange Act and other relevant laws or the Company's regulations.

Article 16: If the re-election cannot be completed before the expiration of the term of office, the term of office for the Directors shall be extended until the re-elected Directors assume office. However, where the competent authority requires the Company to organize a re-election, the Company shall organize the re-election immediately. Where a re-election is not organized at the time of the expiry, the Directors shall be dismissed immediately.

Article 17: The Board of Directors consists of Directors. The Board of Directors shall appoint one Chairman of the Board during a board meeting with more than two-thirds of Directors present, and with the approval of more than half of all attending Directors. The Chairman shall represent the Company externally. The Board of Directors may assign one consultant to attend meetings of the Board of Directors in a non-voting capacity. The appointment and dismissal shall be approved by the Chairman.

Article 18: Except for the first meeting of each newly elected Board of Directors which shall be called and chaired by the Director that received votes representing the largest portion of voting rights at the shareholders meeting in which the directors were elected, the Chairman shall convene meetings of the Board of Directors and serve as the chair.

The meetings of the Board of Directors shall be convened once each quarter. A meeting notice shall be delivered to each Director at least seven days in advance to provide information on the agenda, the date and venue at which the meeting is held, the proceedings and any information deemed relevant. A meeting of the Board of Directors may be called at any time in the event of an emergency.

The notice in the preceding paragraph shall be provided in print or in electronic format. Other appropriate methods may be used in the event of an emergency.

Any Director may express a waiver of the regulations in the two preceding paragraphs in writing before or after the meeting.

If the Chairman is on leave or unable to perform his duties, the Chairman shall appoint a Director to act on his behalf. If the Chairman does not appoint a Director to act on his behalf, a representative shall be elected from among the Directors.

Directors' attendance in board meetings via video conference shall be considered as attendance in person.

Article 19: Except where otherwise specified in the Company Act, the passage of a proposal at a board meeting shall require the approval of a majority of the Directors in attendance at a board meeting attended by a majority of all Directors. If a Director is unable to attend a meeting, he/she may appoint a proxy to attend the meeting by completing the Company's proxy form, specifying the scope of delegation. However, a Director may only be made proxy for a maximum of one other Director.

Article 20: Discussions in board meetings shall be compiled into detailed minutes, and signed or sealed by the chair then disseminated to each Director no later than 20 days after the meeting. The meeting minutes, Directors' attendance sheets, and proxy forms shall be kept by the Company.

Article 21: (deleted)

Article 22: The transportation allowance of Directors, remuneration of Independent Directors, and salary of the Chairman shall be determined by the Board of Directors based on prevailing rates of the industry and listed companies. The Chairman shall be applicable to related regulations regarding employee salary payment and provided with other allowances.

Article 22-1: The Company may purchase liability insurance for its Directors to cover their terms of service based on the compensation liabilities associated with their business liabilities to reduce and diversify the risk of any material damages to the Company and its shareholders caused by any error or negligence of its Directors.

Article 23: The Board of Directors shall be comprised of Directors whose functional duties are as follows:

- i. Filing proposals for capital increase or decrease;
- ii. Review annual budgets and formulate financial statements at the end of each fiscal year in accordance with regulations;
- iii. Clarification and amendment of material business policies;
- iv. Proposals for distribution of earnings or loss reimbursement plans;
- v. Review of important contracts;
- vi. Approval of domestic medium and long-term borrowings and foreign loans;
- vii. Approval of important charters;
- viii. Establishment and withdrawal of branch companies or other branch institutions;
- ix. Appointment and dismissal of the President and Vice Presidents and the approval for their remuneration;
- x. Approval of employees' salary standards;
- xi. Approval of investments in other businesses;
- xii. Other exclusive powers expressly provided in the Company Act, Securities and Exchange Act, related regulations, or the Articles of Incorporation.

#### **Chapter 5 Managerial officers and other employees**

Article 24: The Company shall appoint one President and several Vice Presidents. The appointment, dismissal and remuneration of the said parties shall be decided by a majority vote at a meeting of the Board of Directors attended by more than one half of the Directors.

Article 25: The appointment and dismissal shall be processed in accordance with the Company's "Duties Division Table of the Board of Directors, Chairman, and President".

Article 26: The President shall be in charge of the Company's business operations. The President 's scope of duties shall include all powers except for the exclusive

powers of the shareholders' meeting and the Board of Directors that are specified in the Company Act, Securities and Exchange Act, related regulations, and the Articles of Incorporation.

## **Chapter 6 Financial Report**

Article 27: The Company's fiscal year begins on January 1 and ends on December 31. At the end of each fiscal year, the Board of Directors shall formulate the following documents and submit them to the general shareholders' meeting for ratification.

- i. Business Report;
- ii. Financial statements;
- iii. Proposal of earnings distribution or loss reimbursement plans.

Article 28: If the Company has profit for the year, the Board of Directors shall resolve to allocate no less than one thousandth of the profit as remuneration for employees and no more than 1% as remuneration for Directors. The recipients of employee remuneration shall include employees of subordinate companies meeting certain criteria. A sum shall be set aside in advance to pay down any outstanding cumulative losses of the Company before employee bonus and director remuneration can be allocated according to the above percentage.

Employee bonus and director remuneration proposals shall be submitted to the Board of Directors for resolution and presented to the shareholders' meeting.

Article 28-1: In the event of surplus earnings after closing of annual accounts, due taxes shall be paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 10% of the remainder surplus shall be allocated as statutory reserve. However, in the event that the accumulated statutory reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. The Board of Directors shall draft the proposal for shareholder dividend allocation based on the remaining profit, if any, along with the accumulated undistributed earnings for the previous year, and submit the draft to the shareholder's meeting which shall determine whether to distribute dividends or retain the earnings.

The development of the Company's industry has matured. Therefore, the distribution of the shareholder dividends specified above shall be distributed with appropriate ratios of cash dividends and stock dividends. Cash dividends shall be no lower than 50%.

#### **Chapter 7 Supplementary provisions**

- Article 29: Where an individual or his/her ancestor who has or has not established a will currently serves or had previously served as the Company's Director or employee or performs duties for Directors or employees of any other company based on the Company's invitation and becomes a party to any litigation or legal proceedings, the Company may provide compensation for all actual and necessary fees, including attorneys' expenses, for the litigation or legal procedures that involve such individuals or for any appeals made. However, such Directors or employees shall be held liable for negligence or violation of duties. The compensation and rights awarded to Directors and employees shall not preclude any other due rights and interests.
- Article 30: Matters not addressed in this Article shall be processed in accordance with the Company Act and other relevant regulations.
- Article 31: The Articles of Incorporation were established on January 24, 1983. The 1st amendment was on April 21, 1983. The 2nd amendment was on June 25, 1983. The 3rd amendment was on January 18, 1984. The 4th amendment was on May 23, 1984. The 5th amendment was on July 20, 1985. The 6th amendment was on September 20, 1985. The 7th amendment was on December 10, 1985. The 8th amendment was on February 28, 1986. The 9th amendment was on May 15, 1986. The 10th amendment was on November 3, 1987. The 11th amendment was on March 13, 1988. The 12th amendment was on March 25, 1988. The 13th amendment was on March 4, 1989. The 14th amendment was on May 20, 1989. The 15th amendment was on October 3, 1989. The 16th amendment was on November 6, 1989. The 17th amendment was on February 24, 1990. The 18th amendment was on March 23, 1990. The 19th amendment was on May 10, 1991. The 20th amendment was on May 27, 1991. The 21st amendment was on January 27, 1992. The 22nd amendment was on June 18, 1993. The 23rd amendment was on June 2, 1994. The 24th amendment was on June 4, 1995. The 25th amendment was on May 17, 1996. The 26th amendment was on June 29, 1999. The 27th amendment was on February 2, 2000. The 28th amendment was on June 20, 2000. The 29th amendment was

on June 28, 2002. The 30th amendment was on May 27, 2003. The 31st amendment was on June 24, 2004. The 32nd amendment was on June 28, 2005. The 33rd amendment was on June 29, 2006. The 34th amendment was on June 26, 2007. The 35th amendment was on June 26, 2008. The 36th amendment was on June 30, 2009. The 37th amendment was on June 24, 2010. The 38th amendment was on June 10, 2011. The 39th amendment was on June 14, 2012. The 40th amendment was on June 19, 2013. The 41st amendment was on June 23, 2014. The 42nd amendment was on June 26, 2015. The 43rd amendment was on June 24, 2016.

## V. Other Proposals

**Agenda item #1**

**Proposed by the Board of Directors**

Agenda: The proposal for the removal of non-compete clause for the Directors Mr. Chao-Tung Wong, Min-Hsiung Liu, and Kai-Ming Huang is filed for approval.

Explanation:

- i. The matter is processed in accordance with Article 209, Paragraph 1 of the Company Act: “A Director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the shareholders' meeting the essential contents of such an act and secure its approval”.
- ii. The Directors Chao-Tung Wong, Min-Hsiung Liu, and Kai-Ming Huang may have investments in or serve as directors or managerial officers in other companies with identical or similar business operations as the Company, the shareholders' meeting is requested to agree to the removal of the non-compete clause for these Directors. Please see the table below for information on other concurrent positions in other companies occupied by the Directors.

<b>Name of Legal Entity</b>	<b>Representative</b>	<b>Other related positions in other companies</b>
China Steel Corporation	Chao-Tung Wong	Director of China Steel Global Trading Corporation Director of InfoChamp Systems Corporation
	Min-Hsiung Liu	Vice President of Commercial Division, China Steel Corporation Director of Dragon Steel Corporation Director of China Steel Global Trading Corporation Director of China Steel Express Corporation Director of InfoChamp Systems Corporation

	Kai-Ming Huang	Assistant Vice President of Commercial Division, China Steel Corporation
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Resolution:

## **VI. Special Motions**

## VII. Rules of Procedure

### Chung Hung Steel Corporation Rules of Procedure for Shareholders Meetings

Amended by the Board of Directors on May 2, 2019

Approved by the shareholders' meeting on June 26, 2019

Article 1 Unless otherwise stated by law or the Articles of Incorporation, the shareholders' meeting of the Company shall be organized according to these Rules.

Article 2 Unless otherwise specified by law, shareholders' meetings are convened by the board of directors.

Notices for general shareholders meetings or extraordinary shareholders meetings shall include the purpose of the meeting and they shall be delivered to shareholders 30 days or 15 days in advance. If the receiving party agrees, meeting notices may also be delivered electronically. For shareholders holding less than one thousand shares, the meeting notices can be communicated by way of public announcement instead.

The Company shall prepare an electronic file that contains the meeting notice, a proxy form, a detailed description of various agenda items to be acknowledged or discussed during the meeting, and notes on re-election or dismissal of Directors and post it onto the Market Observation Post System (MOPS) at least 30 days before a general shareholders' meeting, or 15 days before an extraordinary shareholders' meeting.

Matters pertaining to election or discharge of Directors, alteration of the Articles of Incorporation, reduction of capital, application for the approval of ceasing its status as a public company, approval of competing with the company by directors, surplus profit distributed in the form of new shares, reserve distributed in the form of new shares, dissolution, merger, spin-off, or any matters as set forth in Article 185, Paragraph 1 of the Company Act, Article 43-6 of the Securities and Exchange Act, and Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities

Issuers shall be itemized in the causes or subjects to be described and the essential contents shall be explained in the notice to convene a meeting of shareholders, and shall not be brought up as special motions; the essential contents may be posted on the website designated by the competent authority in charge of securities affairs or the company, and such website shall be indicated in the above notice.

Shareholders who own more than 1% of the company's outstanding shares are entitled to propose, in writing, agenda items for discussion in general shareholders' meetings. However, they may only propose one agenda item and additional proposals shall not be included in the agenda. The Board of Directors may disregard shareholders' proposals if the proposed agenda item involve any of the circumstances listed in Article 172-1, Paragraph 4 of the Company Act.

The Company shall announce, before the book closure date, the conditions, the written or digital format accepted, and places and time in which shareholders' proposals are accepted. The period of acceptance shall be no shorter than ten days.

Shareholders shall limit their proposed agenda items to 300 words. Shareholders who have successfully proposed agenda items shall attend the shareholders' meeting in person or through proxy attendance and participate in the discussion.

The Company shall notify the proposing shareholders of the outcome of their proposed agenda items before the date the meeting notice is sent. Meanwhile, agenda items that satisfy the conditions listed in this Article shall be included as part of the meeting notice. During the shareholders' meeting, the Board of Directors shall explain the reasons why certain proposed agenda items are excluded from discussion.

Article 3 The Company shall formulate meeting manuals for the shareholders' meeting in accordance with the regulations of the competent authority of securities. Physical copies of the shareholders' meeting manual and supplementary information shall also be prepared at least 15 days before the meeting and made accessible to shareholders at any time. These documents must be placed within the company's premises and at the share administration agency appointed by the

Company, and distributed on-site at the shareholders' meeting.

At least 21 days before an annual general meeting, or 15 days before an extraordinary shareholders' meeting, the Company shall upload an electronic copy of the shareholders' meeting manual and supplementary information to MOPS.

The Company shall prepare electronic versions of the Annual Report and Annual Financial Report and upload them to the MOPS at least 7 days before the date of the general shareholders' meeting or At least 21 days before the date of the general shareholders meeting if the Annual Report is used as supplementary information for the Procedures Manual of the shareholders' meeting.

The contents of the English versions of the electronic files shall be consistent with those of the Chinese version uploaded to the MOPS.

Article 4 Shareholders may appoint proxies to attend shareholders' meetings by completing the Company's proxy form and specifying the scope of delegated authority.

Each shareholder may issue one proxy form and delegate one proxy only. All proxy forms must arrive at the company at least five days before the shareholders' meeting. In the event that multiple proxy forms are issued, the proxy form that arrives first shall prevail. However, exception shall be granted if the shareholder issues a proper declaration to withdraw the previous proxy arrangement.

After a proxy form has been delivered to the Company, if the shareholder intends to attend the meeting in person or to exercise voting rights by correspondence or electronically, a written notice of proxy cancellation shall be submitted to the Company at least 2 business days before the meeting date. If the withdrawal is made after the prescribed period, then the voting decision exercised by the proxy shall prevail.

Article 5 Shareholders' meetings shall be held at locations that are suitable and convenient for shareholders to attend. Meetings shall not begin earlier than 9 AM or later than 3 PM.

Article 6 The Company shall specify in its shareholders meeting notices the time during

which shareholder attendance registrations will be accepted, the place to register for attendance, and other matters for attention.

The time during which shareholder attendance registrations will be accepted, as stated in the preceding paragraph, shall be at least 30 minutes prior to the time the meeting commences. The place at which attendance registrations are accepted shall be clearly marked and a sufficient number of suitable personnel assigned to handle the registrations.

Shareholders and their proxies (collectively, "shareholders") shall attend shareholders meetings based on attendance cards, sign-in cards, or other certificates of attendance. With regard to the certification documents for shareholders' attendance, the Company may not arbitrarily request shareholders to present other additional certification documents. Shareholders who wish to acquire a proxy form must present proof of identity on-site for verification.

Shareholders who attend the meeting shall be given a copy of the meeting manual, annual report, attendance pass, attendance sign-in card, opinion slip, ballots and any information relevant to the meeting. Shareholders shall also be given election ballots where election of Directors is to take place.

Where the shareholder is a government agency or corporate entity, more than one representative may attend the shareholders' meetings on their behalf. Corporate entities that have been designated as proxy attendants shall only appoint one representative to attend the shareholders' meeting.

Article 7 Shareholders' meetings that are convened by the Board of Directors shall be chaired by the Chairman. If the Chairman is unable to perform such duties due to leave of absence or any reason, the Chairman may appoint one of the Directors to act on the Chairman's behalf. If the Chairman does not appoint a delegate, one shall be elected among the Directors to act on the Chairman's behalf.

When a Director serves as chair in accordance with the preceding paragraph, the Director shall be one who has held that position for six months or more and who understands the financial and business conditions of the Company. The same shall apply for a representative of a corporate director that serves as chair. For shareholders' meetings convened by any authorized party other than the

Board of Directors, the convener will act as the meeting chair. If there are two or more conveners at the same time, one shall be appointed from among them to chair the meeting.

Article 8 Shareholders meetings convened by the board of Directors should be chaired by the Chairman in person, attended by more than half of the Director and the convener of the Audit Committee in person, and attended by at least one representative member of each functional committee. In addition, a record of attendance shall be made in the shareholders' meeting minutes.

The Company may summon its lawyers, certified public accountants, and any relevant personnel to be present at the shareholders' meeting.

Article 9 The Company shall make an uninterrupted audio and video recording of the registration procedure, the proceedings of the shareholders meeting, and the voting and vote counting procedures starting from the time it accepts shareholder attendance registrations.

The recorded materials of the preceding paragraph shall be retained for at least 1 year. However, if a shareholder makes a litigious claim against the Company according to Article 189 of the Company Act, the abovementioned documents must be retained until the end of the litigation.

Article 10 The attendance in shareholders' meetings shall be calculated based on numbers of shares. The shares in attendance shall be calculated in accordance with the number of attendance cards submitted by shareholders in attendance. Where the voting right is exercised in writing or by way of electronic transmission in accordance with Article 16-1, Paragraph 1, the number of shares that have been used to exercise voting rights in writing or in electronic format shall be used for the calculation.

Article 11 The chair shall announce the commencement of the meeting as soon as the appointed time arrives. However, if those in attendance represent less than half of the company's outstanding shares, the chair may announce to postpone the meeting up to two times, for a period totaling no more than one hour. Except for cases processed in accordance with Paragraph 2, the chair shall dismiss the meeting if shareholders in attendance represent less than half of outstanding shares after two postponements.

If the shareholders in attendance represent more than one-third but less than half of outstanding shares after two postponements, the shareholders in attendance may reach a tentative resolution according to Article 175, Paragraph 1 of the Company Act. This tentative resolution shall be communicated to every shareholder and another shareholders' meeting shall be held within one month. The establishment of resolutions that involve special resolutions in accordance with the Company Act, the regulations in the Company Act shall apply.

If during the process of the meeting the number of issued shares represented by the shareholders present are sufficient to constitute the quorum, the chairman may submit the tentative resolutions to the meeting for approval in accordance with Article 174 of the Company Act.

Article 12 If the shareholders' meeting is convened by the Board of Directors, the Board of Directors shall determine the meeting proceedings. The proceedings shall not be changed unless resolved during the shareholders' meeting.

The above rule also applies if the shareholders' meeting is convened by any authorized party other than the Board of Directors.

In either of the two arrangements described above, the chair cannot dismiss the meeting while an agenda item (including special motions) is still in progress. If the chair violates the meeting policy by adjourning the meeting when he/she is not permitted to do so, other members of the board shall immediately assist the attending shareholders to elect another chair with the support of more than half of voting rights represented and continue the meeting.

The shareholders cannot designate any other person as chair and continue the meeting in the same or another place after the discussions are over and the chair adjourns the meeting in accordance with the Rules of Procedure.

Article 13 The chair shall be objective and independent and he/she shall strictly abide by the Rules of Procedure to ensure the smooth progression of the meeting.

Shareholders in attendance are obligated to follow the Rules of Procedure, speak politely, and maintain the order of the meeting.

Article 14 Shareholders who wish to speak during the meeting must produce an opinion slip, detailing the topics and the shareholder's account number and name. The order of shareholders' comments shall be determined by the chair.

Shareholders who submit an opinion slip without actually speaking are considered to have remained silent. If the shareholder's actual comments differ from those stated on the opinion slip, only the actual comments expressed shall be recorded.

Each shareholder shall not speak more than twice, for five minutes each, on the same agenda item unless otherwise agreed by the chair. The chair may stop shareholders from speaking they violate the rules or speak outside the agenda item under discussion.

While a shareholder is speaking, other shareholders shall not speak simultaneously or interfere in any way unless agreed by the chair and the person speaking. Any violators shall be restrained by the chair.

Where a corporate shareholder has appointed two or more representatives to attend the shareholders' meeting, only one representative may speak per agenda item.

After the shareholder has finished speaking, the chair may answer to the shareholder's queries personally or appoint any relevant personnel to do so.

Article 15 With regard to the agenda items, amendments or special motions proposed during the meeting, the chair may announce to discontinue further discussion if the issue in question is considered to have been sufficiently discussed to proceed with the voting.

Article 16 The Company's shareholders shall be entitled to one vote for each share held, except for the circumstances described in Subparagraph 3, Paragraph 1 of Article 157, Paragraph 2 of Article 179, or Article 197-1 of the Company Act where shareholders have restricted or no voting rights.

Shares that do not carry voting rights are excluded from the calculation of outstanding shares when voting for the final resolution.

Except in the exercise of voting rights for electing Directors, shareholders cannot vote, or appoint proxies to vote, on any agenda items in which they have a conflict of interest that would be detrimental to the best interests of the Company. The number of shares held by shareholders who are not permitted to vote shall be excluded from the total voting rights represented in the meeting.

With the exception of trust enterprises and certain share administration agencies

approved by the competent authority, a proxy may not represent more than 3% of total voting rights in aggregate when representing two or more shareholders during the meeting. Voting rights that exceed this threshold shall be excluded from calculation. However, they shall still be included into the number of voting rights of the shareholder in attendance.

Article 16-1 The Company shall specify in the meeting notice for the shareholders' meeting that shareholders who do not attend the meeting in person and did not issue a proxy letter to assign a proxy to attend the shareholders' meeting may exercise their voting rights in writing or electronically based on the Company's regulations. Shareholders who have voted in writing or using the electronic method are considered to have attended shareholders' meeting in person. However, they are considered to have waived their rights to participate in any special motions or amendments to the original proposals, alternative proposals, and other motions that may arise during the shareholders' meeting.

Instructions to exercise written and electronic votes must be delivered to the company at least two days before the shareholders' meeting. In the event where there are duplicate submissions, the earliest submission shall be taken into record. However, exception shall be granted if the shareholder issues a proper declaration to withdraw the previous vote.

If the shareholder decides to attend the shareholders' meeting in person after submitting a written or electronic vote, a proper declaration of withdrawal must be issued in the same method as did the original vote no later than two days before the shareholders' meeting. If the withdrawal is not received in time, then the written or electronic vote shall be taken into record. If the shareholder has exercised written or electronic votes, and at the same time delegated a proxy to attend the shareholders meeting, then the voting decision exercised by the proxy shall prevail.

Article 17 Unless otherwise specified in the Company Act or the Articles Incorporation of the Company, a resolution shall be adopted by a majority of the votes represented by the shareholders present at the meeting. At the time of a vote, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders for each proposal. The

shareholder shall vote on each proposal and the results of shareholders' agreement, objection, and abstention shall be input on the Market Observation Post System.

Article 18 In cases where there are several amendments or alternative resolutions to a certain agenda item, the chair shall determine the order in which the new and original proposals are voted on. If any resolution is passed, all other proposals shall be deemed rejected and no further voting is necessary.

Article 19 Before the voting begins, the chair shall appoint a number of persons who are shareholders to perform the respective duties of ballot examiners and ballot counters, provided that the ballot examiners shall be shareholders of the Company.

Vote counting for shareholders meeting proposals or elections shall be conducted in public at the place of the shareholders meeting. Immediately after vote counting has been completed, the results of the voting, including the statistical tallies of the numbers of votes, shall be announced on-site at the meeting, and a record made of the vote.

Article 20 Where the shareholders' meeting involves re-election of Directors, the election must proceed according to the Rules Governing the Election of Directors of the Company and results shall be announced on-site immediately including the names of those elected as Directors and the numbers of votes with which they were elected.

Article 21 Shareholders' meeting resolutions shall be compiled into detailed minutes, and signed or sealed by the chair then disseminated to each shareholder no later than 20 days after the meeting.

The preparation and distribution of meeting minutes can be done in electronic form. Distribution of the meeting minutes as described in the preceding may be conducted by uploading them to the Market Observation Post System.

The minutes must detail the date and venue of the meeting, the chair's name, the method of resolution, and the proceeding and results of various meeting agenda items. These minutes must be retained for as long as the company is in existence. They shall also be fully disclosed on the Company's website.

Where an election of the Directors took place, the weighted number of shares of

elected Directors shall be specified.

Article 22 During the shareholders' meeting, the Company shall publish information regarding the number of shares acquired by solicitors and the number of shares represented by proxies using the prescribed format.

Article 23 The company must disclose on MOPS any shareholders' meeting resolutions that constitute material information as defined by law or the rules of the Taiwan Stock Exchange Corporation.

Article 24 Organizers of the shareholders' meeting must wear proper identification or arm badges.

The chair may direct the proctors or security personnel to help maintain order at the meeting place. While maintaining order in the meeting, all proctors or security staff must wear arm bands which identify their roles as "Proctors."

The chair may stop anyone who attempts to speak using speaker equipment not provided by the Company and use the speaker equipment he/she prepared.

The chair may instruct proctors or security staff to remove shareholders who continue to violate the meeting rules or other conduct other actions that disrupts order in the meeting despite being warned by the chair.

Article 25 The chair may put the meeting in recess at appropriate times. In the occurrence of force majeure events, the chair may suspend the meeting temporarily and resume at another time.

If the shareholders' meeting is unable to conclude all scheduled agenda items (including special motions) before the venue is due to be returned, participants may resolve to continue the meeting at an alternative location.

A resolution may be adopted at a shareholders' meeting to defer or resume the meeting within 5 days in accordance with Article 182 of the Company Act.

Article 26 These Rules shall be implemented following approval from the shareholders' meeting. The same procedure shall apply for amendments to these Rules.

## VIII. Additional Descriptions

### i. Directors' shareholdings

- (i) According to Article 26 of the Securities and Exchange Act and the Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies:

The minimum combined shareholding of all Directors by law is 34,453,066 shares. (It may not be lower than 2.4% of the total number of shares)

Note: The Company has issued 1,435,544,446 common shares.

- (ii) The shareholdings of all Directors as recorded in the shareholder register up until the book closure date of the current shareholders' meeting:

April 25, 2020

Title	Name or Institution Name	Number of Shares Held
Director	China Steel Corporation	582,673,153 shares
Shareholdings of all directors		582,673,153 shares

The number of shares held by all Directors of the Company meet the legally required percentage.

### ii. The effects of the stock dividends on the Company's business performances, earnings per share and shareholder ROI

According to the requirements specified in the Ministry of Finance's official letter No. 00371 dated February 1, 2000, disclosure of such information is not required because the Company did not distribute shares or announce its 2020 financial forecast.

-  Head Office/Cold Rolling Department: No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City
-  Hot Rolling Department: No. 576, Xinglong St., Jiaxing, Gangshan Dist., Kaohsiung City
-  Pickling and Galvanizing Department: No. 24, Yanhai 3rd Rd., Xiaogang Dist., Kaohsiung City
-  Steel Pipe Plant (Dafa Plant): No. 18, Huazhong Rd., Dafa Industrial Park, Daliao Dist., Kaohsiung City
-  Steel Pipe Plant (Lukang Plant): No. 42, Lugong Rd., Neighborhood 18, Haipu Village, Lukang Township Changhua County