

# 2021

**Annual Report**

member of CSC Group



**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>

Printed on March 31, 2022

I. Name, job title and contact phone number and email of the Company's spokesperson and acting spokesperson

Spokesperson : Chia-Wen Luo  
Title : Vice President, Administration Division  
Tel : (07)611-7171 ext. 2002  
Email : loga@chsteel.com.tw  
Acting Spokesperson : Po-Han Chen  
Title : Vice President, Commercial Division  
Tel : (07)611-7171 ext. 2005  
Email : ch27077@chsteel.com.tw

II. Addresses and telephone numbers of the head office, branch offices, and factories.

Head office : No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City  
Telephone: (07) 611-7171  
Cold Rolling Department : No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City  
Telephone: (07) 611-7171  
Hot Rolling Department : No. 576, Xinglong St., Gangshan Dist., Kaohsiung City  
Telephone: (07) 623-4141  
Pickling and Galvanizing Department : No. 24, Yanhai 3rd Rd., Xiaogang Dist., Kaohsiung City  
Telephone: (07) 871-6886  
Steel Pipe Plant (Dafa Plant) : No. 18, Huazhong Rd., Daliao Dist., Kaohsiung City  
Telephone: (07) 787-2551  
Steel Pipe Plant (Lukang Plant) : No. 42, Lugong Rd., Lukang Township, Changhua County  
Telephone: (04) 781-3555

III. Name, address, website, and telephone number of stock transfer agent

Name : KGI Securities Co., Ltd.  
Address : 5F, No. 2, Sec. 1, Chongqing S. Rd., Taipei City  
Website : <http://www.kgiworld.com.tw>  
Tel : (02) 2389-2999

IV. Names of certified accountants, address, website, and telephone number of the accounting firm auditing the Company's latest financial report

Name : Yu-Hsiang Liu, CPA and Chia-Ling Chiang, CPA  
Name of CPA Firm : Deloitte, Taiwan  
Address : 3F, No. 88, Chenggong 2nd Rd., Qianzhen Dist., Kaohsiung City  
Website : <http://www.deloitte.com.tw>  
Tel : (07) 530-1888

V. Name of exchange house where overseas eligible securities are traded and method of inquiry on mentioned securities

N/A

VI. Company website

<http://www.chsteel.com.tw>

# Table of Contents

	Page No.
A. Letter to Shareholders	1
B. Company Profile	6
C. Corporate Governance Report	
I. Organization	19
II. Profile of Directors, Independent Directors, and Managerial Officers	22
III. Remuneration of Directors, President and Vice Presidents	32
IV. Implementation of Corporate Governance	39
V. Information on Fees to CPA	102
VI. Information on Change of CPA	102
VII. Company's Chairman, President, financial or accounting affairs manager who has served in the CPA firm or its affiliates in the most recent year	103
VIII. Company's Chairman, President, financial or accounting affairs manager who has served in the CPA firm or its affiliates in the most recent year	103
IX. Information on relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree)	105
X. Total shareholding percentage of investee business	106
D. Fundraising Conditions	
I. Capital and shareholding	107
II. Issuance of corporate bonds	113
III. Issuance of preferred stocks	113
IV. Issuance of global depositary receipts (GDR)	113
V. Issuance of employees' stock option certificate and new restricted employee shares	113
VI. Mergers, acquisitions or issuance of new shares for acquisition of shares of other companies	113
VII. Implementation status of the capital utilization plan	113
E. Business Overview	
I. Business activities	114
II. Market, production and sales	119
III. Human resources	128
IV. Environmental management measures and environmental protection expenditures	129
V. Protection measures for work environment and employees' personal safety	131
VI. Employer/employee relations	135
VII. Information security management	137

VIII.	Important contracts	141
F.	Financial Conditions	
I.	Condensed balance sheets, statements of comprehensive income, names of accountants, and audit opinions in the most recent five years	143
II.	Financial analysis for the last 5 years	148
III.	Audit Committee's Audit Report for 2021	151
IV.	2021 Standalone Financial Report	152
V.	2021 Consolidated Financial Report for parent and subsidiary companies	233
VI.	Effects of financial difficulties experienced by the company and its affiliated companies on the Company's financial status	298
G.	Review, Analysis, and Risks of Financial Conditions and Performance	
I.	Financial conditions	298
II.	Financial performance	300
III.	Cash flow	302
IV.	Effect of major capital expenditure on financial position and business operation in the most recent year	303
V.	Investment policy in the past year, profit/loss analysis, improvement plan, and investment plan for the coming year:	303
VI.	Risk issues and analysis evaluation	304
VII.	Other critical matters	310
H.	Special Notes	
I.	Profile on affiliates	311
II.	Status of private solicitation for marketable securities handling for the recent year up to the publication date of this annual report	311
III.	Holding or disposal of stocks of the Company by subsidiaries for the recent year up to the publication date of this annual report	311
IV.	Other necessary supplemental information	311
I.	Any Event which Significantly Affects Shareholders' Equity or Share Price Pursuant to Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act for the recent year up to the publication date of this annual report	311

Note: This Annual Report is formulated in accordance with the “Regulations Governing Information to be Published in Annual Reports of Public Companies” of the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan.

**Notice to readers**

**This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders’ meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.**

## **A. Letter to Shareholders**

Dear Shareholders,

In the first half of 2021, the global economy gradually recovered from the impact of the COVID-19 pandemic due to accelerated growth in the vaccination rate and continuous financial stimulus policies implemented across the world. The slow recovery of the production capacity in the steel market resulted in relatively reduced supply of steel materials. The soaring sea freight rates, shortage of containers, and severe delays across the globe led to a global supply shortage in the steel market in the first half of the year. In addition to pushing steel prices in Europe and Americas to record highs, these issues also caused prices in steel markets in Asia and Southeast Asia to rise.

However, in response to the low season and the impact of the Delta variant in certain areas starting from the second half of 2021, governments have tightened epidemic prevention controls which disrupted economic activities. The shortage of chips also continued to reduce the demand of the automobile industry in Europe and the United States. As a result, the global demand for steel declined. Overall, prices in the global steel market began to fall in the third quarter and steel prices fell from previous highs. In the fourth quarter, the interruption of the global supply chain, port congestion, and delayed deliveries remained unresolved. The rapid spread of the Omicron variant exacerbated the global COVID-19 pandemic once again and affected market confidence. Downstream industries became hesitant in making purchases due to sufficient inventories. The global steel market declined and prices fell.

Amid drastic changes in the market, the Company maintained lean manufacturing management and flexible production and sales operations to fully control market trends, strengthen production and sales collaboration, and enhance service relationships with clients. We also flexibly adjusted domestic and export sales ratio based on market conditions and make full use of the Group's synergy, culminating in two record highs of NT\$53.74 billion in revenue and NT\$6.35 billion in profits. In addition, the acceptance rate of all products produced by the Hot Rolling Department, Cold Rolling Department, and Lukang Steel Pipe Plant also reached record highs. As we face more challenges in the future, we will continue to make the most of our opportunities and attain new heights.

## **I. 2021 Business and Financial Report**

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

#### 1. Production plan implementation status:

The production volume of steel products (excluding miscellaneous grade products) in 2021 amounted to 2.376 million tons, which was a decrease of 160,000 tons from 2.536 million tons in 2020(reduction of 6.3%).

#### 2. Sales plan implementation status:

The sales volume of steel products in 2021 amounted to 2.12 million tons, which was a decrease of 310,000 tons from 2.43 million tons in 2020 (reduction of 12.8%).

### **(II) Analysis of operating income/expenses and profitability**

The net profit was NT\$635 million in 2021. The operating revenue/expenses and profitability are as follows:

#### 1. Revenue:

The consolidated operating revenue in 2021 was NT\$53.74 billion which was an increase of NT\$16.95 billion, approximately 46.1%, from the operating revenue of NT\$36.79 billion in 2020.

#### 2. Expenditures:

Consolidated operating costs and consolidated operating expenses totaled NT\$47.22 billion in 2021 which was an increase of NT\$10.77 billion, approximately 29.5%, from NT\$36.45 billion in 2020.

#### 3. Profitability:

The increase in sales price in 2021 was greater than the increase in costs and it increased pre-tax profit by NT\$6.485 billion from 2020.

### **(III) Research and Development**

The Company is committed to the development of new products and technologies and the development of artificial intelligence (AI). We continue product quality improvements, process research, and equipment technology establishment to create applications for smart equipment, smart production, and smart operations. We also establish the Smart Production and Sales Promotion Committee to promote the development of a smart system for production, equipment maintenance, production scheduling, quality management, product sales, occupational safety, and environmental protection.

To cultivate talents required for AI development and facilitate the smooth introduction of AI, the Company actively participates in external training courses and constantly seeks assistance from professionals, the industry, and academia. In 2021, we have made significant achievements in product development, including the development of streamlined cold-rolling process for steel coils and the development of high-grade API steel oil pipes. In terms of quality enhancement, we have improved the production technology and quality of thin hot-rolling plates with a strength of 400kg and cold-rolled medium carbon steel. In terms of process improvements, we have established hot rolling low-temperature rolled fineblanking technology and enhanced heating boiler slab reheating temperature control. The key points in the development of artificial intelligence are as follows:

1. Improved heating boiler slab reheating temperature control technology: It improves the temperature control of the reheating furnace and reduces temperature variation. In addition to reducing product quality variation, it also reduces fuel consumption.
2. Optimized management of air compressors of the Cold Rolling Department: We have entered the final phase for parameter optimization, which is expected to be completed in the second quarter of 2022. It will help us formulate the most suitable air compressor start-up capacity to avoid excessive activations and waste of compressed air capacity.

## **II. Summary of 2022 Business Plan**

In 2022, COVID-19 variants continue to spread in foreign countries and port congestion and container shortage issues have remained unresolved. The supply chain still bears the brunt of the impact and customers also face high inventory, delayed purchase orders, and funding issues due to poor logistics. As countries gradually shift toward an era of zero carbon emissions, as blast furnaces of major producers in Japan and Korea plan reductions in production in 2022, and as the "Carbon Neutrality" policy in Mainland China restricts production and lowers supply, the global steel industry is expected to grow. However, the current Russo-Ukrainian conflict remains the biggest major variable in the market. As both countries are major steel exporters, the war and economic sanctions will create severe impact on the steel supply chain. In response to changes in the current global steel industry, Chung Hung will continue to implement flexible production and sales, facilitate smooth production, transportation, and sales, enhance customer relations, and maintain stable sales volume of steel products. The Company's consolidated sales target for all products this year (2022) is 2.2 million tons.

## **III. Future Corporate Development Strategy, External Competition, Legal Regulation, and Overall Business Environment**

The global economic growth forecast for 2022 was 3.6% in the "World Economic Outlook" published by the International Monetary Fund (IMF) on Apr. 19. In addition,

Taiwan's Chung-Hua Institution for Economic Research adjusted Taiwan's economic growth rate on Apr. 20 and increased it to 3.96% (previous forecast was 3.67%), which indicated that domestic and overseas economies are expected to maintain a stable but slow recovery. The global carbon tax issue and current high coal and steel prices will increase cost and expenditures. The United States House of Representatives passed a US\$1 trillion infrastructure bill at the end of 2021 and is expected to increase steel demand by 40 million to 45 million tons in the next 5 years. It has therefore gradually opened tax-free quotas for imports from the European Union, Japan, and United Kingdom. In addition, blast furnaces of major producers in Japan and Korea are expected to close, reduce production, or undergo annual overhauls in 2022, and plants in Tangshan, China have reduced production due to lockdowns imposed in response to the pandemic. The Russo-Ukrainian War reduced the supply of steel products from the two countries and created shortages in the European market. Related sanctions also caused energy prices to soar. Local electric furnace operators have reduced production significantly due to the significant increase in cost. In conclusion, the supply and demand global steel market in 2022 is expected to remain fundamentally stable. However, the rising cost of materials and environmental protection will support steel prices.

In addition, in terms of carbon neutrality, information security, and corporate governance issues, the Company has established the Carbon Reduction and Carbon Neutrality Promotion Team and the Information Security Committee to continue to focus on the development of related issues and regulations while enhancing corporate governance and corporate sustainable development.

In response to rapid changes in the environment, the Company's vision is to maintain ethical business operations and strive to become a sustainable, reliable, and approachable steel company. We pay attention to development trends in domestic and international steel markets, steel technology development, and international environmental protection and carbon reduction trends to establish the Company's future business development strategies for attaining the Company's sustainable development goals. Our main targets are as follows:

- (I) Promote smart production and sales, enhance information security management, and manage asset risks

We actively cultivate AI talents, strengthen inherent smart development, and enhance digital governance. In response to information security issues, we established information security units, appointed the Chief Information Security Officer and related personnel, and convene information security meetings every quarter for information security examinations and strengthening information protection.

- (II) Continue cost reduction, enhance energy conservation and carbon reduction, and strengthen safety and health

To attain the carbon neutrality targets for 2050, Chung Hung continues to operate the energy management system to promote energy conservation and carbon reduction. We enhance the production equipment, set the electricity saving rate and CO2 emission targets, execute greenhouse gas inventories each year, and accept external verification. The Company also monitors the discharge of pollutants and seeks to create niches for the circular economy by reducing energy and resource consumption and the production of waste.

(III) Strengthen manufacturing management, precision equipment conversion, and enhanced quality and technology

To provide customers with high-quality steel products, Chung Hung continues to convert, replace, and update equipment to strengthen production capabilities. We also maintained the automobile certification quality system and leverage communication with the industry to improve production technologies, product quality, equipment maintenance, and control technologies.

The Company shall uphold the marketing strategy of "stable domestic sales and flexible exports" and use advantages in the flexibility and speed of the supply chain along with dynamic and effective management to achieve optimal production and optimize the product portfolio. In addition to pursuing stable revenue and profitability, we also continue to improve the balanced development of the environment and society to create a blueprint for Chung Hung's sustainable development.

Lastly, I would like to wish all our shareholders  
health and prosperity.

**Chairman of the Board      Min-Hsiung Liu**

**President                              Kuei-Sung Tseng**

## **B. Company Profile**

### **I. Company Overview**

Chung Hung Steel Corporation (hereinafter referred to as Chung Hung) is a member of the China Steel Corporation Group and it was established in Kaohsiung City in September 1983. It became listed on the Taiwan Stock Exchange Corporation in 1992 and its current paid-in capital is NT\$14.35 billion. Its main products include hot-rolled steel coils, cold-rolled steel coils, hot-dipped galvanized steel coils, JIS steel pipes, ASTM steel pipes, API steel pipes, and PE coated steel pipes.

Chung Hung has a total of five production plants, of which four plants, including the Hot Rolling Department, Cold Rolling Department, Dafa Steel Pipe Plant, and the Pickling & Galvanizing Department are located in Kaohsiung City, and the Lukang Steel Pipe Plant in Changhua Coastal Industrial Park in Changhua County.

### **II. Company Profile**

Sept. 1983	Yelong Enterprise Co., Ltd. was established with a capital of NT\$500,000.
Mar. 1986	Commencement of the construction of Kaohsiung Plant.
Apr. 1986	Dafa 1st Plant was established in the Dafa Industrial Park in Daliao Township, Kaohsiung County.
Feb. 1987	Kaohsiung Plant was completed and production began.
May 1987	Dafa 1st Plant was completed and production began.
Mar. 1989	Dafa 1st Plant was awarded Japanese Industrial Standards certification by the Ministry of Economy, Trade and Industry (METI) of Japan and it was the first steel manufacturer in Taiwan to pass the JIS review. Official commissioning and production of the hydrogen annealing furnace in Kaohsiung Plant.
Apr. 1989	Dafa 1st Plant received American Petroleum Institute (API) trademark approval.
Oct. 1989	Dafa 1st Plant receives CNS Mark from the Bureau of Standards, Metrology and Inspection.
Feb. 1992	Common stocks officially listed on the Taiwan Stock Exchange Corporation.
Aug. 1994	Kaohsiung Plant received ISO 9002 certification.
May 1995	Commencement of the construction of Kaohsiung Hot Rolling Department.
Feb. 1996	Dafa 1st Plant received ISO 9002 certification.
Apr. 1997	Kaohsiung Hot Rolling Department was completed and production

	began.
May 1997	Kaohsiung Plant underwent ISO 14001 certification by DNV GL and it was certified in the same month.
Jul. 1998	Bureau of Standards, Metrology and Inspection approved the CNS Mark for carbon steel pipes produced by Dafa 1st Plant.
Nov. 1999	Kaohsiung Plant was assessed as “Excellent Enterprise in Labor Safety and Health Promotion” for 1999 by the Council of Labor Affairs.
Dec. 1999	Entered strategic alliance with China Steel Corporation.
Aug. 2001	Kaohsiung Plant received OHSAS 18001 certification.
Nov. 2001	Dafa 1st Plant received ISO 14001 certification.
Mar. 2002	Kaohsiung Hot Rolling Department received ISO 14001 certification.
May 2002	Kaohsiung Hot Rolling Department received ISO 9001 certification.
Sept. 2002	Kaohsiung Hot Rolling Department received OHSAS 18001 certification.
Jan. 2003	Dafa 1st Plant received OHSAS 18001 certification.
May 2003	The Company entered a slab steel supply agreement with Sumitomo Metal Industries in Wakayama, Japan.
Nov. 2003	The Hot Rolling Department received the “Enterprise Award of Excellence for Energy Conservation” from the Ministry of Economic Affairs.
Jun. 2004	The shareholders' meeting passed the proposal for renaming the Company “Chung Hung Steel Corporation”.
Jul. 2004	The renaming was registered with the Department of Commerce, Ministry of Economic Affairs Approval. (MOEA’s official letter Shou-Shang-Zi No. 09301120280 dated July 14, 2004) “Yelong Enterprise Co., Ltd.” was renamed “Chung Hung Steel Corporation”. Renamed “Kaohsiung Plant” to “Cold Rolling Department” Renamed “Kaohsiung Hot Rolling Department” to “Hot Rolling Department” Renamed “Dafa 1st Plant” to “Steel Pipe Plant”
Sept. 2004	The stocks are issued under “Chung Hung Steel Corporation”.
Sept. 2004	The Cold Rolling Department received the “13th Annual ROC Enterprise Environmental Protection Award” from the Environmental Protection Administration, Executive Yuan.
Sept. 2005	The Hot Rolling Department received the “14th Annual ROC

- Enterprise Environmental Protection Award” from the Environmental Protection Administration, Executive Yuan.
- Sept. 2005 The Cold Rolling Department received the “Enterprise Award of Excellence for Energy Conservation” from the Ministry of Economic Affairs.
- Oct. 2005 Completion of the ERP system.
- Oct. 2006 The Hot Rolling Department and Cold Rolling Department were assessed as “Outstanding Cigarette-Free Workplace” in the 2006 Kaohsiung County Tobacco Hazard Prevention Outstanding Workplace Assessment.
- Nov. 2006 The Cold Rolling Department received the “Leaping Antelope Award” in the 2006 National Tobacco Hazard Prevention Outstanding Workplace Assessment.
- Nov. 2007 The Cold Rolling Department received the “Health Leadership” award for healthy workplace from the Department of Health in 2007. The Steel Pipe Plant passed the Healthy Workplace Accreditation by the Bureau of Health Promotion and received the “Tobacco Hazard Prevention Mark” and “Health Promotion Mark”.
- Dec. 2007 The Hot Rolling Department received the “2005 Greenhouse Gas Inventory Statement” issued by the DNV.
- Jan. 2008 The Company launched the first corporate volunteer program and adopted the “Heping Juvenile Home for Boys” of Kaohsiung County to provide regular volunteer services.
- Jul. 2008 To thank Chung Hung for its long-term assistance in promoting policies of the town and active participation in social welfare activities and care for the disadvantaged, Gangshan Township issued an “Honorary Town Citizen ID Card” to the Company to express the gratitude of the people.
- Aug. 2008 The company established an Energy-Saving Service Group and participated in the “2008 Ceremony for Flag Presentation to Energy-Saving Service Groups of Group Enterprises” hosted by the Bureau of Energy of the Ministry of Economic Affairs.
- Oct. 2008 The Company signed a 5-year (2009 to 2013) Memorandum of Understanding for Energy Conservation & Carbon Reduction Assistance for Chung Hung with the Taiwan Green Productivity Foundation.
- Nov. 2008 The Company received the two-star award (enterprise category) for

- high-quality groups of 2008 by the Chinese Society for Quality.
- Dec. 2008 The Hot Rolling Department received the “2007 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction”.
- Feb. 2009 The Steel Pipe Plant passed the new “JIS” certification (JIS G3444, G3466 Carbon Steel Rectangular Tubes for General Structure, and JIS G3452 Carbon Steel Pipes for Ordinary Piping) of the Japan Quality Assurance Organization (JQA).
- Mar. 2009 The Company organized a NT\$4 billion capital cash increase in 2009 and increased its paid-in capital to NT\$16.85 billion.
- May 2009 To thank Chung Hung for its long-term support for rural construction, active care for the disadvantaged, and participation in social welfare activities, Ciaotou Town Office issued an “Honorary Ciaotou Citizen ID Card” to the Company to express the gratitude of the people.
- Nov. 2009 The Hot Rolling Department, Cold Rolling Department, and Steel Pipe Plant passed the Taiwan Occupational Safety and Health Management System (TOSHMS) certification.
- Nov. 2009 The Hot Rolling Department received the “2008 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction” from the Industrial Development Bureau, Ministry of Economic Affairs.
- Dec. 2009 The hot-rolled products received the Indonesian SNI product certification.
- Jun. 2010 The Company received a Class A rating in the 2009 Information Disclosure Review conducted by the Securities & Futures Institute. (The Company was listed as a Class A company for three consecutive years from 2005 to 2007 and it was listed as a Class A+ company in 2008; it was also listed among companies with more transparent voluntary information disclosure from 2006 to 2008.)
- Jun. 2010 The Hot Rolling Department, Cold Rolling Department, and Steel Pipe Plant received the “Steel and Iron Industry Radiation Detection Operations Certification” issued by the Atomic Energy Council, Executive Yuan. This certification improved the Company’s guarantee for its products and helped customers in winning construction tenders from government authorities.
- Aug. 2010 The Company received “Second Place for Growth Rate in Export Expansion in Key Markets” in the 2009 Award for International Trade presented by the Taiwan External Trade Development Council: No. 1

- in growth rate in export expansion in the key market of Korea.
- Sept. 2010 The Company organized a capital reduction for the 2009 fiscal year to make up for losses and its paid-in capital was reduced from NT\$16.85 billion to NT\$13.8 billion.
- Nov. 2010 The Hot Rolling Department was certified for the “Health Promotion Mark for Healthy Workplace Voluntary Accreditation” by the Bureau of Health Promotion, Executive Yuan. The validity period is three years (November 1, 2010 to December 31, 2013).
- Nov. 2010 The Hot Rolling Department advanced the compressed air performance monitoring system update and received the “Energy Conservation Role Model” in the “2010 Manufacturing Industry Energy Conservation & Carbon Reduction Outcome Announcement Conference” organized by the Industrial Development Bureau, Ministry of Economic Affairs.
- Jan. 2011 The Company was recommended by Kaohsiung County Government as an outstanding private charity and public welfare organization. It also received public commendation from Taiwan Provincial Government and received the “Love and Care” award and certification.
- Apr. 2011 The Hot Rolling Department and Cold Rolling Department participated “Enterprise Energy Conservation Performance Contest” organized by the Environmental Protection Bureau of Kaohsiung City Government and were awarded for “Outstanding Energy Conservation Performance”.
- Jun. 2011 The Company received a Class A rating in the 2010 Information Disclosure Review conducted by the Securities & Futures Institute; it was also listed among companies with more transparent voluntary information disclosure.
- Aug. 2011 The Company established the Remuneration Committee.
- Sept. 2011 The hot-rolled products received the SIRIM certification in Malaysia (MS 1705 SPHC, MS 1768 SPHT1, JIS G3101 SS400, and SAE J403 1008).
- Nov. 2011 The groundbreaking ceremony of the new steel pipe construction was held by Chairman Kun-Mu Chen in Changhua Coastal Industrial Park in Changhua County in the morning of November 17.
- Mar. 2012 The hot-rolled products and cold-rolled products received the JIS Mark certification in Japan (JIS G3131 SPHC, JIS G3101 SS400, and JIS G3141 SPCC/SPCD).
- Jun. 2012 The Company received a Class A rating in the 2011 Information

	Disclosure Review conducted by the Securities & Futures Institute.
Sept. 2012	The hot-rolled products received the FPC certification in Singapore (JIS G3101 SS400, BS EN 0025-2 S275JR, BS EN 10025-2 S275JO, BS EN 10025-2 S235JR, and BS EN 10025-2 S235JO).
Nov. 2012	The Company's pursuit of quality and excellence received recognition and it received the "Asian Network for Quality Recognition for Excellence in Quality Practice" from the Chinese Society for Quality.
Dec. 2012	The Company worked with the Industrial Development Bureau, Ministry of Economic Affairs in the advancement of the emissions reduction offset program and received the "Carbon Reduction Pioneer" award.
Dec. 2012	The Company participated in the 2012 Workplace Safety Week program and received the "Excellence Award".
Dec. 2012	The Company received the "Authorized Economic Operator" (AEO) certification from the Customs Administration of the Ministry of Finance. The validity period is three years (December 27, 2012 to December 26, 2015).
Dec. 2012	ISO 50001 Energy Management System and Product Carbon Footprint and Environmental Product Declaration passed DNV inspection (certification).
Jun. 2013	The Company received a Class A rating in the 2012 Information Disclosure Review conducted by the Securities & Futures Institute.
Jul. 2013	The Cold Rolling Department was recognized as an "Outstanding Unit in the Advancement of Labor Safety and Health in Kaohsiung City in 2012" and received the "Outstanding Unit Award" as a "2012 Outstanding Labor Safety and Health Unit" from the Council of Labor Affairs, Executive Yuan.
Jul. 2013	Hot-rolled products received TIS certification in Thailand.
Nov. 2013	The Cold Rolling Department received the 2013 "Enterprise Award of Excellence for Energy Conservation" from the Ministry of Economic Affairs.
Nov. 2013	The Hot Rolling Department received the 2013 Outstanding Enterprise in Industry Voluntary Greenhouse Gas Emissions Reduction from the Industrial Development Bureau Ministry of Economic Affairs.
Jan. 2014	The Company passed the certification for ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories and became a TAF-certified laboratory.

- Apr. 2014 The Company's purchase of products with environmental protection marks for Green Procurement exceeded NT\$5 million in 2013 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government.
- May 2014 The thesis promoting "Plant Regional Allied Defense" to improve the occupational management performance of steel plants received first prize for "Occupational Safety and Health Management Thesis" issued by Taichung City Government.
- Jun. 2014 The cold-rolled products received the MS certification in Malaysia (JIS G3141: 2011 SPCC 1B and MS ISO 3574: 2009(P) CR1) .
- Jun. 2014 The Company received a Class A+ rating in the 11th Information Disclosure Review for Listed Companies conducted by the Securities & Futures Institute in 2013.
- Jul. 2014 The hot-rolled products/PO, cold-rolled products, and galvanized products received the VN certification in Vietnam.
- Jul. 2014 The Company was ranked 40th among outstanding import and export companies in 2013 by the Bureau of Foreign Trade, Ministry of Economic Affairs.
- Sept. 2014 The Hot Rolling Department, Cold Rolling Department, and Dafa Steel Pipe Plant received the ISO14064-1 Greenhouse Gas Inventory Statement.
- Sept. 2014 The Company's purchase of products with environmental protection marks for Green Procurement exceeded NT\$20 million in 2013 and received an honorary certificate from the Environmental Protection Administration, Executive Yuan.
- Oct. 2014 The Lukang Steel Pipe Plant passed American Petroleum Institute (API) certification.
- Oct. 2014 The Hot Rolling Department received the "Special Award" for safety and health performance in 2013 from Taiwan Steel & Iron Industries Association.
- Nov. 2014 The Cold Rolling Department was recognized as an "Outstanding Unit in the Advancement of Labor Safety and Health in Kaohsiung City in 2013" and received the "Outstanding Unit Award" as a "2013 Outstanding Labor Safety and Health Unit" from the Ministry of Labor, Executive Yuan.
- Nov. 2014 The Company (entered the contest with the Ciaotou Administration Building) won the "First Prize" in the electricity savings contest for

	small and medium enterprises organized by Taiwan Power Company.
Dec. 2014	Chairman Mr. Yu-Sung Chen retired upon reaching retirement age and Mr. Tsung-Ying Huang took over as Chairman.
Dec. 2014	The Hot Rolling Department received the 2014 “Industry Award of Excellence” for water conservation from the Water Resources Agency, Ministry of Economic Affairs.
Jan. 2015	The Steel Pipe Plant's new Lukang plant laboratory passed the certification for ISO/IEC 17025:2005 General requirements for the competence of testing and calibration laboratories and became a TAF-certified laboratory.
Apr. 2015	The Company’s Green Procurement exceeded NT\$5 million in 2014 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government.
Apr. 2015	The Company received a Class A+ rating in the 12th Information Disclosure Review for Listed Companies conducted by the Securities & Futures Institute in 2014. It was also ranked among the top 6% to 20% of companies in the first Corporate Governance Review.
Jun. 2015	The Company established an Audit Committee.
Sept. 2015	Lukang Steel Pipe Plant passed ISO 14001 and OHSAS 18001 certification.
Oct. 2015	The Hot Rolling Department received the “Excellence Award” in the 2015 Energy Conservation Contest organized by the Ministry of Economic Affairs.
Oct. 2015	The Cold Rolling Department received the “Special Award” for safety and health performance in 2014 from Taiwan Steel & Iron Industries Association.
Nov. 2015	Lukang Steel Pipe Plant passed TOSHMS (CNS 15506) certification.
Nov. 2015	Lukang Steel Pipe Plant passed ISO 9001 certification.
Nov. 2015	The Cold Rolling Department was recognized as an “Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2014” and received the “Five-Star Award” as a “2014 Outstanding Occupational Safety and Health Unit” from the Ministry of Labor, Executive Yuan.
Jan. 2016	The Hot Rolling Department received the “Special Prize” for enterprise manufacturing plant in the 2015 Carbon Reduction Actions Award from the Environmental Protection Administration and the Ciaotou Administration Building received “Outstanding Award” for carbon

	emissions reduction in the office space.
Apr. 2016	The Company's purchase of products with environmental protection marks for Green Procurement exceeded NT\$10 million in 2015 and it received an honorary certificate from the Environmental Protection Bureau of Kaohsiung City Government.
Aug. 2016	The Company was selected as an outstanding group enterprise in electricity savings in 2015 by the Ministry of Economic Affairs and received a "Electricity Savings Role Model" trophy.
Sept. 2016	Hot-rolled products received EU's CE marking certification.
Nov. 2016	Chairman Mr. Tsung-Ying Huang retired upon reaching retirement age and Mr. Shun-Te Chiu took over as Chairman.
Nov. 2016	The Hot Rolling Department and Cold Rolling Department both received the "Special Award" for occupational safety performance in 2015 from Taiwan Steel & Iron Industries Association
Nov. 2016	The Hot Rolling Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health in Kaohsiung City in 2015" and received the "2015 Outstanding Occupational Safety and Health Unit Award" from the Ministry of Labor, Executive Yuan.
Oct. 2017	The Hot Rolling Department received the "2016 Excellent Unit for Promoting Occupational Safety and Health" from the Labor Affairs Bureau of Kaohsiung City Government.
Oct. 2017	The Company received recognition for inter-department greenhouse gas reduction and cooperation program in 2017 from the Environmental Protection Bureau of Kaohsiung City Government.
Oct. 2017	The Hot Rolling Department and Cold Rolling Department both received the "Special Award" for occupational safety performance in 2016 from Taiwan Steel & Iron Industries Association
Nov. 2017	The Hot Rolling Department received the "2016 Excellent Unit for Promoting Occupational Safety and Health" from the Ministry of Labor.
Dec. 2017	Lukang Steel Pipe Plant received the "Health Management Award" for outstanding workplace health in 2017 from the Health Promotion Administration of the Ministry of Health and Welfare.
Dec. 2017	The Hot Rolling Department received the CIDB certification in Malaysia.
Jan. 2018	Chairman Mr. Shun-Te Chiu retired upon reaching retirement age and Mr. Yi-Chung Han took over as Chairman.

Jun. 2018	June 1 was adopted as the baseline date for the merger of the Company and the subsidiary Hung Li Steel Corporation which became the Company's "Pickling and Galvanizing Department".
Jun. 2018	Official launch of the Company's new website in traditional Chinese and English.
Jul. 2018	Lukang Steel Pipe Plant passed ISO 50001 certification.
Jul. 2018	The Hot Rolling Department organized the first energy conservation demonstration seminar for China Steel Corporation Group on behalf of the Company.
Sept. 2018	Lukang Steel Pipe Plant obtained JIS Mark Certification.
Sept. 2018	The Hot Rolling Department was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2017" and received the "Five-Star Award" as a "2017 Outstanding Occupational Safety and Health Unit" from the Ministry of Labor.
Oct. 2018	Taiwan Ratings gave Chung Hung Steel Corporation a rating of "twA/twA-1" and "stable" outlook.
Oct. 2018	The Company received recognition for inter-department greenhouse gas reduction and cooperation program in 2018 from the Environmental Protection Bureau of Kaohsiung City Government.
Oct. 2018	The Company was awarded in 15th National Brand Yushan Award (Outstanding Enterprise Category).
Oct. 2018	Lukang Steel Pipe Plant received the "Excellence Award" for safety and health performance in 2017 from Taiwan Steel & Iron Industries Association.
Dec. 2018	Awarded the silver medal certification in the Talent Quality-management System (TTQS) of the Ministry of Labor.
Dec. 2018	The Company received the "Authorized Economic Operator" (AEO) certification from the Customs Administration of the Ministry of Finance.
Mar. 2019	Received recognition for 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.
May 2019	The heating furnace fuel conversion project of the Hot Rolling Department for replacing GHG emissions received certification for 52,506 tons of CO <sub>2</sub> e in the first year.

- Jun. 2019 Received recognition for 2018 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City Government for more than NT\$5 million of green procurement in 2018.
- Jul. 2019 Passed ISO 45001: 2018 Management System certification.
- Jul. 2019 Passed CNS 45001: 2018 Management System certification.
- Jul. 2019 The Hot Rolling Department passed the product licensing exchange review in Malaysia (MS).
- Aug. 2019 Passed ISO 50001: 2018 Management System certification.
- Sept. 2019 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.
- Sept. 2019 Chairman Mr. Yi-Chung Han retired upon reaching retirement age and Mr. Min-Hsiung Liu took over as Chairman.
- Oct. 2019 The Pickling and Galvanizing Department passed IATF 16949: 2016 certification.
- Oct. 2019 Received the 2018 Award for International Trade (Best Trade Contribution Award).
- Oct. 2019 Received certificate of top 500 ranking among outstanding import and export companies in 2018 from the Bureau of Foreign Trade, Ministry of Economic Affairs.
- Nov. 2019 Received the 2019 Sports Corporate Certification from the Sports Administration of the Ministry of Education.
- Nov. 2019 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.
- Nov. 2019 Received the Corporate Sustainability Report Award and Top 50 Corporate Sustainability Award in the 2019 Taiwan Corporate Sustainability Awards.
- Dec. 2019 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.
- Dec. 2019 Passed ISO/IEC 17025: 2017 revision verification and inspections.
- Dec. 2019 President Tsung-Chang Lee retired upon reaching retirement age and

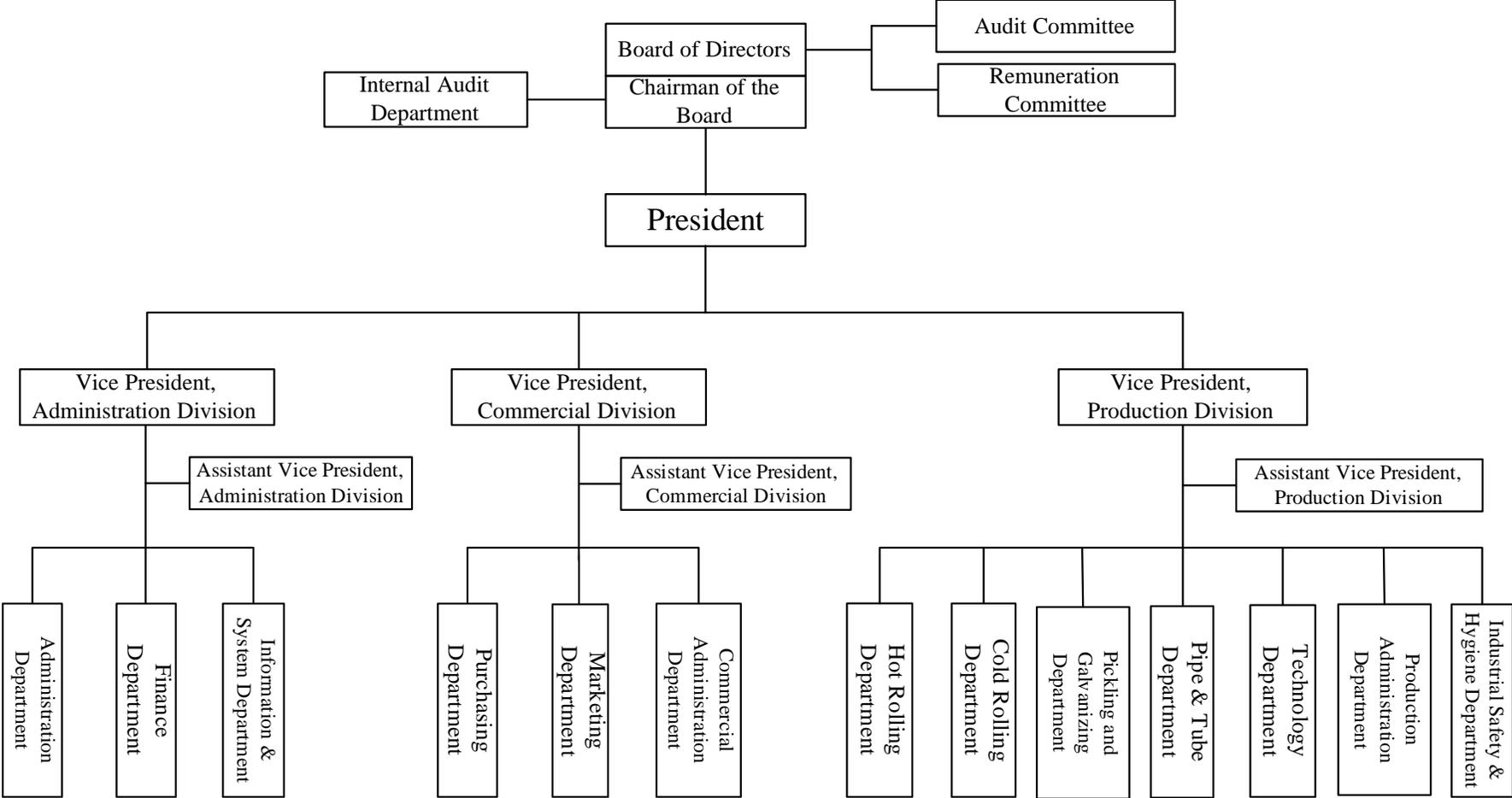
	Mr. Kung-Ching Wu took over as President.
Apr. 2020	The Company was rated among the top 6% to 20% of companies in the 6th Corporate Governance Evaluation of the Securities & Futures Institute in 2019.
Apr. 2020	The Company received a certificate of appreciation for inter-department greenhouse gas reduction and cooperation program in 2019 and 2020 from the Environmental Protection Bureau of Kaohsiung City Government.
Sept. 2020	The heating furnace fuel conversion project of the Hot Rolling Department for replacing GHG emissions received the second certification (second to third year) for 102,606 tons of CO <sub>2</sub> e.
Sept. 2020	Received recognition for 2019 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City Government for more than NT\$5 million of green procurement in 2019.
Sept. 2020	The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2020" and received the "2020 Outstanding Occupational Safety and Health Unit" award from the Ministry of Labor, Executive Yuan.
Nov. 2020	Received the Gold Corporate Sustainability Report Award in the 2020 Taiwan Corporate Sustainability Awards.
Nov. 2020	Dafa Steel Pipe Plant and Lukang Steel Pipe Plant passed FPC certification in New Zealand.
Nov. 2020	The Hot Rolling Department and Cold Rolling Department received the "Special Award" for safety and health performance in 2019 from Taiwan Steel & Iron Industries Association.
Nov. 2020	Awarded the silver medal certification in the Talent Quality-management System (TTQS) of the Ministry of Labor.
Apr. 2021	The Company was rated among the top 6% to 20% of companies in the 7th Corporate Governance Evaluation of the Securities & Futures Institute in 2020.
May 2021	Received recognition as an Excellent Invoice Issuer from the Ministry of Finance for 2021.
May 2021	The Pickling and Galvanizing Department passed ISO 14001: 2015 Management System certification.
Jul. 2021	The Pickling and Galvanizing Department passed ISO 50001: 2018

	Management System certification.
Sept. 2021	Received recognition for 2020 Outstanding Green Procurement Enterprise Award in Kaohsiung city from the Environmental Protection Bureau of Kaohsiung City Government for more than NT\$5 million of green procurement in 2020.
Oct. 2021	The Laboratory of the Pickling & Galvanizing Department passed the certification for ISO/IEC 17025:2017 General requirements for the competence of testing and calibration laboratories and became a TAF-certified laboratory.
Oct. 2021	Received certificate of top 500 ranking among outstanding import and export companies in 2020 from the Bureau of Foreign Trade, Ministry of Economic Affairs.
Nov. 2021	The Hot Rolling Department and Cold Rolling Department passed the Taiwan Occupational Safety and Health Management System review of the Ministry of Labor. The validity period is three years from June 29, 2021 to June 28, 2024.
Nov. 2021	The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2021" and received the "2021 Outstanding Occupational Safety and Health Unit - Five-Star Award" from the Ministry of Labor, Executive Yuan.
Nov. 2021	Received the "Corporate Sustainability Report Award - Traditional Manufacturing Industry - Silver Award" in the 2021 Taiwan Corporate Sustainability Awards.
Dec. 2021	The Hot Rolling Department and Cold Rolling Department received the "Gold Safety Award" for safety and health performance in 2020 from Taiwan Steel & Iron Industries Association. Dafa Steel Pipe Plant and Lukang Steel Pipe Plant also won the "Excellence Award".

# C. Corporate Governance Report

## I. Organization

### (I) Organization Chart



## (II) Responsibilities and functions major departments

Unit		Responsibilities
Internal Audit Department		Credit loan management, internal controls of the company, audit planning and execution, fraud prevention, and disclosure of business risks.
Administration Division	Administration Department	Human resources, organization planning, public relations, processing of affairs with foreign entities, company welfare, and establishment of management systems.
	Finance Department	Accounting affairs, finance, shareholders' meetings, board of directors, insurance, and related matters as well as procedures and management for costs, investments, and capital expenditures.
	Information & System Department	Overall information system and hardware planning, development, establishment, and maintenance as well as the rationalization, standardization, and institutionalization of the Company's overall information system.
Commercial Division	Purchasing Department	Establishment of raw materials and construction procurement system and materials, resources, construction procurement operations, management, market survey, and research.
	Marketing Department	Sales, delivery, and account management for business activities, customer credit investigation, responses to related feedback, after-sales services, and market development.
	Commercial Administration Department	Establishment of management systems, consolidation of market surveys, external business activities, and transportation management.
Production Division	Hot Rolling Department	Production of hot-rolled products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.
	Cold Rolling Department	Production of cold-rolled products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.
	Pickling and Galvanizing Department	Production of pickled and galvanized products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.
	Pipe & Tube Department	Production of pipe and tube products, quality control, inventory management, equipment maintenance, environmental safety and sanitation management, etc.

Unit		Responsibilities
	Technology Department	Maintenance of ISO 9001, API, JIS, CNS, ISO/IEC 17025, and IATF 16949 certification, establishment of a quality inspection system, execution of inspections and tests, and processing customer complaints for materials/products.
	Production Administration Department	Production plans, production and sales coordination, and coordination, cooperation, and integration of resources of different departments of the Production Division.
	Industrial Safety & Hygiene Department	Planning, and supervision of labor safety, health, environmental protection, and energy. Establishment, integration, and advancement of ISO 14001, ISO 45001, and ISO 50001 management systems and the ISO 14064 greenhouse gas inventory and reduction.

## II. Profile of Directors, Independent Directors, and Managerial Officers

### (I) Directors and Independent Directors

March 31, 2022

Title	Nationality or place of registration	Name	Gender	Date elected (Appointed)	Term	Date first elected	Shareholding when elected		Current shareholding (Note 1)		Shareholding by spouse and minors		Shareholding by nominee arrangement		Education / Work Experience	Other positions in other companies held currently	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads			Remarks (Note 2)
			Age				Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
			Chairman of the Board				Republic of China	China Steel Corporation Representative: Min-Hsiung Liu	Male	2021.8.25	3 years	2006.6.29	582,673,153	40.59 (Note 3)			582,673,153	40.59	-	
			63																	
Director	Republic of China	China Steel Corporation Representative: Chao-Tung Wong	Male	2021.8.25	3 years	2006.6.29	582,673,153	40.59	582,673,153	40.59	-	-	-	-	PhD in Resources Engineering, National Cheng Kung University President of China Steel Corporation	Does not hold positions in the Company Chairman of China Steel Corporation Director of China Steel Chemical Corporation Director of China Ecotek Corporation Director of Dragon Steel Corporation Director of China Steel Global Trading Corporation Director of Taiwan High Speed Rail Inc.	None	None	None	None.
			68																	
Director	Republic of China	China Steel Corporation Representative: Kuei-Sung Tseng	Male	2021.8.25	3 years	2006.6.29	582,673,153	40.59	582,673,153	40.59	-	-	-	-	Systems and Naval Mechatronic Engineering, National Cheng Kung University Assistant Vice President, Production Division	President of the Company Chairman of CSCI Steel Corporation India Private Limited	None	None	None	None.
			61																	
Director	Republic of China	China Steel Corporation Representative: Wen-Chou Li (Note 4)	Male	2021.8.25	3 years	2006.6.29	582,673,153	40.59	582,673,153	40.59	-	-	-	-	Department of Business Administration, National Cheng Kung University Director of Marketing Department, China Steel Corporation	Does not hold positions in the Company Assistant Vice President of Commercial Division, China Steel Corporation	None	None	None	None.
			62																	
Independent Director	Republic of China	Juh-Shan Chiou	Male	2021.8.25	3 years	2015.6.26	-	-	-	-	-	-	-	-	MBA, National Sun Yat-sen University Chung Sun Certified Public Accountants Accounting Partner	Does not hold positions in the Company Independent Director and Audit Committee Convener, King Point Enterprise Co., Ltd. Independent Director and Audit Committee Convener, Jufan Industrial Co., Ltd. Chungsun Prime Certified Public Accountants Honorary Accountant	None	None	None	None.
			70																	

Title	Nationality or place of registration	Name	Gender	Date elected (Appointed)	Term	Date first elected	Shareholding when elected		Current shareholding (Note 1)		Shareholding by spouse and minors		Shareholding by nominee arrangement		Education / Work Experience	Other positions in other companies held currently	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads			Remarks (Note 2)
			Age				Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
Independent Director	Republic of China	Hsien-Tang Tsai	Male	2021.8.25	3 years	2015.6.26	-	-	-	-	-	-	-	-	Ph.D. in Business Administration, Purdue University College of the Institute of Management, National Sun Yat-sen University Dean	Does not hold positions in the Company Independent Director, Audit Committee Member, and Remuneration Committee Convener, Logah Technology Corporation Independent Director, Audit Committee Member, and Remuneration Committee Member, Fulin Plastic Industry (Cayman) Holding Co., Ltd. Independent Director, Fulin Plastic Industry (Vietnam) Co., Ltd. (wholly-owned subsidiary of Fulin Plastic Industry (Cayman) Holding Co., Ltd.) Remuneration Committee Member, Revivegen Environmental Technology Co., Ltd.	None	None	None	None.
Independent Director	Republic of China	Lin-Lin Lee	Female	2021.8.25	3 years	2015.6.26	-	-	-	-	-	-	-	Master of Law, National Taiwan University Vice Chairman, Taiwan Bar Association	Does not hold positions in the Company Managing Partner, Ling Yun Attorneys-at-Law Independent Director, Audit Committee Member, and Remuneration Committee Member, Sentien Printing Factory Co., Ltd.	None	None	None	None.	
			66																	
			54																	

Note 1: The Company has no employee subscription warrants and is not required to disclose employee subscription warrants held by Directors or managerial officers.

Note 2: Where the Chairman, President, or individual with equivalent roles (highest-ranking managerial officer) are the same individual, spouses, or relatives within the first degree of kinship, the Company shall specify related information regarding the reason, reasonableness, necessity, and response measures (e.g., appointment of additional Independent Directors and requiring the appointment of more than half of the Directors from individuals who are not employees or managerial officers).

Note 3: This shareholding ratio refers to the ratio of shares of the Company held by China Steel Corporation and is rounded to the second decimal place.

Note 4: The corporate shareholder China Steel Corporation assigned Mr. Wen-Chou Li to replace Mr. Kai-Ming Huang as its representative on March 1, 2022.

**Table 1: Major shareholders of corporate shareholders**

December 31, 2021

Name of corporate shareholder (Note 1)	Major shareholders of corporate shareholders (Note 2)
China Steel Corporation	Ministry of Economic Affairs (MOEA)(20.00%), Employee's Stock Trust of China Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd. (2.53%), Fubon Life Insurance Co., Ltd. (2.50%), Transglory Investment Corporation (1.63%), Labor Pension Fund (1.47%), Labor Retirement Fund (1.10%), Vanguard Emerging Markets Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.08%), Winning Investment Corporation (1.01%), Vanguard Total International Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.01%), Public Service Pension Fund Management Board (0.74%)

Note 1: For directors and supervisors who are the representatives of corporate shareholders, the names of the corporate shareholders shall be disclosed.

Note 2: Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio. If the major shareholder is a corporate shareholder, its name shall be filled in Table 2 below.

Note 3: Where a corporate shareholder is not organized as a company, the name of the shareholders and shareholding ratio that must be disclosed in accordance with the above shall be the name of the funder or donor and the funding or donation ratio.

**Table 2: Major shareholders of major corporate shareholders listed in Table 1**

December 31, 2021

Name of Legal Entity (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)
Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
Transglory Investment Corporation	China Steel Express Corporation (49.89%), Chung Hung Steel Corporation (40.91%), China Steel Chemical Corporation (9.20%)
Winning Investment Corporation	Gains Investment Corporation (49.00%), Maruichi Steel Tube Ltd. (42.00%), Transglory Investment Corporation (9.00%)

Note 1: If the major shareholders in the preceding Table1 are corporate shareholders, the name of the corporate shareholder shall be disclosed.

Note 2: Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio.

Note 3: Where a corporate shareholder is not organized as a company, the name of the shareholders and shareholding ratio that must be disclosed in accordance with the above shall be the name of the funder or donor and the funding or donation ratio.

## Directors and Independent Directors

### I. Disclosure of information on the professional qualifications of directors and independence of independent directors:

Criteria Name	Professional qualifications and experience (Note 1)	Independence status	Number of other public companies the person serves as an independent director
Corporate Director Representative: Min-Hsiung Liu	His highest degree is BA in Business Administration, National Cheng Kung University. He currently serves as the Chairman of the Company, Vice President of Commercial Division of China Steel Corporation, Director of Dragon Steel Corporation, Director of China Steel Global Trading, Director of China Steel Express Corporation, Director of CSC Steel Sdn.Bhd. and Director of CSC Steel Holdings Bhd.	1. Not a spouse or a relative within two degrees of kinship with any other director. 2. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.	0
Corporate Director Representative: Chao-Tung Wong	His highest degree is Ph.D. in Resources Engineering, National Cheng Kung University. He currently serves as the Chairman of China Steel Corporation, Director of Dragon Steel Corporation, Director of China Steel Chemical Corporation, Director of China Ecotek Corporation, Director of China Steel Global Trading Corporation, and Director of Taiwan High Speed Rail Inc.	1. Not a spouse or a relative within two degrees of kinship with any other director. 2. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.	0
Corporate Director Representative: Kuei-Sung Tseng	His highest degree is BA in Systems and Naval Mechatronic Engineering, National Cheng Kung University. He currently serves as the President of the Company and Chairman of CSCI Steel Corporation India Private Limited. He had served as the Vice President of Production Division of China Steel Corporation.	1. Not a spouse or a relative within two degrees of kinship with any other director. 2. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.	0

Name \ Criteria	Professional qualifications and experience (Note 1)	Independence status	Number of other public companies the person serves as an independent director
Corporate Director Representative: Wen-Chou Li	His highest degree is MA in Business Administration from National Cheng Kung University. He currently serves as the Vice President of Commercial Division of China Steel Corporation. He had served as the Director of the Marketing Department of China Steel Corporation.	<ol style="list-style-type: none"> <li>1. Not a spouse or a relative within two degrees of kinship with any other director.</li> <li>2. The individual, spouse, or relative within the second degree of kinship is not a director or supervisor of the Company or any of its affiliates.</li> <li>3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.</li> </ol>	0
Independent Director Juh-Shan Chiou	His highest degree is MBA, National Sun Yat-sen University and he qualified in the high-level national examination for Certified Public Accountant of the Republic of China and Certified Securities Investment Analyst (CSIA). He currently serves as the Independent Director and Audit Committee Convener, King Point Enterprise Co., Ltd. (June 2020 to present), Independent Director and Audit Committee Convener, Jufan Industrial Co., Ltd. (Sept. 2021 to present), and Honorary Accountant of Chungsun Prime Certified Public Accountants. He had served as a Partner of Chung Sun Certified Public Accountants, CPA in Deloitte, Taiwan, and lecturer of National Sun Yat-sen University. He is an accounting and finance professional.	<p>The three Independent Directors meet the following conditions during the two years before being elected or during the term of office:</p> <ol style="list-style-type: none"> <li>1. The individual is not an elected person in the name of a government, institution, or its representative as defined in Article 27 of the Company Act.</li> <li>2. The individual, spouse, or relative within the second degree of kinship is not a director, supervisor, or employee of the Company or any of its affiliates.</li> <li>3. The individual is not a director, supervisor, or employee of a company that has special relations with the Company.</li> <li>4. The individual is not a director, supervisor, manager, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company.</li> </ol>	2

Name	Criteria	Professional qualifications and experience (Note 1)	Independence status	Number of other public companies the person serves as an independent director
Independent Director Hsien-Tang Tsai	His highest degree is Ph.D. in Business Administration, Purdue University. He currently serves as the Independent Director, Audit Committee Member, and Remuneration Committee Convener, Logah Technology Corporation (Mar. 2014 to present), Independent Director, Audit Committee Member, and Remuneration Committee Member of Fulin Plastic Industry (Cayman) Holding Co., Ltd. (Jun. 2020 to present), and Remuneration Committee Member of Revivegen Environmental Technology Co., Ltd. (Mar. 2022 to present) He had served as the Dean of College of the Institute of Management and Professor of the Department of Business Management, National Sun Yat-sen University, and Director of Taiwan Public Television Service Foundation.	<p>5. Has not provided business, legal, financial, or accounting services to the Company or its affiliates in the last two years.</p> <p>6. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.</p>	2	

Name \ Criteria	Professional qualifications and experience (Note 1)	Independence status	Number of other public companies the person serves as an independent director
Independent Director Lin-Lin Lee	Her highest degree is Master of Law, National Taiwan University and she qualified in the high-level Bar Examination of the Republic of China. She currently serves as the Managing Partner of Ling Yun Attorneys-at-Law (Jun. 2012 to present) and Independent Director, Audit Committee Member, and Remuneration Committee Member of Sentien Printing Factory Co., Ltd. (Jun. 2020 to present). She had served as Vice Chairman of Taiwan Bar Association, Chairman of Bar Association of Kaohsiung, Chairman of Warm Life Association for Women (Kaohsiung), lecturer of I-Shou University, Member of the Attorney Disciplinary Re-Examination Committee, Member of the Prosecutors' Selection Committee of the Ministry of Justice, Member of the Prosecutor Evaluation Committee, and Member of the Professional Judges' Selection Committee of the Ministry of Justice.		1

Note 1: All Directors of the Company meet professional qualifications, have more than five years of work experience, and do not meet the criteria listed in any Subparagraph of Article 30 of the Company Act.

#### Diversity and independence of the Board of Directors:

1. Diversity of the Board of Directors: Article 3.4.1 of the Company's "Corporate Governance Best Practice Principles" requires diversity in board composition and the establishment of diversity policies for the Company's operations, business model, and development requirements. The Board of Directors includes 7 members including 3 Independent Directors (1 female) with different professional backgrounds, genders, or field of work. They have the knowledge, skills, and quality necessary for the performance of their duties and they implement effective supervision and oversight of the Company's compliance, prompt disclosure of material information, and ethical management. They maintain communication channels and good interactions with the management team and they provide guidance for the Company's business operations and resolutions for material decisions to ensure the Company's development and safeguard shareholder right.

The Company considers the overall structure of the Board of Directors and aims to set up a Board of Directors of diverse gender, age, professional knowledge, and background. The Company specified in the Company's Corporate Governance Best-Practice Principles that Directors who serve concurrently as the Company's managerial officers should not exceed one third of the Directors, and at least one member of the Board of Directors should have professional legal background or management experience in the steel industry to support the Company's future business development.

The Company's development is focused on legal compliance, material acquisition, and integration and transformation. Therefore, the Directors were selected based on academic records and experience, age, areas of expertise, and gender balance, and were selected from the industry and academia while taking into account the Company's 5-year business development strategy and goals. Independent Directors include one attorney (female) who provide guidance for legal compliance; an accountant who maintains the quality of Financial Reports and provides advice on compliance with accounting standards; a professor of a national university with expertise in business management who provides advice on business management and risk control. Other Directors include Director Min-Hsiung Liu who is familiar with the overall development of the steel industry and understands the future trends in the steel market and raw materials market; Director Chao-Tung Wong who specializes in integrating upstream and downstream steel industries and focuses on environmental protection issues and social care; Director Wen-Chou Li who specializes in sales and provides the Company's future sales strategy; and Director Kuei-Sung Tseng who has the engineering and steel production expertise to assist the Company in the current phase of replacement of old production equipment.

The Company's current Board of Directors includes 7 members (including 3 Independent Directors, 1 of which is female). Its composition is diverse and its professional knowledge and expertise encompass steel (knowledge of the industry), resources, engineering, business administration, law, accounting and finance, and electrical engineering, which fully supports the diversity targets for members of the Board of Directors. The Company's Directors who serve as employees account for 14.29% of all Directors; Independent Directors account for 42.86%; the female Director accounts for 14.29%; the proportion of Directors who do not serve concurrent role as company managers is 85.71%. The three Independent Directors have provided four to eight years of services. Six Directors are between 61 and 70 years of age and one Director is between 51 and 60 years of age. The implementation status is listed in the table below:

Diversity Core Item  Name of Director	Basic Composition								Business management	Leadership and decision making	Industry knowledge	Financial Accounting	Business	Legal Affairs	Marketing	Business Administration	Engineering
	Gender	Nationality	Concurrent Role as Company Employee	Age Distribution		Term of Independent Director											
				51 to 60	61 to 70	Less than 3 years	4 to 8 years	Over 9 years									
Chairman Min-Hsiung Liu	Male	R.O. C.		✓					✓	✓	✓					✓	
Director Chao-Tung Wong	Male	R.O.C.		✓					✓	✓	✓				✓		✓
Director Kuei-Sung Tseng	Male	R.O.C.	✓	✓					✓	✓	✓						✓
Director Wen-Chou Li	Male	R.O.C.		✓					✓	✓	✓					✓	
Independent Director Juh-Shan Chiou	Male	R.O.C.		✓			✓		✓			✓					
Independent Director Hsien-Tang Tsai	Male	R.O.C.		✓			✓		✓				✓			✓	
Independent Director Lin-Lin Lee	Female	R.O.C.		✓			✓		✓					✓			

2. Independence of the Board of Directors: The Company has three Independent Directors who account for 42.86% of all Directors. There are no spousal relationships or kinship within the second degree between the Directors of the Company and no violations of Article 30 of the Company Act. All Independent Directors meet the requirements in Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies.

**(II) Main Managerial Officers**

March 31, 2022

Title	Nationality	Name	Gender	Date Elected (Appointed)	Shareholding		Shareholding by spouse and minors		Shareholding by nominee arrangement		Education/Work Experience	Other positions in other companies held currently	Has a spouse or a relative within the second degree of kinship who are the Company's managers			Remarks (Note 1)
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
President	Republic of China	Kuei-Sung Tseng	Male	2021.01.31	0	0	0	0	0	0	Systems and Naval Mechatronic Engineering, National Cheng Kung University Assistant Vice President, Production Division	Chairman of CSCI Steel Corporation India Private Limited	None	None	None	None
Vice President, Administration Division	Republic of China	Chia-Wen Luo	Male	2018.01.01	0	0	0	0	0	0	MBA, National Sun Yat-sen University Project Director, Finance Division, China Steel Corporation	Chairman of Hung Kao Investment Corporation Director, Pro-Ascentek Investment Corporation	None	None	None	None
Vice President, Commercial Division	Republic of China	Po-Han Chen	Male	2020.06.01	0	0	0	0	0	0	Master of Business Administration, National Taiwan University Section Manager, Second Domestic Market Research Section, Marketing Department, China Steel Corporation	Supervisor of Pacific Harbor Stevedoring Corporation	None	None	None	None
Vice President of Production	Republic of China	Chih-Ho Chiu	Male	2020.02.01	0	0	0	0	0	0	Department of System Engineering and Naval Architecture, National Taiwan Ocean University Deputy Plant Director, Rolling Mill Dept-III Cold Rolled Products, China Steel Corporation	None	None	None	None	None
Assistant Vice President, Administration Division Vice President	Republic of China	Shu-Cheng Yen	Male	2017.09.01	0	0	0	0	0	0	MBA, I-Shou University Director of Administration Division, Chung Hung Steel Corporation	None	None	None	None	None
Assistant Vice President, Commercial Division Vice President	Republic of China	Ming-Ju Yang	Male	2018.09.01	0	0	0	0	0	0	EMBA, National Cheng Kung University Assistant Vice President, Production Division, Chung Hung	None	None	None	None	None
Assistant Vice President, Production Division Vice President	Republic of China	Chin-Ming Hsu	Male	2018.09.01	0	0	0	0	0	0	Department of Industrial Engineering, Feng Chia University Assistant Vice President of Commercial Division, Chung Hung	None	None	None	None	None
Assistant Vice President, Production Division Vice President	Republic of China	Jui-Tsai Huang	Male	2020.06.01	0	0	2,000	0	0	0	Department of System Engineering and Naval Architecture, National Taiwan Ocean University Director, First Hot-Rolled Steel Coil Workshop, China Steel Corporation	None	None	None	None	None
Director of the Finance Department (Chief Accounting Officer)	Republic of China	Wen-Ping Huang	Female	2021.03.01	2,000	0	0	0	0	0	Master, Department of Finance, National Sun Yat-sen University Section Manager, Accounting Department, China Steel Corporation	None	None	None	None	None

Note 1: Where the Chairman, President, or individual with equivalent roles are the same individual, spouses, or relatives within the first degree of kinship, the Company shall specify related information regarding the reason, reasonableness, necessity, and response measures (e.g., appointment of additional Independent Directors and requiring the appointment of more than half of the Directors from individuals who are not employees or managerial officers).

Note 2: All shares specified in the table are ordinary shares.

Note 3: The meeting of the Information Security Committee on March 10, 2022 passed a resolution for the President to serve concurrently as the Chief Information Security Officer.

Note 4: The meeting of the Board of Directors on March 19, 2019 approved the appointment of the Chief Governance Officer and appointed Chia-Wen Luo, Vice President, Administration Division to serve concurrently as the Chief Governance Officer.

### III. Remuneration of Directors, Independent Directors, President and Vice Presidents

#### (I) Remuneration Paid to Directors and Independent Directors:

Unit: NT\$1000 ;December 31, 2021

Title	Name	Directors' remuneration								Total remuneration (A+B+C+D) as a percentage of net income after tax		Remuneration received as the Company's employee						Total remuneration (A+B+C+D+E+F+G) as a percentage of net income after tax		Remuneration received from investees other than subsidiaries or the parent company		
		Remuneration (A)		Severance pay and pension (B)		Directors' remuneration (C) (Note 1)		Business execution expenses (D)				Salary, bonus and Allowances, etc. (E)		Severance pay and pension (F)		Employees' remuneration (G)						
		This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company		All companies in the financial report		This Company	All companies in the financial report			
														Cash amount	Stock amount	Cash amount	Stock amount					
Chairman of the Board	Min-Hsiung Liu Representative of China Steel Corporation																					
Director	China Steel Corporation																					
	Chao-Tung Wong Representative of China Steel Corporation																					
	Kai-Ming Huang Representative of China Steel Corporation	5,763	5,763	0	0	61,561	61,561	565	565	67,889 1.07%	67,889 1.07%	5,418	5,418	235	235	1,198	0	1,198	0	74,740 1.18%	74,740 1.18%	29,409
	Kung-Ching Wu Representative of China Steel Corporation																					
	Kuei-Sung Tseng Representative of China Steel Corporation																					



## Remuneration Range Table

December 31, 2021

Remuneration range for each Director in this Company	Name of Director			
	Total amount of the 4 preceding remunerations (A+B+ C+D)		Total amount of the 7 preceding remunerations (A+B+ C+D+E+F+G)	
	This Company	All companies in the financial report	This Company	The parent company and all investees
Less than NT\$ 1,000,000	Min-Hsiung Liu, Chao-Tung Wong, Kai-Ming Huang, Kuan-Ching Wu, Kuei-Sung Tseng, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Min-Hsiung Liu, Chao-Tung Wong, Kai-Ming Huang, Kuan-Ching Wu, Kuei-Sung Tseng, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Min-Hsiung Liu, Chao-Tung Wong, Kai-Ming Huang, Kung-Ching Wu, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee	Kung-Ching Wu, Juh-Shan Chiou, Hsien-Tang Tsai, Lin-Lin Lee
NT\$ 1,000,000 (inclusive) to NT\$ 2,000,000 (exclusive)	None	None	None	None
NT\$ 2,000,000 (inclusive) to NT\$ 3,500,000 (exclusive)	None	None	None	None
NT\$ 3,500,000 (inclusive) to NT\$ 5,000,000 (exclusive)	None	None	None	None
NT\$ 5,000,000 (inclusive) to NT\$ 10,000,000 (exclusive)	None	None	Kuei-Sung Tseng	Chao-Tung Wong, Kai-Min Huang, Kuei-Sung Tseng
NT\$ 10,000,000 (inclusive) to NT\$ 15,000,000 (exclusive)	None	None	None	Min-Hsiung Liu
NT\$ 15,000,000 (inclusive) to NT\$ 30,000,000 (exclusive)	None	None	None	None
NT\$ 30,000,000 (inclusive) to NT\$ 50,000,000 (exclusive)	None	None	None	None
NT\$ 50,000,000 (inclusive) to NT\$ 100,000,000 (exclusive)	China Steel Corporation	China Steel Corporation	China Steel Corporation	China Steel Corporation
Higher than NT\$100,000,000	None	None	None	None
Total	9	9	9	9

## Remunerations to President and Vice President

Unit: NT\$1000; December 31, 2021

Title	Name	Salary (A)		Severance pay and pension (B)		Bonuses and allowances, etc. (C)		Employee remuneration (D)				Total remuneration (A+B+C+D) as a percentage of net income after tax (%)		Remuneration received from investees other than subsidiaries or the parent company
		This Company	All companies in the financial report	This Company	All companies in the financial report	This Company	All companies in the financial report	This Company		All companies in the financial report		This Company	All companies in the financial report	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Kung-Ching Wu (Dismissed on January 31, 2021)	15,209	15,209	1,410	1,410	15,714	15,714	7,187	0	7,187	0	39,520 0.62%	39,520 0.62%	1.083
	Kuei-Sung Tseng (Appointed on January 31, 2021)													
Vice President, Administration Division	Chia-Wen Luo													
Vice President, Commercial Division	Po-Han Chen													
Vice President of Production	Chih-Ho Chiu													
Assistant Vice President, Administration Division	Shu-Cheng Yen													
Assistant Vice President, Commercial Division	Ming-Ju Yang													
Assistant Vice President, Production Division	Chin-Ming Hsu Jui-Tsai Huang													

Note : All companies mentioned in the financial report including the Company.

## Remuneration Range Table

December 31, 2021

Range of Remuneration Paid to the President and Vice Presidents of the Company	Name of President and Vice Presidents	
	This Company	The parent company and all investees
Less than NT\$ 1,000,000	Kung-Ching Wu	Kung-Ching Wu
NT\$ 1,000,000 (inclusive) to NT\$ 2,000,000 (exclusive)	None	None
NT\$ 2,000,000 (inclusive) to NT\$ 3,500,000 (exclusive)	None	None
NT\$ 3,500,000 (inclusive) to NT\$ 5,000,000 (exclusive)	Po-Han Chen, Shu-Cheng Yen, Ming-Ju Yang, Chin-Ming Hsu	Po-Han Chen, Shu-Cheng Yen, Ming-Ju Yang, Chin-Ming Hsu
NT\$ 5,000,000 (inclusive) to NT\$ 10,000,000 (exclusive)	Kuei-Sung Tseng, Chia-Wen Luo, Shih-Ho Chiu, Jui-Tsai Huang	Kuei-Sung Tseng, Chia-Wen Luo, Shih-Ho Chiu, Jui-Tsai Huang
NT\$ 10,000,000 (inclusive) to NT\$ 15,000,000 (exclusive)	None	None
NT\$ 15,000,000 (inclusive) to NT\$ 30,000,000 (exclusive)	None	None

Range of Remuneration Paid to the President and Vice Presidents of the Company	Name of President and Vice Presidents	
	This Company	The parent company and all investees
NT\$ 30,000,000 (inclusive) to NT\$ 50,000,000 (exclusive)	None	None
NT\$ 50,000,000 (inclusive) to NT\$ 100,000,000 (exclusive)	None	None
Higher than NT\$100,000,000	None	None
Total	9	9

Note: The range of remuneration of the aforementioned managerial officers in all companies mentioned in the consolidated financial report.

## Names of managerial officers who received employee remuneration and the details

Unit: NT\$1,000; December 31, 2021

	Title	Name	Stock amount	Cash amount	Total	Ratio accounted compared to the total net income (%)
Managerial Officer	President	Kung-Ching Wu (Dismissed on January 31, 2021)	0	7,933	7,933	0.12
		Kuei-Sung Tseng (Appointed on January 31, 2021)				
	Vice President, Administration Division	Chia-Wen Luo				
	Vice President, Commercial Division	Po-Han Chen				
	Vice President of Production	Chih-Ho Chiu				
	Assistant Vice President, Administration Division	Shu-Cheng Yen				
	Assistant Vice President, Commercial Division	Ming-Ju Yang				
	Assistant Vice President, Production Division	Chin-Ming Hsu				
		Jui-Tsai Huang				
	Head of Accounting	Pei-Yu Lee (Dismissed on March 1, 2021)				
Wen-Ping Huang (Appointed on March 1, 2021)						

(IV) Comparison of compensation paid by the Company and all the consolidated entities in the last two years to the company's Directors (including Independent Directors), President and Vice Presidents as a percentage to the net income after tax. Explanation on remuneration policies, standards and combination of the procedures in determining remuneration, and association with business performance and future risks.

1. The Company's remuneration for Directors (including Independent Directors), President, and Vice Presidents in 2021 accounted for 1.72 % of the profit after tax. The Company's Independent Directors receive fixed remuneration and are not included in the distribution of remuneration for Directors. The remuneration for Directors (including Independent Directors), President, and Vice Presidents in 2020 accounted for 6.52% of the net profit after tax. The policies and standards for compensations paid by the Company to Directors, President and Vice Presidents are clearly stated in Article 28 of the Articles of Incorporation, which stipulates that " if the Company has profit for the year, it shall allocate no less than 0.1% as the remuneration for employees, no less than 1% of the profit

as remuneration for Directors. The employee's and director's remuneration mentioned shall be in cash. The remuneration shall be approved by the board of directors and reported to the annual shareholders meeting. "Travel expenses for Directors are determined referring to the standards set by industry peers.

2. The Company has formulated Rules Governing the Performance Evaluation of the Board of Directors and Performance Appraisal Rules applicable to managements and employees as the reference and basis for determining reasonable compensation allocation, which is also linked to the Company's operating performance. The evaluation criterias used to measure the Board's performance includes level of participation in business operation and the supervision and assessment of risk management and controls. As for managements' performance, the appraisal items include financial indicators (e.g. earnings before taxes, control of cost of manufacture, etc.) and non-financial indicators (e.g. management of occupational safety, improvements of artificial intelligence, and corporate governance, etc.). Compensation paid to Directors and the remuneration for employees and incentive bonus paid to managements are determined according to outcomes of performance evaluation.

## IV. Implementation of Corporate Governance

### (I) Board of Directors operating status and evaluation status

A total of 9 (A) meetings of the Board of Directors were held in 2021. The attendance of Directors was as follows:

2021.01.01-2021.12.31

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance in person rate (%) (B/A)	Remarks
Chairman of the Board	Representative of China Steel Corporation Min-Hsiung Liu	9	0	100	None
Director	Representative of China Steel Corporation Chao-Tung Wong	8	1	88.89	None
Director	Representative of China Steel Corporation Kai-Ming Huang	9	0	100	None
Director	Representative of China Steel Corporation Kuei-Sung Tseng	9	0	100	None
Independent Director	Juh-Shan Chiou	9	0	100	None
Independent Director	Hsien-Tang Tsai	9	0	100	None
Independent Director	Lin-Lin Lee	9	0	100	None

Other matters that should be recorded:

- I. The items included in Article 14-3 of the Securities and Exchange Act and other comments objected or retained by other Independent Directors in record or the resolutions of the Board of directors in a written statement should indicate the date, period, content of the motion, opinions of all Independent Directors and how the company handles the opinion of the Independent Directors: Independent Directors issued no objections or qualified opinions on material issues.
- II. The directors' avoidance of interest motion should indicate the names of the directors, content of the motion and reasons of avoidance of interest as well as the involvement in voting:
  1. 23rd meeting of the 14th Board of Directors on February 24, 2021: The salary for the newly-appointed President Mr. Kuei-Sung Tseng. The Director Kuei-Sung Tseng recused himself in accordance with laws (Mr. Kuei-Sung Tseng is the President of the Company).
  2. 4th meeting of the 15th Board of Directors on December 30, 2021: Proposal for the adjustment of the basic salary for the Company's President and Vice Presidents. The Director Kuei-Sung Tseng recused himself in accordance with laws.
- III. The evaluation cycle and duration, scope of evaluation, methodology, and evaluation contents of the evaluation of the Board of Directors are detailed in the evaluation status of the Board of Directors for 2021 set forth below.
- IV. Programs this year and in the most recent year in strengthening the functionality of the Board (for example, set up an auditing committee, improve transparency, etc.) and execution evaluation:
  1. The Company established the Audit Committee starting from the 13th Board of Directors in June 2015.

Four meetings of the Audit Committee were convened on February 23, May 3, August 3, and November 2 in 2021 and the resolutions of the Audit Committee were reported to the Board of Directors.

2. The Remuneration Committee was established under the Board of Directors in September 2011. Operations of the Remuneration Committee in 2021: The Company convened four meetings of the Remuneration Committee on February 23, June 30, November, 2, and December 30 in 2021 in accordance with Article 14-6 of the Securities and Exchange Act and the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter" announced by the Financial Supervisory Commission on March 18, 2011. The resolutions of the Committee were compiled into meeting minutes and reported to the Board of Directors.
3. The Company announces material resolutions of the Board of Directors and the operations of functional committees on its website.
4. The attendance, continuing education of Directors, current posts, experience, and concurrent posts of Independent Directors are disclosed on the Market Observation Post System.
5. The Company has purchased D&O liability insurance for all Directors (including Independent Directors) and managerial officers and reported to the Board of Directors in the meeting on August 3, 2021. The information was reported on the Market Observation Post System in accordance with regulations.

The Board of Directors evaluation status in 2021 was as follows:

Evaluation Cycle	Evaluation Period	Evaluation Scope	Evaluation Method	Evaluation Contents
Board internal performance self-evaluation: Once every year	From January 1, 2021 to December 31, 2021	Performance evaluation of the Board of Directors, individual Directors, Audit Committee, and Remuneration Committee	Self-evaluation of the Board of Directors and self-evaluation of Directors.	Described as follows
External performance evaluation of the Board of Directors: The Company shall appoint an external professional independent agency or a team of external experts and scholars to conduct an external performance	From December 1, 2020 to November 30, 2021	Performance evaluation of the Board of Directors, Audit Committee, and Remuneration Committee	In 2021, the Company appointed Taiwan Corporate Governance Association for the performance evaluation, which started with a review of documents provided by the Company for the evaluation. The Association then assigned experts to conduct onsite evaluations at the Company and interviewed the Company's Chairman,	Described as follows

- I. The Company passed the establishment of the "Regulations Governing the Evaluation of the Performance of the Board of Directors" (hereinafter referred to as the Regulations) in the 13th meeting of the 14th Board of Directors on December 30, 2019 and passed the

amendment in the 20th meeting of the 14th Board of Directors on November 3, 2020 for the implementation of the internal evaluations of the Board of Directors, Directors, and functional committees of the Board of Directors. The evaluation is conducted through questionnaires and the Finance Department of the Company collects and analyzes the evaluation results before submitting them to the Board of Directors on February 24, 2022. The results are used as the basis for determining the performance of individual Directors and the establishment of remuneration.

- II. The Regulations stipulate that internal evaluations shall be implemented each year and an external evaluation shall be implemented at least once every three years.
  - (I) The criteria for evaluating the performance of the Board of Directors of the Company shall cover at least the following five aspects:
    - 1. Participation in the operation of the Company.
    - 2. Improvement of the quality of the Board of Directors' decision making.
    - 3. Composition and structure of the Board of Directors.
    - 4. Election and continuing education of the Directors;
    - 5. Internal control.
  - (II) The criteria for evaluating the performance of the Directors shall cover at least the following six aspects:
    - 1. Familiarity with the goals and missions of the company.
    - 2. Awareness of the duties of a Director.
    - 3. Participation in the operation of the Company.
    - 4. Management of internal relationship and communication.
    - 5. The director's professionalism and continuing education.
    - 6. Internal control.
  - (III) The criteria for evaluating the performance of the functional committees of the Company (Audit Committee and Remuneration Committee) shall cover at least the following five aspects:
    - 1. Participation in the operation of the Company.
    - 2. Knowledge of the duties of the functional committee.
    - 3. Improvement of the quality of functional committee's decisions.
    - 4. Functional committee composition and election of members.
    - 5. Internal control.
  - (IV) The Company appoints the Taiwan Corporate Governance Association to conduct the external performance evaluation items which include the following eight aspects:
    - 1. Composition of the Board of Directors.
    - 2. Guidance of the Board of Directors.
    - 3. Authorization of the Board of Directors
    - 4. Supervision of the Board of Directors.
    - 5. Communication of the Board of Directors.
    - 6. Internal control and risk management.
    - 7. Self-discipline of the Board of Directors.
    - 8. Others (board meetings, support system, etc.).

III. The performance evaluation of the Board of Directors (including functional committees) in 2021 include 4 categories with 20 self-evaluation indicators in each category. The maximum score for each self-evaluation indicator is 5 points. The evaluation results are summarized as follows:

(I) Results of the performance self-evaluation of the Board of Directors:

1. Total average score of the questionnaire: 98.43 points
2. Total average indicator score: 4.92 points

(II) Results of the performance self-evaluation of the Directors:

1. Total average score of the questionnaire: 99.14 points
2. Total average indicator score: 4.96 points

(III) Results of the performance self-evaluation of the Audit Committee:

1. Total average score of the questionnaire: 99.00 points
2. Total average indicator score: 4.96 points

(IV) Results of the performance self-evaluation of the Remuneration Committee:

1. Total average score of the questionnaire: 97.67 points
2. Total average indicator score: 4.88 points

IV. Based on the results of the performance evaluation of the Board of Directors, Directors, Audit Committee, and Remuneration Committee, the Company's 2021 Board Performance Evaluation results were between 5 points for "strongly agree" and 4 points for "agree". It shows that the Directors strongly agree with the operations of the indicators and evaluated the overall operations of the Board of Directors and functional committees as good and meet corporate governance requirements. In addition, the members perform their duties as Directors, understand the Company's objectives, and actively participate in the Company's operations to protect shareholders' rights.

V. The Company appointed Taiwan Corporate Governance Association to conduct the 2021 external performance evaluation of the Board of Directors. The recommendations of the Association and the Company's improvement plans are as follows:

Recommendation 1: The Company's current risk management is implemented by individual departments based on their duties. We advise the Company to establish Risk Management Policy and sets up Risk Management Team to facilitate a comprehensive review of the risk management conditions of the Company and regularly report to the Audit Committee and the Board of Directors. So that the Board of Directors can manage the Company's business risks more effectively.

Improvement plan: The Company plans to establish a Risk Management Policy and set up a Risk Management Team in accordance with the recommendation to review all risks. The Team shall regularly report to the Audit Committee and the Board of Directors, so that the Board of Directors can manage the Company's business risks more effectively.

Recommendation 2: The Company has established the Regulations on Violation of Ethical Conduct Reports which stipulate that the Auditing Department shall process reports and submit the reports to the President, Chairman, or Independent Directors based on the severity of the reported matter. However, the whistleblower mechanism requires a direct link with the Board of Directors (especially Independent Directors). We advise the Company to set up a reporting channel for the Independent Directors (or the Audit Committee) to receive the reports simultaneously to strengthen the whistleblower mechanism.

Improvement plan: The Company plans to allow simultaneous and direct delivery of contents of the reporting mailbox to Independent Directors (members of the Audit Committee) so that they can supervise the responses to the reports and ensure the effective operations of the whistleblowing mechanism.

Recommendation 3: According to the Company's "Emergency Incident Response Regulations", major contingencies are reported to the Chairman. We advise the Company to set clear requirements to include all members of the Board of Directors as the recipients so that the Directors can supervise the response to major contingencies and fulfill their duties as Directors.

Improvement plan: The Company's current major contingencies are reported to the Chairman in accordance with the "Emergency Incident Response Regulations" and communicated to all members of the Board of Directors. The Company plans to amend the "Emergency Incident Response Regulations" in accordance with the recommendation and specify all members of the Board of Directors as recipients.

Recommendation 4: We advise the Company to set official mechanisms for briefing newly Directors and organize briefing for all newly Directors on the organization and business operations of the Company. The Company should also arrange visits of plants and important production units to help newly Directors fully understand the Company's business operations and industry information for Directors to perform their duties.

Improvement plan: The Company currently makes arrangements for newly Directors to attend corporate governance courses as well briefings on the operations of the Company and unit inspections. The Company plans to revise the Regulations in accordance with the recommendations and stipulate the inclusion of the briefings on the Company's operations and visits into the course for newly Directors.

**(II) State of operations of the Audit Committee:**

(1) Audit Committee member profiles:

Audit Committee member profiles

March 31, 2022

Title	Name	Criteria  Professional qualifications and experience	Independence status	Number of other public companies in which the member also serves as a member of their audit committee
Independent Director/Audit Committee Convener	Juh-Shan Chiou	His highest degree is MBA, National Sun Yat-sen University and he qualified in the high-level national examination for Certified Public Accountant of the Republic of China and Certified Securities Investment Analyst (CSIA). He currently serves as the Independent Director and Audit Committee Convener, King Point Enterprise Co., Ltd. (Jun. 2020 to present), Independent Director and Audit Committee Convener, Jufan Industrial Co., Ltd. (Setp. 2021 to present), and Honorary Accountant of Chungsun Prime Certified Public Accountants. He had served as a Partner of Chung Sun Certified Public Accountants, CPA in Deloitte, Taiwan, and lecturer of National Sun Yat-sen University. He is an accounting and finance professional.	The three Independent Directors meet the following conditions during the two years before being elected or during the term of office: 1. The individual is not an elected person in the name of a government, institution, or its representative as defined in Article 27 of the Company Law. 2. The individual, spouse, or relative within the second degree of kinship is not a director, supervisor, or employee of the Company or any of its affiliates. 3. The individual is not a director, supervisor, or employee of a company that has special relations with the Company. 4. The individual is not a director, supervisor, manager, or a shareholder that holds more than 5% of shares at a company	2
Independent Director	Hsien-Tang Tsai	His highest degree is Ph.D. in Business Administration, Purdue University. He currently serves as the Independent Director, Audit Committee Member, and Remuneration Committee Convener, Logah Technology Corporation (Mar. 2014 to present), Independent Director, Audit Committee Member, and Remuneration Committee Member of Fulin Plastic Industry (Cayman) Holding Co., Ltd., and Remuneration Committee Member of Revivegen Environmental Technology Co., Ltd. He had served as the Dean of College of the Institute of Management and Professor of the Department of Business Management, National Sun Yat-sen University, and Director of Taiwan Public Television Service Foundation.		2

Criteria		Professional qualifications and experience	Independence status	Number of other public companies in which the member also serves as a member of their audit committee
Title	Name			
Independent Director	Lin-Lin Lee	<p>Her highest degree is Master of Law, National Taiwan University and she qualified in the high-level Bar Examination of the Republic of China. She currently serves as the Managing Partner of Ling Yun Attorneys-at-Law (Jun. 2012 to present) and Independent Director, Audit Committee Member, and Remuneration Committee Member of Sentien Printing Factory Co., Ltd. (Jun. 2020 to present). She had served as Vice Chairman of Taiwan Bar Association, Chairman of Bar Association of Kaohsiung, Chairman of Warm Life Association for Women (Kaohsiung), lecturer of I-Shou University, Member of the Attorney Disciplinary Re-Examination Committee, Member of the Prosecutors' Selection Committee of the Ministry of Justice, Member of the Prosecutor Evaluation Committee, and Member of the Professional Judges' Selection Committee of the Ministry of Justice.</p>	<p>or institution that has financial or business exchanges with the Company.</p> <p>5. Has not provided business, legal, financial, or accounting services to the Company or its affiliates in the last two years.</p> <p>6. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.</p>	1

(2) A total of 4 (A) meetings of the audit committee were held in 2021. The attendance of Independent Directors was as follows:

2021.01.01-2021.12.31

Title	Name	Number of attendances in person ( B )	Attendance by proxy	Actual attendance rate (%) ( B / A )	Remarks
Independent Director (Convener)	Juh-Shan Chiou	4	0	100	None
Independent Director	Lin-Lin Lee	4	0	100	None
Independent Director	Hsien-Tang Tsai	4	0	100	None

**Annual Key Work Items of Audit Committee :**

1. Review of financial statements and communication regarding key audit matters.
2. Audit and accounting policies and procedures.
3. Internal control system and relevant policies and procedures.
4. Company risk management.
5. Material asset transactions or derivatives .
6. Material loaning of funds, making of endorsements or provision of guarantees .
7. Appointment, dismissal, compensation, evaluation of the independence and performance of the certifying CPAs.
8. Derivative financial instruments and cash investments .
9. Appointment and removal of the financial, accounting, or internal auditing officers.
10. Legal and regulatory compliance.

**Operations of the Audit Committee and Agenda in 2021**

1. 11th meeting of 14th Board of Directors on February 23, 2021: The Internal Audit Department provided the Annual Business Report.
  - (1) The Company's 2020 Business Report and financial statements sealed by the Chairman, managerial officer, and chief accounting officer.
  - (2) The Company's 2020 earnings distribution proposal.
  - (3) The 2020 distribution of remuneration to employees and Directors.
  - (4) Report on the 2020 Internal Control Self-Assessment Report and Internal Control System Statement.
  - (5) Change of the Company's chief accounting officer.
2. 12th meeting of 14th Board of Directors on May 3, 2021:
  - (1) 2021 Q1 consolidated financial statements sealed by the Chairman, managerial officer, and chief accounting officer.
  - (2) Evaluation of the independence and performance of the certifying CPAs.
  - (3) Removal of the non-compete clause for the 15th-term Directors of the Company.
3. 13th meeting of 14th Board of Directors on August 3, 2021:
  - (1) 2021 Q2 consolidated financial statements sealed by the Chairman, managerial officer, and chief accounting officer.
4. 1st meeting of 15th Board of Directors on November 2, 2021:
  - (1) 2021 Q3 consolidated financial statements sealed by the Chairman, managerial officer, and chief accounting officer.

Other matters that should be recorded:

I. The date of the meeting of the Audit Committee, the term, contents of the proposals, objections, qualified opinions, and important recommendations of Independent Directors, resolutions of the Audit Committee, and the Company's handling of the resolutions of the Audit Committee shall be specified under any of the following circumstances in the operations of the Audit Committee:

- (I) Items specified in Article 14-5 of the Securities and Exchange Act: None.
- (II) In addition to matters above, other resolutions that have not been approved by the Audit Committee but have been passed by a vote of two-thirds or more of the entire Board of Directors: None.

II. The Independent Directors' avoidance of interest motion should indicate the names of the Independent Directors, content of the motion and reasons of avoidance of interest as well as the involvement in voting: None.

III. Communication between Independent Directors and internal auditors and accountants:

The Company convened the 2020 financial report conclusion meeting on February 23, 2021. Attendees included Independent Directors, Chief Internal Auditor, accountants, management units, and supervisors of the finance unit. The contents of the meeting mainly included reports on the Company's financial and business status in 2020 and discussions of plans for 2021. The independent directors did not express other opinions in the meeting. Material items discussed in the meeting are as follows:

- 1. Financial Report audit results.
- 2. Business performance analysis and changes in important assets and liabilities.
- 3. Finance ratio and cash flow ratio.
- 4. Communication with the management unit.
- 5. Updates of laws and regulations.

The Company convened the exclusive communication meeting between the Independent Directors and Chief Internal Auditor on November 2, 2021. Attendees included Independent Directors, Chief Internal Auditor, and the internal auditors. The key items in the meeting are as follows:

- 1. Communication on the internal audit report in the previous four quarters.
- 2. Procedures for lobbying cases.
- 3. Assess the reasonableness of the items and amounts of sales discounts and the discounts due to quality issues (customer complaints).
- 4. Paperless delivery of audit reports to Independent Directors.
- 5. USB management status.

The Company convened the 2021 financial report conclusion meeting with the governance unit on December 30, 2021. Attendees included Independent Directors and CPAs. The contents of the meeting mainly included material and key audit items used in the audit of the 2021 report, important accounting estimates, related account verification schedule for 2021, and evaluation indicators for the Corporate Governance 3.0 Evaluation.

IV. Resolutions of the Audit Committee for important agenda and the Company's handling of such opinions:

- 1. 11th meeting of 14th Board of Directors on February 23, 2021: The Company's 2020 Business Report and financial statements sealed by the Chairman, managerial officer, and chief accounting officer.

Opinions of the Audit Committee: How does the Company gain related information on government

subsidies?

The Company's explanation and measures taken: Due to the epidemic, the Company searched for information on available subsidies that government announced by visiting the relevant web pages and comparing whether it meets the criteria for subsidies. If the criteria are met, the Company actively commenced application procedures.

Results of resolution: Passed by all members of the Committee in attendance.

2. 12th meeting of 14th Board of Directors on May 3, 2021: The Company's 2021 Q1 consolidated financial statements.

Opinions of the Audit Committee: Are the shares in Yieh United Steel Corporation disposed in accordance with the resolution of the meeting of the Board of Directors?

The Company's explanation and measures taken: The shares are processed in complete compliance with the resolution of the meeting of the Board of Directors and procedures are underway.

Results of resolution: Passed by all members of the Committee in attendance.

3. 13th meeting of 14th Board of Directors on August 3, 2021: The Company's 2021 Q2 consolidated financial statements.

Opinions of the Audit Committee: Is the decrease in operating expenses mainly due to the export expenses?

The Company's explanation and measures taken: It was mainly the result of a significant decrease in export sales which resulted in a significant decrease in export expenses.

Results of resolution: Passed by all members of the Committee in attendance.

4. 1st meeting of 15th Board of Directors on November 2, 2021: The Company's 2021 Q3 consolidated financial statements.

Opinions of the Audit Committee: The borrowings have fallen compared to the same period in the previous year, but why did they increase compared to the end of the previous year?

The Company's explanation and measures taken: The price of steel billets and imports increased in the third quarter and payments must be made when they are loaded onto the vessel. When the Company purchased steel billets from China Steel in the previous year, the payment was made when the materials were delivered. The change caused an increase in the demand for working capital.

Results of resolution: Passed by all members of the Committee in attendance.

**(III) Corporate governance implementation status and deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons**

Assessed area	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
I. Does the company establish and disclose its corporate governance principles in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company has established the "Corporate Governance Best-Practice Principles" and disclosed them on the Market Observation Post System and the Company's website.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
II. Company stock equity structure and shareholder equity				
(I) Does the company establish internal procedures for addressing shareholder suggestions, doubts, disputes, and litigation matters and implement the procedures accordingly?	V		(I) The Company has appointed a spokesperson, acting spokesperson, and other dedicated personnel and emails to process shareholder suggestions and other issues.	
(II) Does the company have in possession the list of major shareholders that have actual control over the company as well as the list of major shareholders with final control?	V		(II) The Company has commissioned the stock agency KGI Securities to handle related shareholder services.	
(III) Does the company establish and execute risk control mechanism for affiliates, and firewall methods?	V		(III) The Company and affiliate companies operate independent of each other and related financial and business transaction conditions are processed in accordance with procedures for regular customers. With regard to information management, the companies have established independent firewalls.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
(IV) Did the company establish internal regulations stipulating that employees shall not use undisclosed information to engage in the transaction of marketable securities?	V		(IV) The Company has established the "Management Procedures for Handling Internal Major Information and Prevention of Inside Trading", "Code of Ethical Conduct for Supervisors and Senior Managerial Officers", and "Code of Ethical Conduct for Directors" as basis for compliance for insiders to prevent insiders from using undisclosed information for securities transactions.	
III. Board compositions and responsibilities				
(I) Has the Board of Directors developed and implemented a diversified policy for the composition of its members?	V		(I) Article 3.4.1 of the Company's "Corporate Governance Best Practice Principles" requires diversity in board composition and the establishment of diversity policies for the Company's	No deviation from the Corporate Governance Best Practice Principles

Assessed area	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
(II) Does the company voluntarily establish other functional committees in addition to Remuneration Committee and Audit Committee?	V		<p>operations, business model, and development requirements. The Board of Directors has 7 members including 3 Independent Directors (1 female) with different professional backgrounds, genders, or work. They have the knowledge, skills, and quality necessary for the performance of their duties and they implement effective supervision and oversight of the Company's compliance, prompt disclosure of material information, and ethical management. They maintain communication channels and good interactions with the management team and they provide guidance for the Company's business operations and resolutions for material decisions to ensure the Company's development and safeguard shareholder equity. Refer to VIII (xiii) for the implementation status of the diversity policy.</p> <p>(II) The Company has not voluntarily established other functional committees other than the Remuneration committee and Audit committee that are established in accordance with the law.</p>	<p>for TWSE/TPEX Listed Companies.</p> <p>No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies but no other functional committees are currently established.</p>
(III) Does the Company have Board of Directors performance assessment guidelines and assessment methods in place and perform the assessments periodically on a yearly basis? Does the Company submit results of assessments to the Board of directors and use results as the basis for the salary, remuneration, nomination and reappointment of individual Directors?	V		<p>(III) The Company passed the establishment of the "Regulations Governing the Evaluation of the Performance of the Board of Directors" (hereinafter referred to as the Regulations) in the meeting of the Board of Directors in December 2019 and passed an amendment in November 2020 for the implementation of the internal evaluations of the Board of Directors, Directors, and functional committees of the Board of Directors. The evaluation is conducted through questionnaires and the Finance Department of the Company collects and analyzes the evaluation results before submitting them to the Board of Directors in February 2022. The results are used as the basis for determining the performance of individual Directors and the establishment of remuneration.</p>	

Assessed area	Operating status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
			<p>The Regulations stipulate that internal evaluations shall be implemented each year and an external evaluation shall be implemented at least once every three years.</p> <p>The criteria for evaluating the performance of the Board of Directors of the Company shall cover at least the following five aspects:</p> <ol style="list-style-type: none"> <li>1. Participation in the operation of the Company.</li> <li>2. Improvement of the quality of the Board of Directors' decision making.</li> <li>3. Composition and structure of the Board of Directors.</li> <li>4. Election and continuing education of the Directors;</li> <li>5. Internal control.</li> </ol> <p>The criteria for evaluating the performance of the Directors shall cover at least the following six aspects:</p> <ol style="list-style-type: none"> <li>1. Familiarity with the goals and missions of the company.</li> <li>2. Awareness of the duties of a Director.</li> <li>3. Participation in the operation of the Company.</li> <li>4. Management of internal relationship and communication.</li> <li>5. The director's professionalism and continuing education.</li> <li>6. Internal control.</li> </ol> <p>The criteria for evaluating the performance of the functional committees of the Company (Audit Committee and Remuneration Committee) shall cover at least the following five aspects:</p> <ol style="list-style-type: none"> <li>1. Participation in the operation of the Company.</li> <li>2. Knowledge of the duties of the functional committee.</li> <li>3. Improvement of the quality of functional committee's decisions.</li> <li>4. Functional committee composition and election of members.</li> <li>5. Internal control.</li> </ol>

Assessed area	Operating status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
			<p>The Company appoints the Taiwan Corporate Governance Association to conduct the external performance evaluation items which include the following eight aspects:</p> <ol style="list-style-type: none"> <li>1. Composition of the Board of Directors.</li> <li>2. Guidance of the Board of Directors.</li> <li>3. Authorization of the Board of Directors</li> <li>4. Supervision of the Board of Directors.</li> <li>5. Communication of the Board of Directors.</li> <li>6. Internal control and risk management.</li> <li>7. Self-discipline of the Board of Directors.</li> <li>8. Others (board meetings, support system, etc.).</li> </ol> <p>The performance evaluation of the Board of Directors (including functional committees) in 2021 include 4 categories with 20 self-evaluation indicators in each category. The maximum score for each self-evaluation indicator is 5 points. The evaluation results are summarized as follows:</p> <ol style="list-style-type: none"> <li>1. Results of the performance self-evaluation of the Board of Directors: <ol style="list-style-type: none"> <li>(1) Total average score of the questionnaire: 98.43 points</li> <li>(2) Total average indicator score: 4.92 points</li> </ol> </li> <li>2. Results of the performance self-evaluation of the Directors: <ol style="list-style-type: none"> <li>(1) Total average score of the questionnaire: 99.14 points</li> <li>(2) Total average indicator score: 4.96 points</li> </ol> </li> <li>3. Results of the performance self-evaluation of the Audit Committee: <ol style="list-style-type: none"> <li>(1) Total average score of the questionnaire: 99.00 points</li> <li>(2) Total average indicator score: 4.96 points</li> </ol> </li> </ol>

Assessed area	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>4. Results of the performance self-evaluation of the Remuneration Committee:</p> <p>(1) Total average score of the questionnaire: 97.67 points</p> <p>(2) Total average indicator score: 4.88 points</p> <p>Based on the results of the performance evaluation of the Board of Directors, Directors, Audit Committee, and Remuneration Committee, the Company's 2021 Board Performance Evaluation results were between 5 points for "strongly agree" and 4 points for "agree". It shows that the Directors strongly agree with the operations of the indicators and evaluated the overall operations of the Board of Directors and functional committees as good and meet corporate governance requirements. In addition, the members perform their duties as Directors, understand the Company's objectives, and actively participate in the Company's operations to protect shareholders' rights.</p> <p>The Company appointed Taiwan Corporate Governance Association to conduct the 2021 external performance evaluation of the Board of Directors. The recommendations of the Association and the Company's improvement plans are as follows:</p> <p>Recommendation 1: The Company's current risk management is implemented by individual departments based on their duties. We advise the Company to establish a Risk Management Policy and sets up a Risk Management Team to facilitate a comprehensive review of the risk management conditions of the Company and regularly report to the Audit Committee and the Board of Directors so that the Board of Directors can manage the Company's business risks more effectively.</p> <p>Improvement plan: The Company plans to establish a Risk Management Policy and set up a Risk Management Team in accordance with the recommendation to review all risks. The Team shall regularly report to</p>	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
			<p>the Audit Committee and the Board of Directors so that the Board of Directors can manage the Company's business risks more effectively.</p> <p>Recommendation 2: The Company has established the Regulations on Violation of Ethical Conduct Reports which stipulate that the Auditing Department shall process reports and submit the reports to the President, Chairman, or Independent Directors based on the severity of the reported matter. However, the whistleblower mechanism requires a direct link with the Board of Directors (especially Independent Directors). We advise the Company to set up a reporting channel for the Independent Directors (or the Audit Committee) to receive the reports simultaneously to strengthen the whistleblower mechanism.</p> <p>Improvement plan: The Company plans to allow simultaneous and direct delivery of contents of the reporting mailbox to Independent Directors (members of the Audit Committee) so that they can supervise the responses to the reports and ensure the effective operations of the whistleblowing mechanism.</p> <p>Recommendation 3: According to the Company's "Emergency Incident Response Regulations", major contingencies are reported to the Chairman. We advise the Company to set clear requirements to include all members of the Board of Directors as the recipients so that the Directors can supervise the response to major contingencies and fulfill their duties as Directors.</p> <p>Improvement plan: The Company's current major contingencies are reported to the Chairman in accordance with the "Emergency Incident Response Regulations" and communicated to all members of the Board of Directors. The Company plans to amend the "Emergency Incident Response Regulations" in accordance with the recommendation and specify all members of the Board of Directors as recipients.</p>

Assessed area	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
(IV) Does the Company regularly implement assessments on the independence of CPA?	V		<p>Recommendation 4: We advise the Company to set official mechanisms for briefing new Directors and organize briefing for all new Directors on the organization and business operations of the Company. The Company should also arrange visits of plants and important production units to help new Directors fully understand the Company's business operations and industry information for Directors to perform their duties.</p> <p>Improvement plan: The Company currently makes arrangements for new Directors to attend corporate governance courses as well briefings on the operations of the Company and unit inspections. The Company plans to revise the Regulations in accordance with the recommendations and stipulate the inclusion of the briefings on the Company's operations and visits into the course for new Directors.</p>	
			<p>(IV) The Company's Board of Directors reviews the assessment questionnaire for the independence of the CPA each year to ensure the reliability of the Company's financial reports (reported to the Audit Committee and Board of Directors on May 3, 2021). The Company also requires the certifying CPAs to provide Statements of Independence. The certifying CPAs do not serve other roles in the Company or have direct or indirect interest in the Company's other business transactions. They have not violated the independence criteria and they maintain high levels of professionalism in providing taxation, auditing, and consulting services. The Company is satisfied with their performance based on its evaluation. With the exception of expenses for auditing and taxation cases, the certifying CPAs and the Company have no other common financial interests or business relations. The certifying CPAs' spouses and underage children also do not violate requirements for independence.</p>	

Assessed area	Operating status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
IV. Has the publicly-listed company appointed qualified and suitable number of corporate governance personnel and appointed a Chief Governance Officer to handle governance related affairs (including but not limited to supplying information requested by the directors and supervisors, assisting Directors and Supervisors with legal compliance matters, processing company matters related to board meetings and shareholders' meetings according to laws, and preparing minutes of the board meetings and shareholders' meetings)?	V		<p>The Company established the position of the "Chief Governance Officer" in the 7th meeting of the 14th Board of Directors on March 19, 2019. The role is filled by the Vice President of the Administration Division. The Director of the Finance Department serves concurrently as corporate governance personnel. The Company also established the "Shareholder Service and Assets Section" under the Finance Department to take charge of related corporate governance affairs. The Section has 4 employees including 1 Section Manager. They process related affairs of the Board of Directors (including the production of meeting minutes of board meetings), related affairs for convening shareholders' meetings (including the production of meeting minutes of shareholders' meetings), processing company registration and change of registration, assisting Directors (including Independent Directors) in related affairs and continuing education, and providing Directors (including Independent Directors) with information required for executing businesses and reminders for compliance with related regulations.</p> <p>The corporate governance operations and the status of implementation in 2021 were as follows:</p> <p>(1) The Company convened a total of 9 meetings of the Board of Directors in 2021. The meeting notices, agenda, and meeting minutes were mailed to the attendees and uploaded posted to the Market Observation Post System within the period required by laws.</p> <p>(2) On May 3, 2021, the Board of Directors reported the Company's operation and implementation status of ethical corporate management, communication with stakeholders, 2020 corporate social responsibility implementation results, and the 2021 corporate social responsibility implementation plan.</p> <p>(3) The Company convened a annual shareholders' meeting on August 25, 2021 and uploaded related information within the period required by laws.</p>

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			(4) The continuing education courses taken by Directors in 2021 have been disclosed on the Market Observation Post System.	
V. Has the company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers and suppliers), dedicated a section of your company's website for stakeholder affairs and adequately responded to stakeholders' inquiries on significant corporate social responsibility issues?	V		<p>(I) The Company has established a stakeholders' section on the corporate website to disclose the contact methods of the stock agency, spokesperson (acting spokesperson), Finance Department, Marketing Department, and Purchasing Department. Shareholders, employees, customers, and suppliers can use the telephone or email to communicate with the Company and provide feedback.</p> <p>(II) The Company convenes the shareholders' meeting in the second quarter each year, but the 2021 meeting was postponed to the third quarter due to the epidemic. Proposals are voted on a case-by-case basis and shareholders can also exercise their voting rights electronically to fully participate in the voting process.</p> <p>(III) The Annual Report and Business Report are distributed each year to investors.</p> <p>(IV) The Company attends investor seminars to communicate with investors. The Company will attend such seminars in the future if necessary.</p> <p>(V) The Company communicates with banks, customers, suppliers, and communities through related business units.</p> <p>(VI) The Company communicates with employees through the quarterly Labor-Management Meetings and the Employee Welfare Committee.</p>	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
VI. Does the company designate a professional shareholder service agency to deal with shareholder affairs?	V		The Company appointed the KGI Securities Co., Ltd. to take charge of related affairs for shareholders' meetings and shareholder services.	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.
VII. Information disclosure (I) Has the company established a corporate website to disclose information regarding the company's financial, business and corporate governance status?	V		(I) The Company has established an official website in Chinese and English. URL: <a href="http://www.chsteel.com.tw">http://www.chsteel.com.tw</a> to provide related financial and business information. The	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
<p>(II) Does the company adopt other information disclosure methods (such as establishing English websites, assign dedicated personnel to collect and disclose company data, implement the spokesperson system, upload the investor conference processes to the company's website, etc.)?</p> <p>(III) Does the Company publish and report its annual financial report within two months after the end of a fiscal year, and publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline?</p>	V		<p>Administration Department was assigned to take charge of updating information.</p> <p>(II) The Company organizes investor seminars in accordance with laws and it uploads related information to the Market Observation Post System and the Company's website. The Company has assigned dedicated personnel to take charge of the collection of related information and disclosure of material information. A spokesperson is assigned to manage all external announcements.</p> <p>(III) The Company's 2021 financial report was filed within two months after the end of the fiscal year. The 2022 quarterly reports and monthly operation status will also be published ahead of schedule before the prescribed deadline.</p>	
VIII. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		<p>(I) Employee rights and benefits: The Company has established the Employee Work Rules in accordance with laws and submitted the Work Rules to the competent authority for registration. Items such as the salaries, leaves, and insurance for employees have been specified in the Work Rules.</p> <p>(II) Care for employees:</p> <ol style="list-style-type: none"> <li>1. The Company implements staff education and training to facilitatesmooth channels of communication. In addition to legally required leaves, the Company offers regular sick leave, marital leave, and bereavement leave with special approval that are superior to regulatory requirements to take care of employees.</li> <li>2. The advance employee health management, the Company organizes employee health examinations that are superior to regulatory requirements. It also invites doctors to explain results of health inspections at each plant. For employees with irregularities in health examinations, the Company</li> </ol>	No deviation from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

Assessed area	Operating status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	
			<p>notifies the employees' supervisors to provide care.</p> <p>3. Except when there is an epidemic, the Company organizes periodic large-scale family events for employees each year. Each unit also organizes independent activities to allow all employees to relax and have fun and strengthen the cohesion of all employees. The Company organizes regular employee seminars each year for management units to communicate with employees directly. The Employee Welfare Committee also provides benefits such as group insurance, education subsidies, and scholarships.</p> <p>(III) Investor relations: The Company has appointed the stock transfer agency to process affairs related to communication with shareholders. The Company also established a spokesperson system and provides appropriate responses to comments from shareholders' calls or letters. The Company also established an Investor Relations section on the Company's website to communicate with investors. The Company also discloses related information on the Market Observation Post System in accordance with regulations for general investors.</p> <p>(IV) Supplier relations: The Company maintains good relations with suppliers of raw materials and requires each unit to complete purchasing and acceptance in accordance with the specified schedule. It also follows up on the performance of the units in each quarter to expedite payment procedures. In response, the suppliers are able to offer more reasonable prices to achieve mutual trust and mutual prosperity. The Company also established the "Contractor and Supplier Assessment Regulations" to improve the quality of supplies and obtain raw materials at reasonable prices.</p> <p>(V) Rights of stakeholders: The Company performs all due</p>

Assessed area	Operating status		Summary	Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>obligations to banks, customers, suppliers, and communities. The Company repays bank loans and interest in a timely manner and it also pays suppliers in a timely manner in accordance with internal regulations. It delivers products to customers in accordance with contracts and facilitate good interactions with the communities by sponsoring events and giving back to the community. The Company has established a dedicated stakeholders' section on its website for communication.</p>	

(VI) Status of continuing education of Directors and Independent Directors: As of December 31, 2021

Title	Name	Date of Appointment	Date of Studies		Organizer	Course Title	Duration of the Course
			Starting Date	Ending Date			
Representative of Corporate Director	Min-Hsiung Liu	2018/03/31	2021/05/07	2021/05/07	Taiwan Corporate Governance Association	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
Representative of Corporate Director	Chao-Tung Wong	2016/11/15	2021/05/07	2021/05/07	Taiwan Corporate Governance Association	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
Representative of Corporate Director	Kai-Ming Huang	2019/09/30	2021/05/07	2021/05/07	Taiwan Corporate Governance Association	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
Representative of Corporate Director	Kuei-Sung Tseng	2021/01/31	2021/05/07	2021/05/07	Taiwan Corporate Governance Association	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Morning Session	3.0
			2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Afternoon Session	3.0
			2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
Independent Director	Juh-Shan Chiou	2015/06/26	2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Morning Session	3.0
			2021/09/11	2021/09/11	Taiwan Corporate Governance Association	Corporate Governance and Securities Regulations	3.0
Independent Director	Hsien-Tang Tsai	2015/06/26	2021/08/26	2021/08/26	Taiwan Corporate Governance Association	Preparedness for Business Continuity Management	3.0
			2021/10/28	2021/10/28	Financial Supervisory Commission	2021 Seminar on Legal Compliance for Stock Transactions by Internal Personnel	3.0

Independent Director	Lin-Lin Lee	2015/06/26	2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
			2021/11/12	2021/11/12	Securities & Futures Institute	2021 Insider Trading Prevention Seminar attendance certification	3.0
(VII) Status of continuing education of managerial officers:							
As of December 31, 2021							
Title	Name	Date of Appointment	Date of Studies		Organizer	Course Title	Duration of the Course
			Starting Date	Ending Date			
President	Kuei-Sung Tseng	2021/01/31	2021/05/07	2021/05/07	Taiwan Corporate Governance Association	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Morning Session	3.0
			2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Afternoon Session	3.0
			2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
Vice President, Administration Division (Corporate Governance Officer)	Chia-Wen Luo	2018/01/01	2021/05/07	2021/05/07	Taiwan Corporate Governance Association	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Morning Session	3.0
			2021/09/01	2021/09/01	Financial Supervisory Commission	13th Taipei Corporate Governance Forum - Afternoon Session	3.0
			2021/11/05	2021/11/05	Taiwan Investor Relations Institute	How to Use Intellectual Property Rights to Enhance Corporate Governance	3.0
Vice President, Commercial Division	Po-Han Chen	2020/06/01	2021/10/21	2021/10/21	Deloitte, Taiwan	Deloitte Taiwan Southern Taiwan ESG Seminar	2.0
			2021/11/22	2021/11/22	China Steel Corporation	Ministry of Justice Investigation Bureau - Trade Secrets Act and Practical Operations	1.0
Vice President of Production	Chih-Ho Chiu	2020/02/01	2021/05/07	2021/05/07	China Steel Corporation	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/10/21	2021/10/21	Deloitte, Taiwan	Deloitte Taiwan Southern Taiwan ESG Seminar	2.0
			2021/11/22	2021/11/22	China Steel Corporation	Ministry of Justice Investigation Bureau - Trade Secrets Act and Practical Operations	1.0

Assistant Vice President, Administration Division	Shu-Cheng Yen	2017/09/01	2021/10/21	2021/10/21	Deloitte, Taiwan	Deloitte Taiwan Southern Taiwan ESG Seminar	2.0
			2021/11/22	2021/11/22	China Steel Corporation	Ministry of Justice Investigation Bureau - Trade Secrets Act and Practical Operations	1.0
Assistant Vice President, Commercial Division	Ming-Ju Yang	2018/09/01	2021/10/21	2021/10/21	Deloitte, Taiwan	Deloitte Taiwan Southern Taiwan ESG Seminar	2.0
			2021/11/22	2021/11/22	China Steel Corporation	Ministry of Justice Investigation Bureau - Trade Secrets Act and Practical Operations	1.0
Assistant Vice President, Production Division Vice President	Chin-Ming Hsu	2018/09/01	2021/05/07	2021/05/07	China Steel Corporation	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/10/21	2021/10/21	Deloitte, Taiwan	Deloitte Taiwan Southern Taiwan ESG Seminar	2.0
			2021/11/22	2021/11/22	China Steel Corporation	Ministry of Justice Investigation Bureau - Trade Secrets Act and Practical Operations	1.0
Assistant Vice President, Production Division Vice President	Jui-Tsai Huang	2020/06/01	2021/05/07	2021/05/07	China Steel Corporation	Corporate Sustainability Governance from the Perspective of Risks — From Corporate Governance to ESG	3.0
			2021/10/21	2021/10/21	Deloitte, Taiwan	Deloitte Taiwan Southern Taiwan ESG Seminar	2.0
			2021/11/22	2021/11/22	China Steel Corporation	Ministry of Justice Investigation Bureau - Trade Secrets Act and Practical Operations	1.0

(VIII) Implementation of risk management policy and risk measurement standards: Not applicable (applicable to securities brokerages).

(IX) Status of protection of consumer or customer interests: Not applicable (applicable to securities brokerages).

(X) Recusals of Directors due to conflicts of interests: The Company's Directors maintain high levels of self-discipline and they do not vote on cases that pose conflicting interests between them and the Company.

(XI) Status of purchase of liability insurance by the Company for Directors (including Independent Directors) and Supervisors: The Company has purchased liability insurance for Directors (including Independent Directors) and reported to the Board of Directors in the 26th meeting of the 14th Board of Directors on August 3, 2021.

(XII) Related certifications obtained from the relevant competent authorities by personnel associated with the transparency of financial information: The Company's Chief Accounting Officer meets qualifications and criteria specified by the competent authority and continues to attend professional studies. In addition, 2 auditors have qualified in the Basic Proficiency Test on Enterprise Internal Control organized by the Securities & Futures Institute.

(XIII) Implementation status of the diversity policy:

The 15th Board of Directors of the Company consists of 7 Directors including 3 Independent Directors. The Directors include Director Min-Hsiung Liu who is familiar with the overall development of the steel industry and understands the future trends

in the steel market and raw materials market; Director Chao-Tung Wong who specializes in integrating upstream and downstream steel industries and focuses on environmental protection issues and social care; Director Wen-Chou Li who specializes in sales and provides the Company's future sales strategy; and Director Kuei-Sung Tseng who has the engineering and steel production expertise to assist the Company in the current phase of replacement of old production equipment. The Directors have always paid attention to environmental protection issues and invested in social care. They have provided the Company with numerous precious and valuable opinions. The three Independent Directors Juh-Shan Chiou, Hsien-Tang Tsai, and Lin-Lin Lee are elite professionals from different sectors and they specialize in finance and accounting, business, and legal affairs, respectively. They have demonstrated synergy with their diverse and complementary skills and fully made use of the functions of the Board of Directors to help the Company attain new milestones in corporate governance.

The Company considers the overall structure of the Board of Directors and aims to set up a Board of Directors of diverse gender, age, professional knowledge, and background. The Company specified in the Company's Corporate Governance Best-Practice Principles that Directors who serve concurrently as the Company's managerial officers should not exceed one third of the Directors, and at least one member of the Board of Directors should have professional legal background or management experience in the steel industry to support the Company's future business development. The Company's Directors who serve as employees account for 14.29% of all Directors; Independent Directors account for 42.86%; the female Director accounts for 14.29%; the proportion of Directors who do not serve concurrent role as company managers is 85.71%. The three Independent Directors have provided four to eight years of services. Six Directors are between 61 and 70 years of age and one Director is between 51 and 60 years of age.

Diversity Core Item  Name of Director	Basic composition							Business management	Leadership and decision making	Industry knowledge	Financial accounting	Business	Legal affairs	Marketing	Business administration	Engineering	
	Gender	Nationality	Concurrent role as Company employee	Age distribution		Independent Director term of service (year)											
				51 to 60 years old	61 to 70 years old	Less than 3 years	4 to 8 years										Over 9 years
Chairman Min-Hsiung Liu	Male	Republic of China			✓				✓	✓					✓		
Director Chao-Tung Wong	Male	Republic of China			✓				✓	✓				✓		✓	
Director Kuei-Sung Tseng	Male	Republic of China	✓		✓				✓	✓						✓	
Director Wen-Chou Li	Male	Republic of China			✓				✓	✓					✓		
Independent Director Juh-Shan Chiou	Male	Republic of China			✓			✓			✓						
Independent Director Hsien-Tang Tsai	Male	Republic of China			✓			✓				✓			✓		
Independent Director Lin-Lin Lee	Female	Republic of China		✓				✓					✓				

IX. Improvements made in the most recent fiscal year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and improvement measures and plans for items yet to be improved:

1. Improvements in 2021: The Company was rated among the top 6% to 20% of companies in the Corporate Governance Evaluation in 2020. The Company shall convene at least one investor conference each quarter, establish an Information Security Committee and formulate framework of information security risk management, information security policy and specific management plan, disclose links between the Directors' performance evaluation and their remuneration in the Annual Report.
2. Priorities for improvements in 2022: Establishment of the Risk Management Policy and Procedures, disclosure of the scope, organization, and operations of risk management.

Established on April 10, 2006	<b>Code of Ethical Conduct for Supervisors and Senior Managerial Officers</b>	Code:CHS-AA4-03
Amended on December 22, 2015		Implemented on December 22, 2015
<p>1. Objective: The Code of Ethical Conduct is established to guide supervisors of the Company to meet ethical standards in their conduct and prevent illegal and unlawful activities. The Code also aims to ensure that stakeholders of the Company gain a deeper understanding of the Company’s Code of Ethical Conduct.</p> <p>2. Scope of application: The supervisors and senior managerial officers specified in the Code refer to the President, Vice Presidents, Assistant Vice Presidents, Plant Directors, Deputy Plant Directors, senior consultants, professional consultants, and senior professional managers (engineers).</p> <p>3. This Code and its amendments shall be enforced after approval by the Board of Directors and presented to the shareholders' meeting.</p> <p>4. The unit responsible for the maintenance and management of the Code is the Administration Department.</p> <p>5. Code of ethical conduct:</p> <p>5.1 Honest and ethical conduct:</p> <p style="padding-left: 40px;">Supervisors shall perform their duties with honesty and compliance with professional standards</p> <p style="padding-left: 40px;">including processing de facto or obvious conflicts of interest between their personal interests and their duties in a fair manner.</p> <p>5.2 Prevention of conflicts of interest:</p> <p style="padding-left: 40px;">Supervisors shall process business affairs in an objective and efficient manner and they shall avoid using their positions in the Company to obtain illicit benefits for the following individuals or companies:</p> <ol style="list-style-type: none"> <li>(1) Themselves, their spouse, parents, children, or relatives within the second degree of kinship;</li> <li>(2) Companies in which the individuals in the subparagraph above directly or indirectly enjoy significant financial benefits;</li> <li>(3) Companies in which they serve as the chairman, executive director, or senior managerial officers;</li> </ol> <p style="padding-left: 40px;">The Company shall pay particular attention in loans, major asset transactions, purchase (sales) transactions, or provision of guarantee with the aforementioned individuals or companies.</p> <p>5.3 Avoid opportunities for personal gain:</p> <p style="padding-left: 40px;">When the Company has an opportunity for profit, it is the responsibility of the supervisors to maximize the reasonable and legitimate benefits that can be obtained by the Company. The following actions shall be avoided:</p> <ol style="list-style-type: none"> <li>(1) Seeking opportunities to pursue personal gain for themselves or others by using company property or information or taking advantage of their positions;</li> <li>(2) Obtaining personal gain for themselves or others by using company property or information or taking advantage of their positions;</li> <li>(3) Competing with the Company.</li> </ol>		

#### 5.4 Confidentiality of trade secrets:

Supervisors shall be bound by the obligation to maintain confidentiality of any information regarding the Company itself or its suppliers and customers, except when authorized or required by law to disclose such information. Confidential information includes any undisclosed information that, if exploited by a competitor or disclosed, could result in damage to the Company and customers.

#### 5.5 Fair trade:

The Company shall not use illegal or unethical actions to achieve results. Supervisors shall deal fairly with the Company's customers, suppliers, competitors and employees. They shall not obtain illicit benefits through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practices.

#### 5.6 Protection and proper use of company assets:

Company assets shall be protected and they may only be used for legitimate business objectives of the Company. Supervisors shall be responsible for protecting company assets and ensuring their effective and legal use in business activities. They shall avoid affecting the profitability of the Company due to theft, negligence, or waste.

#### 5.7 Legal compliance:

Supervisors shall abide by and educate employees on the Securities and Exchange Act and other laws and regulations that govern company activities. They may not deliberately violate any law or intentionally mislead, manipulate, or obtain benefits from suppliers or customers through improper means, or make false statements regarding company products or services.

#### 5.8 Compliance with related insider trading prevention regulations:

Supervisors shall abide by related insider trading prevention regulations and other regulations for processing securities transactions and trade secrets. If they obtain material undisclosed information, they may not conduct related securities transactions. Insider trading is illegal and unethical and the Company shall resolutely refuse such transactions.

#### 5.9 Encouraging reporting of illegal or unethical activities:

The Company shall raise ethical awareness and encourage employees to report to auditors upon suspicion or discovery of any activity in violation of laws, regulations, or the Code of Ethical Conduct. The Company shall endeavor to protect the identity and safety of the whistleblower against retaliation and any form of reprisal or threats.

### 6. Supplementary provisions

#### 6.1 Procedures for exemption:

6.1.1 If a supervisor wishes to be exempted from the application of Article 5.2, he/she shall fully disclose the conflict of interest between the individuals or companies listed in Article 5.2 and the legal activity as well as the reason that such transaction shall not harm the interests of the Company and meets regular business practices. The exemption shall require approval of a resolution of the Board of Directors.

6.1.2 If a supervisor wishes to be exempted from the application of Article 5.3, he/she shall fully explain to the Board of Directors the specific contents of the opportunity, information, or competition with the Company as well as the reason that such transaction shall not harm the interests of the Company. The exemption shall require approval of a resolution of the Board of Directors.

6.1.3 After the Board of Directors passes the exemption specified in Article 6.1.1 and Article 6.1.2 in a resolution, the Company shall immediately disclose information on the exempted individual, the date on which the Board of Directors adopted the resolution for exemption, objections or qualified opinions of Independent Directors, and the period of, reasons for, and principles behind the application of the exemption.

6.2 Disciplinary measures:

Where a supervisor violates the regulations on ethical conduct specified in the Code, gross violations shall be reported to the Board of Directors and violators shall be disciplined in accordance with the Company's "Regulations on Reward and Punishment".

Where the disciplined employee believes that the Company failed to process the matter correctly and causes damage to his/her legal rights, the employee may file a complaint in accordance with the "Employee Grievance Processing Regulations" for remedial measures.

6.3 The code of ethical conduct applicable to supervisors shall be based on the provisions herein as well as other relevant regulations of the Company.

6.4 The Code shall be disclosed in the Company's website, annual report, prospectus, and Market Observation Post System. The same shall apply to all amendments.

Established on April 10, 2006	<b>Code of Ethical Conduct for Directors</b>	Code: CHS-AA4-04
Amended on December 22, 2015		Implemented on December 22, 2015
<p>1. Objective: The Code of Ethical Conduct for Directors is established to promote honest and ethical conduct of directors and improve corporate governance.</p> <p>2. Scope of application: This Code is applicable to the Company's Directors.</p> <p>3. This Code and its amendments shall be enforced after approval by the Board of Directors and presented to the shareholders' meeting.</p> <p>4. The unit responsible for the maintenance and management of the Code is the Administration Department.</p> <p>5. Code of ethical conduct:</p> <p>5.1 Directors shall abide by the following basic principles when performing their duties:</p> <ol style="list-style-type: none"> <li>(1) Protect shareholder equity;</li> <li>(2) Reinforce the role of the Board of Directors;</li> <li>(3) Respect the interests of stakeholders;</li> <li>(4) Increase information disclosure transparency.</li> </ol> <p>5.2 When Directors execute their duties, they shall aim to pursue overall interests of the Company and they may not damage the Company's interest for the interests of specific individuals or groups. They shall also treat all shareholders fairly in the performance of their duties.</p> <p>5.3 Directors shall exercise due care as a good administrator when performing their duties. They must pay attention to integrity, the principles of fairness, and high levels of discipline and abide by regulations, the Company's Articles of Incorporation, and resolutions of the shareholders' meeting.</p> <p>5.4 Directors shall faithfully carry out their duties for the interest of all shareholders. When there is a conflict between personal interests and the interests of the Company, Directors shall place the interests of the Company first and avoid using their positions in the Company to obtain illicit benefits for the following individuals or companies:</p> <ol style="list-style-type: none"> <li>(1) Themselves, their spouse, parents, children, or relatives within the second degree of kinship;</li> <li>(2) Companies in which the individuals in the subparagraph above directly or indirectly enjoy significant financial benefits;</li> <li>(3) Companies in which they serve as the chairman, executive director, or senior managerial officers;</li> </ol> <p>The Company shall pay particular attention in loans, major asset transactions, purchase (sales) transactions, or provision of guarantee with the aforementioned individuals or companies.</p> <p>5.5 Information on procurement, supplies, cooperation, strategic alliances, mergers and acquisitions, or other business opportunities or opportunities for generating profits related to the Company's business obtained by Directors in the performance of their duties shall be provided to the Company first to protect company interests. They may not be used for personal gain for Directors or third parties.</p>		

- 5.6 Where a Director conducts actions that compete against the Company, he/she shall report to the shareholders' meeting first in accordance with Article 209, Paragraph 1 of the Company Act.
- 5.7 Directors shall be bound by the obligation for maintaining confidentiality of the Company's confidential information except when authorized or required by law to disclose such information. They may not use such confidential information for personal gain for themselves or third parties.
- 5.8 Directors shall safeguard shareholder equity and respect the rights of partner banks, creditors, employees, consumers, suppliers, affiliate companies, communities, and other stakeholders.
- 5.9 Directors shall abide by related insider trading prevention regulations and other regulations for processing securities transactions and trade secrets. If they obtain material undisclosed information, they may not conduct related securities transactions.
- 5.10 Where agendas in board meetings involve the Director or where conflicts of interest specified in Article 5.4 and Article 5.5 may be detrimental to the Company's interests, the Director shall recuse himself/herself and may not vote or cast votes on behalf of other Directors.
6. Supplementary provisions
- 6.1 Natural persons appointed by corporate shareholders to exercise their right shall adhere to the Code.
- The provisions herein shall apply mutatis mutandis to corporate shareholders represented by Directors appointed by corporate shareholders.
- 6.2 Procedures for exemption:
- 6.2.1 If a Director wishes to be exempted from the application of Article 5.4, he/she shall fully disclose the conflict of interest between the individuals or companies listed in Article 5.4 and the legal activity as well as the reason that such transaction shall not harm the interests of the Company and meet regular business practices. The exemption shall require approval of a resolution of the Board of Directors. However, legal actions between Directors and the Company specified in Article 223 of the Company Act shall be processed by Independent Directors on behalf of the Company.
- 6.2.2 If a Director wishes to be exempted from the application of Article 5.5, he/she shall fully explain to the Board of Directors the specific contents of the opportunity to the Company as well as the reason that such transaction shall not harm the interests of the Company. The exemption shall require approval of a resolution of the Board of Directors.
- 6.2.3 After the Board of Directors passes the exemption specified in Article 6.2.1 and Article 6.2.2 in a resolution, the Company shall immediately disclose information on the exempted individual, the date on which the Board of Directors adopted the resolution for exemption, objections or qualified opinions of Independent Directors, and the period of, reasons for, and principles behind the application of the exemption.
- 6.3 The Code shall be disclosed in the Company's website, annual report, prospectus, and Market Observation Post System. The same shall apply to all amendments.

**(IV) Composition, duties, and operation of Other Remuneration Committee:**

(1) Remuneration Committee member profiles:

Remuneration Committee member profiles

March 31, 2022

Criteria		Professional qualifications and experience	Independence status	Number of other public companies in which the member also serves as a member of their remuneration committee
Title	Name			
Independent Director, Remuneration Committee Convener	Hsien-Tang Tsai	His highest degree is Ph.D. in Business Administration, Purdue University. He currently serves as the Independent Director, Audit Committee Member, and Remuneration Committee Convener, Logah Technology Corporation (Mar. 2014 to present), Independent Director, Audit Committee Member, and Remuneration Committee Member of Fulin Plastic Industry (Cayman) Holding Co., Ltd., and Remuneration Committee Member of Revivegen Environmental Technology Co., Ltd. He had served as the Dean of College of the Institute of Management and Professor of the Department of Business Management, National Sun Yat-sen University, and Director of Taiwan Public Television Service Foundation.	The three Independent Directors meet the following conditions during the two years before being elected or during the term of office: 1. The individual is not an elected person in the name of a government, institution, or its representative as defined in Article 27 of the Company Law. 2. The individual, spouse, or relative within the second degree of kinship is not a director, supervisor, or employee of the Company or any of its affiliates. 3. The individual is not a director, supervisor, or employee of a company that has special relations with the Company. 4. The individual is not a director, supervisor, manager, or a shareholder that holds more than 5% of shares at a company or institution that has financial or business exchanges with the Company. 5. Has not provided	2
Independent Director	Juh-Shan Chiou	His highest degree is MBA, National Sun Yat-sen University and he qualified in the high-level national examination for Certified Public Accountant of the Republic of China and Certified Securities Investment Analyst (CSIA). He currently serves as the Independent Director and Audit Committee Convener, King Point Enterprise Co., Ltd. (Jun. 2020 to present), Independent Director and Audit Committee Convener, Jufan Industrial Co., Ltd. (Setp. 2021 to present), and Honorary Accountant of Chungsun Prime Certified Public Accountants. He had served as a Partner of Chung Sun Certified Public Accountants, CPA in Deloitte, Taiwan, and lecturer of National Sun Yat-sen University. He is an accounting and finance professional.		1

Criteria		Professional qualifications and experience	Independence status	Number of other public companies in which the member also serves as a member of their remuneration committee
Title	Name			
Independent Director	Lin-Lin Lee	<p>Her highest degree is Master of Law, National Taiwan University and she qualified in the high-level Bar Examination of the Republic of China. She currently serves as the Managing Partner of Ling Yun Attorneys-at-Law (Jun. 2012 to present) and Independent Director, Audit Committee Member, and Remuneration Committee Member of Sentien Printing Factory Co., Ltd. (Jun. 2020 to present). She had served as Vice Chairman of Taiwan Bar Association, Chairman of Bar Association of Kaohsiung, Chairman of Warm Life Association for Women (Kaohsiung), lecturer of I-Shou University, Member of the Attorney Disciplinary Re-Examination Committee, Member of the Prosecutors' Selection Committee of the Ministry of Justice, Member of the Prosecutor Evaluation Committee, and Member of the Professional Judges' Selection Committee of the Ministry of Justice.</p>	<p>business, legal, financial, or accounting services to the Company or its affiliates in the last two years.</p> <p>6. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate of 1% or more of the total number of issued shares of the company or ranking in the top 10 in holdings.</p>	1

**(2) Operations of the Remuneration Committee:**

1. The Company's Remuneration Committee consists of 3 members.
2. Current term for the members: August 25, 2021 to August 24, 2024. 4 (A) meetings of the Remuneration Committee were held in 2021. The qualifications of the members and attendance were as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance in person rate (%) (B/A)	Remarks
Convener	Hsien-Tang Tsai	2	0	100%	15th-term Committee Members were appointed on August 25, 2021 and the Committee Member Hsien-Tang Tsai was elected as the convener.
Committee Member	Juh-Shan Chiou	2	0	100%	
	Lin-Lin Lee	2	0	100%	
Convener	Lin-Lin Lee	2	0	100%	14th-term Committee Members were appointed on June 22, 2018 and the Committee Member Lin-Lin Lee was elected as the convener.
Committee Member	Hsien-Tang Tsai	2	0	100%	
	Juh-Shan Chiou	2	0	100%	

Other matters that should be recorded:

- I. If the board meeting declines to adopt or modifies recommendations of the Remuneration Committee, the board meeting's date, period, motion contents, and resolution decisions as well as the method in which the company handles the remuneration committee's opinions shall be disclosed in detail (e.g., if the remuneration adopted by the board committee is superior to that recommended by the remuneration committee, the differences and reasons shall be explained): None.
- II. If there are objections or reservations by the members that have been recorded in writing during the remuneration committee resolution, the remuneration committee meeting's date, period, motion content, the opinions of all members, and treatment of the member's opinions must be disclosed in detail : None.
- III. Discussions and results of resolutions of the Remuneration Committee:
  - (I) 11th meeting of 14th Remuneration Committee on February 23, 2021:
    1. Request for recommendation on the results of the performance evaluation of the Vice Presidents of the departments in 2020.  
Resolution: Passed by all members of the Committee in attendance.
    2. Proposal for determining the salary for the new President Mr. Kuei-Sung Tseng.  
Resolution: Passed by all members of the Committee in attendance.
  - (II) 12th meeting of 14th Remuneration Committee on June 30, 2021:
    1. Request for recommendation on the amendment of the performance evaluation table of the President. Committee Member recommendations: Delete the word "stable" for level 4 "stable attainment of the required standards for the position" in Note 1 of the revised performance evaluation, and change it to "attainment of the required standards for the position".  
Resolution: Passed after amendment and became effective retroactively starting from the performance evaluation for 2020.
    2. Request for recommendation on the results of the performance evaluation of the former President Mr. Kung-Ching Wu for 2020.

Resolution: Passed by all members of the Committee in attendance.

(III) 1st meeting of 15th Remuneration Committee on November 2, 2021:

1. Request for recommendation on the monthly transportation allowance of each Director of the Company.

Resolution: Passed by all members of the Committee in attendance.

2. Request for recommendation on the monthly salary of each Independent Director of the Company.

Resolution: Passed by all members of the Committee in attendance.

3. Request for recommendation on the attendance fees of members of the Remuneration Committee and standards for attendance fees for Directors, external experts and scholars in the Committee.

Resolution: Passed by all members of the Committee in attendance.

4. Request for recommendation on the attendance fees of members of the Audit Committee and standards for attendance fees for Directors, external experts and scholars in the Committee.

Resolution: Passed by all members of the Committee in attendance.

(IV) 2nd meeting of 15th Remuneration Committee on December 30, 2021:

1. Request for recommendation on the proposal for the adjustment of the basic salary for the Company's President and Vice Presidents which shall become effective retroactively starting from April 1, 2020.

Resolution: Passed by all members of the Committee in attendance.

**(3) Operations of the Nominating Committee: Not applicable for the Company as it has not yet established a Nominating Committee.**

**(V) Implementation status of sustainable development, deviations from the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, and reasons thereof:**

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
I. Has the company established a governance structure for sustainable development, established an exclusively (or concurrently) dedicated unit to implement sustainable development, and have senior executives appointed by the Board of Directors to be in charge of sustainable development and to report the implementation status to the Board of Directors?	V		<p>The Company's Administration Department is assigned to carry out such tasks on a part-time basis. The Administration Department assembles representatives from relevant business units based on the nature of their business operations to form a Sustainability Report Core Team. The Team has a convener and the role is filled by the Vice President of the Administration Division. It also has a deputy convener and the roles if filled by the Assistant Vice President of the Administration Division. The Company established the Corporate Governance, Environmental Protection, and Social Welfare Groups for economic, environmental, and social impact issues. In addition to the identification and review of the economic, environmental, and social issues of concern to stakeholders, the Groups collect information on the level of concern and indicators for related issues to formulate the CSR Report regarding the scope of operations of the Groups.</p> <p>According to Article 3.1.2 of the "Corporate Social Responsibility Best Practice Principles" established by the Company in March 2018, the Vice President is authorized to report to the Board of Directors. Therefore, the Administration Department summarizes the results of execution for economic, environmental, and social issues each year. According to Article 2.3 of the Company's "Sustainable Development Best Practice Principles", the Company shall implement and promote CSR implementation principles and focus on the continuity of plans. The Department formulated specific sustainable development plans for the following year which was reported by the Vice President of the Administration Division to the Board of Directors. Adjustments are implemented based on instructions and opinions of the Directors in the meetings.</p>	No deviation.
II. Has the company assessed the environmental, social, and corporate governance issues related to its operations based on the principle of	V		The Company has established materiality assessment procedures for the identification of material topics for sustainable development through	No deviation.

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
materiality and established related risk management policies or strategies? (Note 2)			<p>procedures that include collection, review, sequencing, identification, and confirmation.</p> <p>The Sustainability Report was compiled with the participation of the Sustainability Core Team and was compiled and edited by the Administration Department. The Report discloses the analysis of risk assessments of material issues and related risk management policies or strategies. They are summarized as follows:</p> <ol style="list-style-type: none"> <li>1. Material environmental issues: The Company has identified environmental policy/management system, air pollutant control, greenhouse gas emissions, and waste management risks. We use ISO 14064-1 greenhouse gas emissions inventory and verification, air pollution reporting system, and ISO 14001 environmental management system to control emissions. We continue to control the usage volume of paint solvents for non-process applications, use the air pollution reduction to offset emissions, or implement process improvement and add exhaust hoods and chimneys to reduce water leakage from the pipelines. We also continue to recycle waste, reduce waste landfill volume, promote water conservation and water-saving measures, increase the reclaimed water volume, and reduce effluent.</li> <li>2. Material social issues: In terms of social issues, we shall focus on improving occupational safety and health management. We used the two-cycle occupational safety regional collective defense and discovered 626 issues with an achievement rate of 116%. We conducted inspections of the Vice President of the Production Division (8 rounds) to implement constant safety observations by supervisors in 1,117 cases (execution frequency: 939 cases/year for Team Leaders, 160 cases/year for (Deputy) Section Managers, 18 cases/year for (Deputy) Plant Directors). 98% of the operations complied with SJP, while improvements were completed for the 2% unsafe acts/environments. We conducted occupational safety audits (36 times) and reported 130 near miss incidents and improvements.</li> </ol>	

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			<p>3. Material economic issues: The Company identified operational and financial performance risks. The Company sets the annual budget and regularly reviews the implementation status and the work targets in the Company's monthly operation performance meeting. In addition to the monthly review of the implementation status by each plant, the Company regularly reviews the annual budget in the quarterly operation performance meeting.</p>	
<p>III. Environmental issues</p> <p>(I) Has the company established an appropriate environmental management system based on the characteristics of the industry to which it belongs?</p>	V		<p>(I) 1. The Company has established the Environmental Management Systems (ISO 14001) and Energy Management Systems (ISO 50001). In addition, the Company integrated the Environmental Management Systems and Energy Management Systems ISO into the "Environment and Energy Management System" to fully implement overall plans. The Company also established the "Environment and Energy Management Committee" to oversee and ensure effective environmental protection and energy management as well as to report the performance of environmental protection and energy management regularly to the President.</p> <p>2. According to the "Procedures for the Environment and Energy Management Committee", the Environment and Energy Management Committee is chaired by the Vice President of Production and it operates in functional teams. The Committee is organized as follows:</p> <pre> graph TD     A[Committee Chairman] --&gt; B[Deputy Committee Chairman]     B --&gt; C[Consultant]     B --&gt; D["Executive Secretary for Energy Executive Secretary for Environment"]     D --&gt; E[Committee]     D --&gt; F[Heat Technology]     D --&gt; G[Electricity Technology]     D --&gt; H[Environmental Energy System]     D --&gt; I[Education Group] </pre>	No deviation.

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(II) Is the company committed to improving the efficiency of the various resources and using recycled materials which have a low impact on the environment?	V		<p>3. The Environmental Management Systems (ISO 14001) and Energy Management Systems (ISO 50001) received the certification from DNV Business Assurance Co., Ltd. in July 2021. The certification covered the Hot Rolling Department, Cold Rolling Department, Pickling &amp; Galvanizing Department, Pipe &amp; Tube Department, Lukang Steel Pipe Plant, and Ciaotou Administration Building. Expiry dates of the certificates:</p> <p>(1) Environmental Management Systems (ISO 14001) : 2024/05/07  (2) Energy Management Systems (ISO 50001) : 2024/07/24</p> <p>(II) 1. The Company has established the Energy Management Systems (ISO 50001 : 2018) and received the certification from DNV Business Assurance Co., Ltd. in July 2021. (the certificates of the Hot Rolling Department, Cold Rolling Department, and Pipe &amp; Tube Department renewed the certification; Pickling &amp; Galvanizing Department received first certification). We adopted the PDCA management model to effectively manage major energy consumption facilities and continue to increase energy use efficiency and management performance.</p> <p>2. The Company aims to attain the energy saving requirements in energy regulations (electricity savings <math>\geq 1\%</math>) and many plants have proposed energy conservation projects in 2021. The electricity savings achieved in 2021 are as follows:</p> <p>(1) Hot Rolling Department: 3.26%  (2) Cold Rolling Department: 2.73%  (3) Pickling and Galvanizing Department: 3.15%  (4) Dafa Steel Pipe Plant: 1.77%  (5) Lukang Steel Pipe Plant: 2.14%</p> <p>3. The Company uses comprehensive waste planning and management to recycle and reuse large amounts of industrial waste (e.g., scrap iron, mill scale, waste acid, hot-rolling clay, inorganic sludge, waste</p>	

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(III) Does the company assess the potential risks and opportunities of climate change for its current and future operations and undertake response measures with respect to climate change?	v		<p>active carbon, waste lubricant oil, waste fireproof materials, etc.). The waste recycling rate in 2021 was 99.22%. They were recycled for the following uses:</p> <p>(1) Hot-rolling sludge/Inorganic sludge: Materials for cement factories or use in road gradation or production of interlocking bricks.</p> <p>(2) Waste wood: Use as boiler fuel.</p> <p>(3) Waste acid: Recycle waste acid for processing and production of recycled acid and returned to the production process.</p> <p>(4) Scrap iron and rusty sheets: Recycled to the furnace for reuse.</p> <p>4. The Company's supplier of slabs (or hot-rolled steel coils) is Dragon Steel Corporation (part of CSC Group). In the past it used approximately 3 to 15% of recycled materials (waste steel) in its steel production process. It is currently conducting tests to increase the ratio of recycled materials to 46% and has begun tests with SAE 1016 materials. It has successfully produced 10 hot-rolled steel coils and sold them to the Company for use in the Cold Rolling Department. The production is expected to be expanded to the most commonly used materials, SAE 1006 and SAE 1008.</p> <p>(III) To ensure sustainability, the Company responds to climate change issues and identifies climate change risks and opportunities as well as management measures based on the recommended framework published by the Task Force on Climate-related Disclosure (TCFD), including the explanation of the four major core elements of governance, strategy, risk management, and indices. The results in shown in Appendix 1.</p>	
(IV) Does the company collect data on greenhouse gas emissions greenhouse gas emission, water consumption, and waste production in the past two years and implement policies to reduce	v		<p>(IV) The results, management policies, and action plans for the Company's greenhouse gas emissions, unit product tap water consumption, and total weight in the past two years are explained below:</p>	

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation						
	Yes	No	Summary							
greenhouse gas emissions, water consumption, and management of other waste?			<p>1. Greenhouse gas emissions The Company has conducted greenhouse gas inventory since 2005. A third-party verification institution is appointed to obtain the emissions verification statement. The greenhouse gas emissions in the past two years were as follows: 2020: 343,980.056 tons Co2e/year; estimated unit product emissions intensity was 0.1365 ton-CO2e/year (verified for the Hot Rolling Department; verification for other plants is not yet completed due to the epidemic and is scheduled to be completed in May 2022) 2021: 330,621.459 tons Co2e/year; estimated unit product emissions intensity was 0.1342 ton-CO2e/year (not yet verified; verification to be completed in May 2022)</p> <p>2. Tap water consumption (excluding water consumption of Ciaotou Administration Building) 2020: 1,423,967 cubic meters 2021: 1,327,310 cubic meters</p> <p>3. Total weight of waste 2020: 121,284 tons 2021: 123,070 tons</p> <p>4. Environment, safety, health, and energy policy Chung Hung's environment, safety, health, and energy policy was implemented following the approval of the Chairman and it is the highest guiding principle for promoting activities for the environment, safety, health, and energy. The Company upholds the core values for environmental health and safety including the "respect for life", "care for the environment", "energy conservation and carbon emissions reduction", and remains committed the following six targets:</p> <table border="1" data-bbox="999 1235 1639 1399"> <tbody> <tr> <td>1</td> <td>Improving employees' health.</td> </tr> <tr> <td>2</td> <td>Mitigating potential hazards and risks.</td> </tr> <tr> <td>3</td> <td>Upholding environmental protection.</td> </tr> </tbody> </table>	1	Improving employees' health.	2	Mitigating potential hazards and risks.	3	Upholding environmental protection.	
1	Improving employees' health.									
2	Mitigating potential hazards and risks.									
3	Upholding environmental protection.									

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation						
	Yes	No	Summary							
			<table border="1"> <tr> <td>4</td> <td>Continuing energy conservation and carbon emissions reduction.</td> </tr> <tr> <td>5</td> <td>Strengthening participation in consultation services.</td> </tr> <tr> <td>6</td> <td>Improving management performance.</td> </tr> </table>	4	Continuing energy conservation and carbon emissions reduction.	5	Strengthening participation in consultation services.	6	Improving management performance.	
4	Continuing energy conservation and carbon emissions reduction.									
5	Strengthening participation in consultation services.									
6	Improving management performance.									
IV. Social issues (I) Has the company referred to relevant laws and international human rights instruments to stipulate relevant management policies and procedures?	V		(I) The Company implements humanistic management and provides a fair and reasonable working environment. We support the "United Nations Universal Declaration of Human Rights", "United Nations Global Compact", and other international human rights standards. Our labor conditions are in compliance with relevant government labor laws and regulations, and all employees are protected by the Labor Standards Act. However, we have established the "Employee Work Rules" in accordance with laws to regulate the employment, salary, attendance, leave, rewards and punishments, performance evaluation, transfer, compensation for occupational hazards and family support for victims, termination of employment, retirement, sexual harassment prevention, welfare, and insurance of the employees. The Employee Work Rules have been approved by the competent authority and they provide protection for all employees. To promote human rights, we accumulated 655 hours of training on human rights in 2021 for 417 participants. The training courses include labor laws, occupational hazard prevention, supervisors' occupational safety responsibilities, and health promotion activities.  In addition to providing employees with legally required leaves, the Company offers leaves superior to regulatory requirements such as regular sick leave with special approval, bereavement leave, paternity leave, and wedding hosting leave when employees' children get married. When employees need long-term leave due to military service, serious illness or injury, major changes in the family, or parenting, employees may apply for unpaid leave to take care of their own needs and their families.							

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(II) Has the company established and offered proper employee benefits (including compensation, leave, and other benefits) and reflected the business performance or results in employee compensation appropriately?	V		<p>(II) The Company promotes sustainable and inclusive economic growth by providing equal pay for equal work as well as equal promotion opportunities for male and female employees. In 2021, female employees account for 8.86% of all employees and female executives account for 3.63% of all executive (excluding employees of management units).</p> <p>The Company pays close attention to employee rights and benefits and shares the profits and earnings with employees to maintain a positive work environment. The Company also hires employees with physical disabilities, including 22 in 2021 who accounted for 1.89%. The Company meets 100% of the regulatory requirements. Employee salaries are determined based on benchmarks of the industry, market manpower supply and demand, and the business and financial conditions. The Company also established the "Salary Management Regulations" to regulate the payment of salaries and adjusts the salaries based on the Company's business performance, prevailing rates in the market, Consumer Price Index, and personal performance each year to ensure that the overall compensation remains competitive. The Company's average salary adjustment in 2021 was 2.9%. The Company established the "Production and Sales Earnings Bonus Regulations" to encourage employees to improve operation processes, increase production, and reduce the cost of production to earn and share earnings. According to the "Production and Sales Earnings Bonus Regulations", the Company shall distribute monthly (or annual) bonuses or additional year-end production and sales earnings bonuses based on the Company's profitability in the current month (or current year). The remuneration for employees is processed in accordance with the Articles of Incorporation. If the Company has profit for the year, it shall allocate no less than 0.1% of the profit as remuneration for employees.</p>	No deviation.
(III) Has the company provided a safe and healthy working environment and provided employees	V		(III) All plants of the Company have passed ISO 45001 and CNS 45001 certification and organizes workplace safety programs every year. In	

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEx listed companies and reasons for deviation
	Yes	No	Summary	
with regular safety and health training?			addition to continuous organization of safety and health education and training and regular occupational safety training for employees, we also invite medical professionals to discuss health issues with employees. For more detailed information on employee safety and healthy work environment, please refer to V. Protection measures for work environment and employees' personal safety in Chapter 5 Business Overview of this Annual Report.	
(IV) Has the company set up effective career development and training programs for its employees?	V		(IV) The Company plans comprehensive competency training for all supervisors and employees including orientation training, professional competency training, and management skill training for the management to help employees continue to learn and grow through a diverse range of learning methods and cultivate key skills. The total training hours 2021 was 11,107 hours or 9.5 hours per employee. The Company also holds regular annual employee meetings to review and provide feedback on employee performance and assist employees in their career development.	
(V) Does the company comply with relevant regulations and international standards regarding customer health and safety, right to privacy, advertising and labeling of its products and services and set up relevant consumer or customer protection policies and complaint procedures?	V		(V) 1. The Company's products have been evaluated for their impact on health and hazards. To ensure that imported steel materials are not contaminated by radiation, Chung Hung invests in the procurement of equipment and training of qualified inspection technical personnel to establish rigorous and effective operating procedures for radiation detection. The procedures were certified and approved by the competent authority — Atomic Energy Council, Executive Yuan and the Company obtained the “Steel and Iron Industry Radiation Detection Operations Certification”. No radioactive substances are found in slabs used by Chung Hung as materials or any of the Company's products. 2. The Company regularly appoints SGS to analyze the items specified in RoHS 2.0 (cadmium, lead, mercury, hexavalent chromium, polybrominated biphenyls (PBBs), polybrominated diphenyl ethers	

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
			<p>(PBDEs), diisobutyl phthalate (DIBP), dibutyl phthalate (DBP), benzyl butyl phthalate (BBP), Di-2-ethylhexyl phthalate (DEHP), etc.), and SVHC items in REACH. All analysis results met requirements in the regulations.</p> <p>3. The Company's products are labeled in accordance with existing Taiwanese and international standards and regulations and the Company issues quality assurance certificates.</p> <p>4. The Company regards customer information as confidential information of the Company. To protect customer interests and privacy, the Company has established rigorous protection measures and adopted the following rigorous mechanisms for management and control:</p> <p>(1) The Company established a dedicated IT unit to take charge of the Company's overall information system and hardware planning, development, establishment, and maintenance. It ensures the overall quality and safety of the operations of the software and hardware in the Company's information system.</p> <p>(2) The Company rigorously requires operating personnel to abide by the Company's confidentiality regulations for trade secrets and established the "Employee Code of Ethics" and other regulations for compliance. Employees are required to uphold their confidentiality obligations for business secrets, trade secrets, and other personal privacy information during their employment. The same rules shall apply after they leave the Company.</p> <p>(3) The Company uses Internet technologies to prevent the intrusion of hackers and prevent the theft of customer data. Anti-virus software is installed in all computer equipment to prevent the intrusion of computer viruses or trojans.</p> <p>(4) Operators are provided with their own unique accounts and passwords in the personal computer system based on their duties.</p>	

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
(VI) Has the company formulated supplier management policies that require suppliers to comply with relevant regulations on environmental protection, occupational safety and health, and labor rights and request their reporting on the implementation of such regulations?	V		<p>The system regularly requires changes of passwords and management of excessive standby time to prevent theft of personal accounts and passwords. The system also automatically manages the system access for inquiries and operations. Personnel not related to operations are unable to conduct operations or obtain data.</p> <p>(5) The electronic business systems used by the customers and suppliers require individual network connection accounts and passwords.</p> <p>5. Complaint procedures: Please visit the Procedure of Customer Complaints on Chung Hung's website. (<a href="http://www.chsteel.com.tw/cs/cs.html#cs_e">http://www.chsteel.com.tw/cs/cs.html#cs_e</a>)</p> <p>(VI) 1. The Company has established a comprehensive Supplier Management Policy and disclosed in the Corporate Social Responsibility Report and the Company's website (<a href="http://www.chsteel.com.tw/csr/sc/sc_sel.html">http://www.chsteel.com.tw/csr/sc/sc_sel.html</a>).</p> <p>2. The Company also provides related regulations for suppliers to download (<a href="http://www.chsteel.com.tw/pr/e-com.html#dow">http://www.chsteel.com.tw/pr/e-com.html#dow</a>).</p> <p>3. The addendum in Chung Hung's procurement contracts stipulates that if a supplier violates the Company's corporate social responsibility policy and causes significant impact upon the environment and society, or if a supplier engages in unethical conduct in violation of the "Labor Standards Act" and damages labor rights, such conduct shall be deemed as a material breach of contract. The Company may, at its sole discretion, terminate or rescind the contract and deduct payment or request compensation in accordance with the contract.</p>	
V. Has the company, followed internationally recognized guidelines to prepare and publish	V		The Company's CSR Report for the most recent year was compiled in accordance with GRI standards: Core options and AA1000 Accountability	No deviation.

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
reports such as its Sustainability Report to disclose non-financial information of the Company? Has the company received assurance or certification of the aforementioned reports from a third-party accreditation institution?			Principles. The Company also references the ISO 26000 Guidance on Social Responsibility, United Nations Global Compact (UNGC), and the "Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies" as the basis for disclosure in the Report. The Report passed third-party certification by the British Standards Institution (BSI) for compliance with GRI Standards and Type 1 assurance in AA1000 v3.	
<p>VI. If the company has established its own sustainable development best-practice principles by following the "Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies", please describe the implementation and any discrepancies with regard to the Best Practice Principles:  The Company has revised the "Chung Hung Sustainable Development Best Practice Principles" (proposal) based on the "Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies". The Principles were approved by the Board of Directors in a resolution on February 24, 2022 and subsequently disclosed on the Market Observation Post System. They were also reported in the annual shareholders' meeting. All practical operations have met the requirements in the "Sustainable Development Best Practice Principles". (Link to the Company's Corporate Social Responsibility Best Practice Principles: <a href="http://www.chsteel.com.tw/cg/pdf/CHS-AA3-43.pdf">http://www.chsteel.com.tw/cg/pdf/CHS-AA3-43.pdf</a>)</p>				
<p>VII. Other key information useful for explaining the status of sustainable development practices:</p> <ol style="list-style-type: none"> <li>Environmental protection: The Company integrated ISO 14001 and ISO 50001 systems into the "Environment and Energy Management System" to fully implement overall plans. The Company also established the "Environment and Energy Management Committee" to oversee and ensure effective environmental protection and energy management as well as to report the performance of environmental protection and energy management regularly to the President. The Company continues to review the performance and effectiveness of the Environment (ISO 14001 and ISO 14064) and Energy (ISO 50001) Management Systems. The Company strengthens environment and energy management, actively conserve energy and reduce waste, and fulfill its corporate social responsibilities. It received recognition for inter-department greenhouse gas reduction and cooperation program in 2020-2021 from the Environmental Protection Bureau of Kaohsiung City Government.</li> <li>Workplace safety and health: The Company upholds the core value of "respect for life" in its Environmental Safety and Health Policy. In terms of occupational safety and health, Chung Hung is committed to improving employees' health, mitigating potential hazards and risks, enhancing communication mechanisms, and improving occupational safety and health performance. The Company operates the Hot Rolling Department, Cold Rolling Department, Pickling &amp; Galvanizing Department, Lukang Steel Pipe Plant, and Dafa Steel Pipe Plant. All five plants have passed ISO 45001 and CNS 45001 certification. The implementation status and related honors in 2021 are as follows: <ol style="list-style-type: none"> <li>The Hot Rolling Department and Cold Rolling Department passed the Taiwan Occupational Safety and Health Management System review of the Ministry of Labor. The validity period is three years from June 29, 2021 to June 28, 2024.</li> <li>The Dafa Steel Pipe Plant was recognized as an "Outstanding Unit in the Advancement of Occupational Safety and Health Unit in Kaohsiung City in 2021" and received the "2021 Outstanding Occupational Safety and Health Unit - Five-Star Award" from the Ministry of Labor, Executive Yuan.</li> <li>The Hot Rolling Department and Cold Rolling Department received the "Gold Safety Award" for safety and health performance in 2020 from Taiwan Steel &amp; Iron Industries Association. Dafa Steel Pipe Plant and Lukang Steel Pipe Plant also won the "Excellence Award".</li> </ol> </li> <li>Social welfare:</li> </ol>				

Item	Implementation status			Deviation from Sustainable Development Best Practice Principles for TWSE/TPEX listed companies and reasons for deviation
	Yes	No	Summary	
<p>(1) By upholding the two main goals of “life” and “education”, Chung Hung makes use of limited resources to sponsor social welfare programs. We continued to sponsor the “Independent Poverty Eradication Program” of Kaohsiung City (since 2004), funding for the Greater Kaohsiung Lifeline Association Suicide Prevention Program (since 2004), scholarship sponsorship for outstanding students selected by Ziguan District Office (since 2004), sponsorship of the publication of diary education drawing books for Xing Tang Elementary School in Ciaotou District (since 2008), lunch subsidies for Kangshan Senior High School students from economically challenged families (since 2010), and Syin-Lu Social Welfare Foundation's Syin-Lu Love Healthy Walk Plan (since 2012) in 2021.</p> <p>(2) It's a truly happy thing to help others. Chung Hung continues to advance volunteer services to achieve happiness and the activities were as follows:</p> <p>a. The Company has cleaned the environment at the Home of Love of the Bureau of Social Affairs, Kaohsiung City Government regularly each month since July 2013 and we invite colleagues and their relatives to provide services. A total of 95 participants were recorded in 2021 (average 23.8 participants/month; activities were suspended from May to December due to the epidemic).</p> <p>b. The Company cleaned and organized the outdoor environment with Ciaotou District Office at Jing Zhong Village in Baishu Community since 2015 and 31 employees and relatives participated in the activity in 2021.</p> <p>c. The Company has organized "volunteer training" each year since 2008 and a total of 33 participants completed training in 2021. A total of 315 employees have obtained the "volunteer service record book" as of 2021.</p> <p>(3) With regard to community care, Chung Hung participates in local activities as a member of the community by providing assistance in local development, cooperating with local events, and assistance for community schools to continue to contribute to the development of communities near the plants. The activities in 2021 were as follows:</p> <p>a. We have focused on green living, traffic safety, and health promotion since 2016. We organize rotating promotional and exchange activities in neighboring communities each year. We organized 3 sessions (1 in Ciaotou, 1 in Gangshan, and 1 in Ziguan) on theme of "health promotion communication" in 2021. All events were completed successfully and we interacted well with the communities.</p> <p>b. Sponsorship of the 2021 Gangshan Regional Festival events organized by Gangshan District Office.</p> <p>c. Sponsorship of education plan subsidies for disadvantaged students in Wulin Elementary School, Ciaotou District.</p> <p>(4) Other activities: The Company has held second-hand item donation activities each year since 2012 for employees to show their care. The donated items were given to the Syin-Lu Social Welfare Foundation's Nanzi Syin-Lu workshop. The supplies collected in 2021 were delivered in December. Since 2017, the Company cooperated with the Animal Protection Association and organized an event at Shilong Activity Center in Ciaotou for neutering, chip implant, rabies vaccination, and pet adoption and 21 employees and relatives participated in the event as volunteers in 2021.</p>				

Appendix 1

Dimension	Item	Risks			Opportunities			Response Management Measures in 2021
		Climate Risks	Potential Financial Impact	Level of Impact	Climate Opportunities	Potential Financial Impact	Level of Impact	
Regulations	Total greenhouse gas emissions management	1. The increase in greenhouse gas may be regulated by competent authorities and the order intake and output may be limited	Increase operating costs	High	Participation in the carbon trading market	1. The carbon rights gained from the fuel offsetting program can increase production and can be traded 2. Reduce greenhouse gas emission risks	Medium	1. Annual greenhouse gas inventory 2. Search for technologies for reducing greenhouse gas emissions 3. Obtain carbon rights offsetting credits from the fuel offsetting program 4. Continuous ISO 50001 operations 5. Participate in cross-sector greenhouse gas emission reduction 6. Establishment of a carbon reduction and carbon neutrality promotion team
		2. The government plans to collect the "greenhouse gas emission fee"			Adoption of new technologies	1. Continue to identify opportunities for improvement and increase energy usage efficiency 2. Return on investments in low-carbon technologies		
	Reduce electricity consumption by 1%	Failure to meet electricity conservation requirements may result in fines from the competent authority	1. Investment in equipment will increase operating costs 2. A penalty may increase costs or reduce demand for products	Medium	Replacement of old equipment	Increase energy usage efficiency of equipment	Low	

Dimension	Item	Risks			Opportunities			Response Management Measures in 2021
		Climate Risks	Potential Financial Impact	Level of Impact	Climate Opportunities	Potential Financial Impact	Level of Impact	
	Renewable energy (green electricity)	Major electricity users are required to set up renewable energy generation facilities or purchase green electricity. Failure to meet requirements may result in fines from the competent authority.	1. Investment in equipment will increase operating costs 2. A penalty may increase costs or reduce demand for products	Medium	Use of low-carbon energy sources	Enhance the Company's reputation and increase product sales	Low	1. Evaluate the installation of renewable energy electricity system 2. Evaluate the purchase of green electricity
Policy	Industry transformation (green products and green production processes)	Investments in green product development and green production process improvement increase operating costs	Increase operating costs	Low	Develop low-carbon products	Meet the energy-saving requirements of customers and increase the sales of steel products and operating revenue	Low	1. Follow government policies and develop green production processes 2. Promote waste (e.g., waste acid) recycling and reuse.
	Circular economy	Extending the useful life of materials and chemicals may affect quality and production volume, and thus increase operating costs	Increase operating costs	Low	Increase the waste reuse rate	Reducing the cost of production and the impact on the environment can enhance the Company's reputation and increase product sales	Low	
Practice	Shortage of water resources	Water shortage affects production, reduces the production volume of various steel products, and increases operating costs	Decrease/interruption of production	Medium	Implement water resources circular usage	Enhance resilience against severe weather conditions and reduce the possibilities of impact and amount of losses	Low	1. Execute process water usage and rainwater recovery to stabilize water supply sources 2. Establish waste water purification and reuse equipment and make full use of water resources
	Typhoons and torrential rain	Disruptions in the purchase of slabs and shipment of finished steel coils (pipes) cause	Decrease/interruption of production	Medium	Increase product sales	Torrential rain damages houses, infrastructure, and objects while repairs increase the use of steel products	Low	

Dimension	Item	Risks			Opportunities			Response Management Measures in 2021
		Climate Risks	Potential Financial Impact	Level of Impact	Climate Opportunities	Potential Financial Impact	Level of Impact	
		production interruptions and lower operating revenue			Increase protection against natural disasters	Increase protection against natural disasters for all plants and reduce the possibilities of impact and amount of losses	Low	3. All plants prepare in advance to respond to extreme torrential rain
	Unstable electricity supply	Water shortage affects production, reduces the production volume of various steel products, and increases operating costs	1. Decrease/interruption of production 2. Increase operating costs	Medium	Use of low-carbon energy sources	Enhance the Company's reputation and increase product sales	Low	Evaluate the installation of renewable energy electricity system and stabilize the source of electricity supply
	Industry stigmatization/not welcomed by neighboring communities	Conflicts with neighboring communities due to environmental protection issues decreases investors' willingness to invest	Decrease/interruption of production	Low	Implement environmental protection policies	Strictly control all environmental data to reduce conflicts with neighboring communities and increase investors' willingness to invest	Low	1. Establish positive communication channels and maintain friendly relations with neighboring communities 2. Conduct environmental protection inspections, pollution source inspections, and maintenance to ensure normal operations 3. Inspect sources of air pollutants and odors

**(VI) Implementation of ethical corporate management, deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", and reasons for deviation:**

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
I. Establishment of ethical management policies and solutions				
(I) Has the company established the ethical corporate management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices as well as the commitment of its Board of Directors and senior management to implementing the management policies?	V		(I) The Company's Board of Directors passed the "Ethical Corporate Management Best Practice Principles" and the "Ethical Corporate Operating Procedures and Code of Conduct" based on the Principles to govern the matters to be noted by all employees of the Company in business execution. The Company regularly uses the ERP system or assigns supervisors to use internal meetings to promote the Company's ethical management business philosophy and emphasize the importance of ethical conduct. The Company requires employees to maintain discipline and abide by related regulations of the Company. Fraudulent activities are not tolerated and employees are encouraged to conduct careful business operations and establish a culture of ethical business practices. The Company publishes the Ethical Corporate Management Policy on the company's website and activities involving external parties so that the Company's managers, employees, suppliers, customers, or other related institutions and personnel are fully aware of the Company's principles and rules with respect to ethical corporate management.	No deviation.
(II) Has the company established a risk assessment mechanism against unethical conduct, analyze and assess operating activities with higher risk of unethical conducts on a regular basis, and establish prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies"?	V		(II) The Company plans the internal organization, structure, and allocation of responsibilities and sets up check-and-balance mechanisms for mutual supervision of the business activities within the business scope which are possibly at a higher risk for unethical conduct. The Company has established the "Operating Standards for Processing Gifts, Banquets, and Requests" to achieve a high-quality corporate culture, protect the Company's image, and provide a basis for employees to process gifts, banquets, and requests. Unless otherwise specified, gifts from interested parties with conflicts of interests in the employee's position shall be refused or returned. Where the gifts cannot be returned, the recipient shall fill out the gift report form, submit the form to a supervisor of the plant or department or above, and deliver the gifts to the General Affairs Section of the Administration Department to process.	

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
(III) Has the company established policies to prevent unethical conduct with relevant procedures, guidelines of conduct, punishment for violation, rules of appeal clearly stated in the policies, implemented the policies, and review the policies on a regular basis?	V		<p>The Company has established the "Entertainment Fee Regulations". All company personnel who need to entertain guests for business execution and development of relationships with external parties shall be governed by these Regulations.</p> <p>The Company has adopted the following measures to prevent unethical conduct: The Company organized training related to ethical corporate management (including corporate culture, quality system, and internal auditor training) for 351 participants with training hours totaling 1,415 man-hours.</p> <p>(III) The Company has established regulations for preventing unethical conduct in the "Code of Ethical Conduct for Directors", "Code of Ethical Conduct for Supervisors and Senior Managerial Officers", "Employee Code of Ethics", "Internal Control System Regulations", and "Rewards and Penalties Regulations". We also amend the regulations and review related plans in accordance with regulatory requirements. We also expressly stipulate anti-bribery or anti-kickback clauses in all engineering, procurement, and cooperation agreements. The Company has set up the Complaint Response Committee to implement the complaint system and penalties for violations. The Internal Audit Department proposes improvement recommendations and enter them into the Company's audit management system for computerized management and continuous follow-up on improvement progress. Improvement measures shall be completed for each audit item in a timely manner and submitted to Independent Directors for review in accordance with regulations. This is an important mechanism for the supervision of ethical corporate management policies by the Board of Directors. The Company implements these regulations and regularly reviews and amends them.</p>	
<p>II. Implementation of ethical corporate management</p> <p>(I) Has the company evaluated the integrity records of parties it does business with and stipulated ethical conduct clauses in business contracts?</p>	V		<p>(I) The Company's "Contractor and Supplier Assessment Regulations" and "Customer Credit Extension Management Regulations" have specified that the Company should avoid dealings with any persons having any record of unethical conduct when engaging in commercial activities.</p>	No deviation.

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
(II) Has the company set up a dedicated unit under the Board of Directors to promote ethical corporate management and regularly (at least once every year) report to the Board of Directors the implementation of the ethical corporate management policies and prevention programs against unethical conduct?	V		(II) The Administration Department is responsible for advancing the establishment of related regulations and each unit complies with related regulations to ensure the full implementation of ethical corporate management. The Department also reports the operation and implementation status to the Board of Directors once every year.	
(III) Has the company established policies to prevent conflict of interests, provided appropriate channels for filing related complaints and implemented the policies accordingly?	V		(III) Regulations for the prevention of conflicts of interest and personal gains have been established in the Company's "Code of Ethical Conduct for Supervisors and Senior Managerial Officers" and "Employee Code of Ethics". The Company also encourages reporting of any illegal or unethical activities.	
(IV) Has the company established effective accounting systems and internal control systems to implement ethical corporate management and designated its internal audit unit, based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or commissioned a CPA to conduct the audit?	V		(IV) The Company has established effective accounting systems to implement ethical management. The procedures for processing accounting matters have been implemented in accordance with regulations of the system and filed to the responsible supervisors for approval. In addition, the Company has established the "Internal Control System Regulations" to establish an effective internal control system. The Regulations were passed by the Board of Directors and adopted as the basis for the implementation of internal controls by related units and personnel of the Company. The Company established the "Instruction for Self-Evaluation of Internal Control Systems" which is used to implement self-evaluation of internal controls before the end of December each year. Each level 1 unit conducts a self-assessment on the management status of the current year and files a plant management evaluation report to the Administration Department for compilation of the overall company evaluation report. The report is filed to the authorized supervisor for approval and delivered to the Finance Department which produces the Internal Control System Statement. The Company's audit plan was passed by the Board of Directors in 2021 to facilitate the rigorous implementation of internal control audits. The Company audited various operation items in transaction cycles and completed the audit report in 2021. A total of 50 audits was conducted and 44 recommendations were filed for discrepancies and anomalies. The Chief Internal Auditor regularly attends meetings of the Board of Directors to	

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
(V) Has the company held internal and external educational trainings on operational integrity regularly?	V		<p>report on the implementation status of the audit plan. After the audit report is filed, the Chief Internal Auditor sends the report to all Independent Directors for review in accordance with regulations. The Chief Internal Auditor also logs into the Company's audit management system for computerized management to continue follow-up on improvement progress. The follow-up and improvement status are reported to the Independent Directors for review each quarter.</p> <p>(V) The Company has established the "Employee Code of Ethics" and requires all new employees to attend anti-corruption training after reporting for duties. Supervisors use internal meetings to promote the Company's ethical management business philosophy and emphasize the importance of ethical conduct as well as zero tolerance for fraudulent activities.</p>	
<p>III. Operation of whistle-blowing system in the Company</p> <p>(I) Has the company established a specific whistleblowing and reward system, set up convenient whistleblowing channels and designated appropriate personnel to handle investigations against wrongdoers?</p>	V		<p>(I) According to the Company's Ethical Corporate Management Best Practice Principles, the Company established the Regulations on Violation of Ethical Conduct Reports and established hotlines, emails, and reporting system on the Company's website as reporting channels to protect the Company's core value for ethical corporate management, implement corporate governance, and provide channels for internal and external entities to report violations of ethical conduct by employees and representatives of the Company. The unit responsible for processing reports is the Internal Audit Department. The Regulations on Violation of Ethical Conduct Reports stipulate that once reported incidents are proven true in investigations, whistleblowers may be given appropriate rewards based on the severity of the case. If the whistleblower is an employee of the Company, the reward shall be processed in accordance with the Company's "Rewards and Penalties Regulations".</p>	No deviation.
(II) Has the company established standard operating procedures for investigating reported issues, follow-up	V		(II) The Company has established the Regulations on Violation of Ethical Conduct Reports which expressly provided the reporting channels, reporting items, unit responsible for processing reports, incident	

Item	Operating status			Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No	Summary	
measures to be adopted after the investigation, as well as relevant confidential mechanisms?  (III) Has the Company set up protection for whistleblowers to prevent them from being subjected to inappropriate measures as a result of reporting such incidents?	V		investigation and processing procedures, protection of personal information and whistleblowers, regulations on rewards and penalties, confidentiality of reported information, and record retention periods. Unless otherwise specified in laws, personal information provided by whistleblowers shall be kept confidential by the Company and the Company shall adopt appropriate protection measures in accordance with laws to protect the personal information and privacy of whistleblowers. There were no occurrences of penalties or complaints regarding violations of ethical corporate management at the Company in 2021.  (III) The Regulations on Violation of Ethical Conduct Reports stipulate that the Company shall take measures to protect whistleblowers from inappropriate disciplinary actions due to their whistleblowing.	
IV. Strengthen information disclosure (I) Does the company disclose the content and effectiveness of its integrity management principles on the company's website and the Market Observation Post System?	V		(I) The Company has disclosed information related to ethical management including the "Code of Ethical Conduct", "Ethical Corporate Management Best Practice Principles", and Ethical Corporate Operating Procedures and Code of Conduct" in the "Corporate Governance Regulations" on the company website (www.chsteel.com.tw) under "Investor Relations" and "Corporate Governance" and the Market Observation Post System. The Company's Vice President of the Administration Department reports the operation and implementation status of ethical corporate management to the Board of Directors on a regular basis. Information on the operating status is disclosed under "Ethical Management" in "Corporate Governance" in "Corporate Social Responsibility" on the website. The Internal Audit Department is responsible for supervision and implementation as well as reporting the results regularly to the Board of Directors. Related conditions are disclosed in "Internal Auditing" on the website.	No deviation.
V. If the Company has established Ethical Corporate Management Principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies", describe any discrepancy between the principles and their implementation: No deviation.				

Item	Operating status		Summary	Deviation from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and reasons for deviation
	Yes	No		
<p>VI. Other important information to facilitate better understanding of the Company's implementation of ethical corporate management: (e.g., review and amendment of the Company's Ethical Corporate Management Best Practice Principles):</p> <p>1. Establishment of general penal provisions for suppliers:</p> <p>(1) Establishment of the Company's general safety and environmental regulations for construction, operations, and machinery: Where Chung Hung personnel or their spouses, or immediate family members serve as the operator of suppliers or related personnel in contracted operations, the suppliers shall actively notify the contract signing unit and contract execution unit in writing.</p> <p>In the event of violation, the contractor shall be imposed with a fine of between NT\$3,000 and NT\$60,000 in accordance with penal provisions for safety and health issues of contractors in provision No. 6.2 of the Company's "Contractor Safety and Health Management Regulations".</p> <p>(2) Establishment of the Company's general safety and environmental regulations for construction, operations, machinery, safety and environmental/materials repairs, supplies, and transportation suppliers: Penalties shall be imposed on suppliers that provide bribes, gifts, commissions, compensation, interest in exchange for benefits, or other illegitimate benefits to Chung Hung's managerial officers, employees, or part-time employees, their spouses, direct blood relatives, consultants, or design and planning companies. Once such violations are verified, Party A's contract execution unit shall, based on the severity of the violation, file a report and consult the opinions of the Purchasing Department. It shall submit the report to the President for approval and the Purchasing Department shall modify the contract to suspend the execution of all or parts of the contract of the supplier before its expiry, temporarily suspend operations, or blacklist the supplier permanently.</p> <p>2. Establishment of the Company's procurement contracts: Where the contractor bribes, provides gifts, or threatens personnel of the owner's company, in addition to legal procedures, the bribe or gift shall be regarded as discounts for the owner based on the price established in the contract. The owner shall request compensation or deduct the bribe or gift from payments to the contractor. The owner may rescind or terminate the contract, request default penalties, and blacklist the contractor permanently. In addition, the owner may unconditionally rescind or terminate other procurement contracts signed with the contractor without notice.</p>				

**(VII) If the company has established corporate governance principles and related guidelines, disclose the means of accessing this information:**

1. Corporate governance principles and related guidelines:

- (1) The Company, pursuant to related regulations of the Financial Supervisory Commission, Executive Yuan, established the following procedures: Procedures for Asset Acquisition and Disposal, Procedures for Making Endorsements and Guarantees, Operating Procedures for Fund Lending, Board of Directors' Meeting Procedure, and Remuneration Committee Charter.
- (2) The Company, pursuant to related regulations of Taiwan Stock Exchange Corporation, established the following procedures: Procedure for the Shareholders' Meeting, Code of Ethical Conduct for Directors, Code of Ethical Conduct for Supervisors and Senior Managerial Officers, Employee Code of Ethics, Rules Governing the Election of Directors, Related Party Transaction Management Regulations, Ethical Corporate Management Best Practice Principles, Audit Committee Charter, Management Procedures for Handling Internal Major Information and

Prevention of Inside Trading, Corporate Governance Best-Practice Principles, Corporate Social Responsibility Best Practice Principles, Standard Operating Procedures for Requests Filed by Directors, and Regulations for Evaluating the Performance of the Board of Directors.

2. Query Method:

- (1) Public companies: Download from the Market Observation Post System (<http://mops.twse.com.tw/mops/web/index>) in "Establishment of related corporate governance regulations and rules" under "Corporate Governance".
- (2) Download from the Company's corporate website (<http://www.chsteel.com.tw>) in "Investor Relations" → "Corporate Governance" → "Corporate Governance Regulations".

**(VIII) Other important information to facilitate better understanding of the company's corporate governance activities: The Company's Chief Accounting Officer has completed sufficient hours of continuing education in accordance with laws.**

## **(IX) Implementation of Internal Control System**

### **1. Statement of Internal Control**

#### **Chung Hung Steel Corporation**

##### **Internal Control System Statement**

Date: February 24, 2022

This Statement of Internal Control System is issued based on the self-assessment results of the Company for year 2021.

- I. The Company takes cognizance of the fact that the establishment, execution, and maintenance of its internal control policies are the responsibilities of the Company's Board of Directors and managers; such policies have been implemented throughout the Company. The objective is to provide reasonable assurances that the goals of operational effectiveness and efficiency (including profitability, performance, asset security, etc.), financial report reliability, timeliness, transparency, and regulatory compliance will be achieved.
- II. There are inherent limitations to even the most well-designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the effectiveness of the internal control system may vary due to changes in the environment and circumstances. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.
- III. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria introduced by the "Governing Regulations" cover the process of management control and consist of five major elements, each representing a different stage of internal control: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, 5. Monitoring operations. Each component also comprised several items. Please refer to "Governing Regulations" for details.
- IV. The Company has adopted the items for determining internal control systems in order to evaluate the effectiveness of its internal control system design and implementation.
- V. Based on the aforementioned evaluation results, the company believes that the design and execution of its December 31, 2021 internal control system (including those adopted for supervision and management of subsidiary branches) are effective in terms of understanding of operational effectiveness, level of efficiency fulfillment, financial reporting reliability, timeliness, transparency, and regulatory compliance-related internal control system items; and that the company can reasonably achieve the aforementioned goals.
- VI. This statement of declaration shall be the primary content of annual report and prospectus, and shall be made available to the public. Should any of the aforementioned disclosure contents be fictitious or concealed in an illegal manner, the company shall bear legal responsibilities pursuant to Articles 20, 32, 171, and 174 of the Securities Exchange Act.
- VII. This Statement was approved by the Board on February 24, 2022 where 0 of the 7 attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

Chung Hung Steel Corporation

Chairman: Min-Hsiung Liu (signature and seal)

President: Kuei-Sung Tseng (signature and seal)

**2. If the internal control system review is conducted by commissioned accountants, the said accountant's review report shall be disclosed:** None.

**(X) The company's major deficiencies improvement status for internal personnel who have received penalties for violating provisions provided by the internal control system in recent years and up to the publication date of this annual report.** None.

**(XI) Critical resolutions made during shareholders and Board of Directors' meetings in 2021 and up to the publication date of this annual report:**

● **Shareholder's meeting**

**1. Critical resolutions adopted at the 2021 Annual shareholders' meeting:**

- (1) Approval of the Company's 2020 Business Report and Financial Report.
- (2) Approval of the Company's 2020 earnings distribution proposal.
- (3) Passed the amended "Rules of Procedure for Shareholders' Meetings".
- (4) Approval of the removal of the non-compete clause for the 15th-term Directors of the Company.

**2. Execution of resolutions adopted at the 2021 general shareholders' meeting:**

- (1) Approval of the Company's 2020 Business Report and Financial Report: Passed as proposed.
- (2) Approval of the Company's 2020 earnings distribution proposal: The 2020 earnings distribution proposal is passed as proposed and the Company distributed cash dividends to shareholders totaling NT\$430,663,334 (NT\$0.3 per share). The ex-dividend date was set as September 1, 2021 and the distribution date was set as September 24, 2021. All dividends were distributed.
- (3) Passed the amended "Rules of Procedure for Shareholders' Meetings": Passed as proposed and announced on the company website.
- (4) Election of 15th-term directors.

The elected Directors were as follows:

Representative of China Steel Corporation Chao-Tung Wong, Representative of China Steel Corporation Min-Hsiung Liu, Representative of China Steel Corporation Kai-Ming Huang, Representative of China Steel Corporation Kuei-Sung Tseng, Independent Director Lin-Lin Lee, Independent Director Juh-Shan Chiou, Independent Director Hsien-Tang Tsai

Implementation status: Received approval for registration from the Ministry of Economic Affairs on September 09, 2021, and announced on the company website.

- (5) Approval of the removal of the non-compete clause for the 15th-term Directors of the Company: Passed as proposed and published on the Market Observation Post System on August 25, 2021.

● **Important resolutions of the Board of Directors in 2021 and 2022:**

**1. Important resolutions of the Board of Directors passed in the 22nd meeting of the 14th Board of Directors on January 25, 2021:**

- (1) Approval of the appointment of the Company's President.

**2. Important resolutions of the Board of Directors passed in the 23rd meeting of the 14th Board of Directors on February 24, 2021:**

- (1) Reported the results of the 2020 board performance evaluation.
- (2) Approval of the Company's 2020 Business Report and financial statements sealed by the Chairman, managerial officer, and chief accounting officer.

- (3) Approval of the Company's 2020 earnings distribution proposal.
  - (4) Approval of the report on the 2020 distribution of remuneration to employees and Directors.
  - (5) Approval of the 2020 Internal Control Self-Assessment Report and Internal Control System Statement.
  - (6) Approval of the election of seven 15th-term Directors (including 3 Independent Directors).
  - (7) Approval of the proposal for convening the Company's 2021 annual shareholders' meeting.
  - (8) Approval of the replacement of the Company's chief accounting officer.
- 3. Important resolutions of the Board of Directors passed in the 24th meeting of the 14th Board of Directors on May 3, 2021:**
- (1) Approval of the amendments to the "Rules of Procedure for Shareholders' Meetings".
  - (2) Approval of the list of candidates for the Company's 15th-term Directors (including Independent Directors).
  - (3) Approval of the removal of the non-compete clause for the 15th-term Directors of the Company.
  - (4) Approval of the revisions of the agenda for the Company's 2021 annual shareholders' meeting.
- 4. Important resolutions of the Board of Directors passed in the 25th meeting of the 14th Board of Directors on July 1, 2021:**
- (1) Approval of the amendments to the "Salary Management Regulations".
- 5. Important resolutions of the Board of Directors passed in the 18th meeting of the 14th Board of Directors on August 3, 2021:**
- (1) Approval of the postponement of the Company's 2021 annual shareholders' meeting in response to the COVID-19 epidemic.
- 6. Important resolutions of the Board of Directors passed in the 1st meeting of the 15th Board of Directors on August 25, 2021:**
- (1) Election of the Company's 15th-term Chairman.
  - (2) Appointment of Ms. Lin-Lin Lee, Mr. Juh-Shan Chiou, and Mr. Hsien-Tang Tsai as members of the Remuneration Committee of the Company's 15th Board of Directors.
- 7. Important resolutions of the Board of Directors passed in the 2nd meeting of the 15th Board of Directors on October 7, 2021:**
- (1) Approval of the Company's 2021 budget correction.
- 8. Important resolutions of the Board of Directors passed in the 3rd meeting of the 15th Board of Directors on November 2, 2021:**
- (1) Approval of the Company's 2022 audit plan.
  - (2) Approval of the proposal for the monthly transportation allowance of each Director of the Company.
  - (3) Approval of the proposal for the monthly salary of each Independent Director of the Company.

- (4) Approval of the proposal for the attendance fees of members of the Remuneration Committee and standards for attendance fees for Directors and external experts and scholars in the Committee.
- (5) Approval of the proposal for the attendance fees of members of the Audit Committee and standards for attendance fees for Directors and external experts and scholars in the Committee.

**9. Important resolutions of the Board of Directors passed in the 4th meeting of the 15th Board of Directors on December 30, 2021:**

- (1) Approval of the Company's 2022 budget.

**10. Important resolutions of the Board of Directors passed in the 5th meeting of the 15th Board of Directors on January 20, 2022:**

- (1) Approval of the replacement of the Hot Rolling Department's F1/F4/F5/F6 main motor equipment.

**11. Important resolutions of the Board of Directors passed in the 6th meeting of the 15th Board of Directors on February 24, 2022:**

- (1) Reported the results of the 2021 board performance evaluation.
- (2) Approval of the Company's 2021 Business Report and Financial Report.
- (3) Approval of the Company's 2021 earnings distribution proposal.
- (4) Approval of the report on the 2021 distribution of remuneration to employees and Directors.
- (5) Approval of the 2021 Internal Control Self-Assessment Report and Internal Control System Statement.
- (6) Approval of the amendment of certain articles of the Company's "Corporate Social Responsibility Principles".
- (7) Approval of the proposal for convening the Company's 2022 annual shareholders' meeting.

**(XII) The primary content of directors or independent directors who have dissented on critical resolutions passed by the Board of Directors, where such dissents have been recorded or documents in recent years up to the annual report publication date:** None.

**(XIII) Summary of resignation or dismissal of related individuals of the Company in recent years up to the annual report publication date:**

2021.01.01-2022.03.31

Title	Name	Date Appointed	Date Dismissed	Reasons for resignation or dismissal
President	Kung-Ching Wu	2019.12.31	2021.01.31	Retired upon reaching retirement age
Chief Accounting Officer	Pei-Yu Lee	2017.09.01	2021.03.01	Reassigned to China Steel Corporation

Note: Related individuals of the Company refer to the Chairman, President, head of accounting, chief finance officer, chief internal auditor, chief governance officer, and chief R&D officer.

## V. Information on Fees to CPA

### Information on Fees to Certifying CPA

Unit: NT\$1,000

Name of the accounting firm	CPA name	Audit period	Audit fee	Non- audit fee	Total	Remarks
Deloitte, Taiwan	Yu-Hsiang Liu	2021.01.01~2021.12.31	4,715	903	5,618	Non-public expenses for audit refer to the fees for transfer pricing services and tax certification.
	Chia-Ling Chiang	2021.01.01~2021.12.31				

(I) If the accounting firm has been changed and the annual audit fees were lower for the year of the firm change compared to that of the previous year, then the decrease in audit fees, the percentage, and the reason for such changes should be disclosed: None.

(II) Where accounting fees paid for the year was 10% less than that of the previous year, the sum, proportion, and cause of the reduction shall be disclosed: None.

The audit fees specified in Item 1 refer to the fees paid to the accountant with regards to the services of financial report auditing, verification, review, and financial forecast review.

VI. Information on Change of CPA: The following information on change of accountants in the past two years and post-period shall be disclosed:

(I) Information on the previous CPA:

Date of Change	Passed in the 15th meeting of the 14th Board of Directors on February 26, 2020		
Reason for Replacement and Explanation	Due to the internal rotation mechanisms CPA at Deloitte, Taiwan, the Company's financial statements, previously certified by the CPAs Jui-Hsuan Hsu and Yu-Hsiang Liu, have been certified by the CPAs Yu-Hsiang Liu and Chia-Ling Chiang starting from the first quarter of 2020.		
State whether the appointer or the CPAs have terminated the appointment, or whether the appointer or the CPAs have rejected the appointment	Contracting Party	Accountants	Appointer
	Termination initiated by client	N/A	
Opinion and reason for the issuance of audit reports containing opinions other than unqualified opinions in the most recent two fiscal years	CPA declined to accept (continue) the appointment	N/A	
Different opinions from the issuer	Yes		Accounting principles or practices
			Disclosure of financial statements
			Audit scope or procedures
			Others
None			
Description	N/A		

Other items for disclosure (items in Article 10, Subparagraph 6, Item 1-4 to Item 1-7 of the Regulations shall be disclosed)	None
--	------

**(II) Regarding succeeding CPA:**

Name of CPA Firm	Deloitte, Taiwan
CPA name	Chia-Ling Chiang
Date of Appointment	Passed in the 15th meeting of the 14th Board of Directors on February 26, 2020
Subjects and outcomes of consultation on the accounting treatment of or application of accounting principles to specific transactions, or opinions that may be included on financial statements before the appointment of new CPAs	N/A
The succeeding accountant's opinions in written form in response to the former accountant's opinions	N/A

**Previous CPAs' reply to Article 10, Subparagraph 6, Item 1 and Item 2-3 of the Regulations: Not applicable.**

**(III) Previous accountant's dissenting opinions on disclosures of items specified in the two preceding paragraphs: None.**

**VII. Company's Chairman, President, financial or accounting affairs manager who has served in the CPA firm or its affiliates in the most recent year: None.**

**VIII. Change status of share transfer and share pledged by Directors, Independent Directors, Managerial Officers and shareholders holding more than 10% equity in the recent year up to the publication date of this annual report.**

**Share equity change status for Directors, Independent Director, managerial officers, and major shareholders**

Title	Name	2021		2022 up to March 31		Remarks
		Number of shares held added (subtracted)	Number of pledged shares added (subtracted)	Number of shares held added (subtracted)	Number of pledged shares added (subtracted)	
Director	China Steel Corporation	0	0	0	0	
	Representative: Chao-Tung Wong	0	0	0	0	
	Representative: Min-Hsiung Liu	0	0	0	0	
	Representative: Kung-Ching Wu	0	0	Not applicable	Not applicable	Dismissed on January 31, 2021
	Representative: Kuei-Sung Tseng	0	0	0	0	Appointed on January 31, 2021
	Representative: Kai-Ming Huang	(195,000)	0	0	0	Dismissed on March 1, 2022

Title	Name	2021		2022 up to March 31		Remarks
		Number of shares held added (subtracted)	Number of pledged shares added (subtracted)	Number of shares held added (subtracted)	Number of pledged shares added (subtracted)	
	Representative: Wen-Chou Li	Not applicable	Not applicable	0	0	Appointed on March 1, 2022
Independent Director	Juh-Shan Chiou	0	0	0	0	
	Hsien-Tang Tsai	0	0	0	0	
	Lin-Lin Lee	0	0	0	0	
Chairman of the Board	Min-Hsiung Liu	0	0	0	0	
President	Kung-Ching Wu	0	0	Not applicable	Not applicable	Dismissed on January 31, 2021
	Kuei-Sung Tseng	0	0	0	0	Appointed on January 31, 2021
Vice President, Administration Division	Chia-Wen Luo	0	0	0	0	
Vice President, Commercial Division	Po-Han Chen	0	0	0	0	
Vice President of Production	Chih-Ho Chiu	0	0	0	0	
Assistant Vice President, Administration Division	Shu-Cheng Yen	0	0	0	0	
Assistant Vice President, Commercial Division	Ming-Ju Yang	38,118	0	0	0	
Assistant Vice President, Production Division	Chin-Ming Hsu	0	0	0	0	
	Jui-Tsai Huang	0	0	0	0	
Head of Accounting	Pei-Yu Lee	0	0	Not applicable	Not applicable	Dismissed on March 1, 2021
	Wen-Ping Huang	2,000	0	0	0	Appointed on March 1, 2021

Note 1: There were no cases where the counterparty of equity pledge is a related party of the Company's Director, Independent Director, managerial officer, or major shareholder.

Note 2: The number of shares held by the outgoing Directors at the end of the period refers to the number of shares held in the current month of the dismissal; the number of shares held by the newly Directors at the beginning of the period refers to the number of shares held in the current month of the appointment.

**IX. Information on relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree).**

Mutual relationship information among shareholders with the top 10 shareholding ratios (information from the period after the book closure date in August 2021)

Unit: shares; %; August 31, 2021

Name	Personal Shareholding		Shares Held by Spouse and Underage Children		Total Shareholding by Nominee Arrangement		Shareholders with the top 10 shareholding ratios who are related, or their spouses and second-degree relatives' names and their respective relationships.		Remarks
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
1. China Steel Corporation	582,673,153	40.59	0	0	0	0	None	None	
Legal representative: Chao-Tung Wong	0	0	0	0	0	0	None	None	
2. Yung-Shun Wang	33,208,000	2.31	0	0	0	0	None	None	
3. UBS Europe SE investment fund under the custody of Citibank (Taiwan) Limited	17,240,000	1.20	0	0	0	0	None	None	
4. Chun Fa Co., Ltd.	13,959,000	0.97	0	0	0	0	None	None	
Legal representative: Shao-Chun Wang	803,000	0.06	0	0	0	0	None	None	
5. Vanguard Emerging Market Stock Index Fund under the custody of JPMorgan Chase Bank N.A. Taipei Branch	11,616,000	0.81	0	0	0	0	None	None	
6. Vanguard Total International Stock Index Fund under the custody of JPMorgan Chase Bank N.A. Taipei Branch	10,708,000	0.75	0	0	0	0	None	None	
7. Ting Fa Investment Co., Ltd.	8,924,000	0.62	0	0	0	0	None	None	

Name	Personal Shareholding		Shares Held by Spouse and Underage Children		Total Shareholding by Nominee Arrangement		Shareholders with the top 10 shareholding ratios who are related, or their spouses and second-degree relatives' names and their respective relationships.		Remarks
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Title (or Name)	Relationship	
Legal representative: Shao-I Wang	1,095,000	0.08	0	0	0	0	None	None	
8. Deutsche Bank	5,496,000	0.38	0	0	0	0	None	None	
9. iShares Core MSCI Emerging Markets ETF under the custody of Standard Chartered Bank	3,912,000	0.27	0	0	0	0	None	None	
10. Vanguard Equity Index II investment Fund under the custody of JPMorgan Chase Bank N.A. Taipei Branch	3,739,000	0.26	0	0	0	0	None	None	

#### X. Total shareholding percentage of investee business

The number of shares held by the Company, directors, independent directors, managerial officers, and enterprises that are directly or indirectly controlled by the Company in the investee company shall be calculated together.

Unit: shares; Thursday, March 31, 2022

Investee business	Investment by the Company		Investments by directors, independent directors, managerial officer and directly or indirectly controlled enterprises		Comprehensive investment	
	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage	Number of Shares	Shareholding Percentage
Hung Kao Investment Corporation	2,600,000	100%	0	0	2,600,000	100%
Transglory Investment Corporation	306,824,279	40.91%	0	0	306,824,279	40.91%
Pro-Ascentek Investment Corporation	20,000,000	16.67%	0	0	20,000,000	16.67%

Note: The equity method was employed for the Company's investments

## D. Fundraising Conditions

### I. Capital and shareholding

#### (I) Source of Capital:

March 31, 2022

Type of Shares	Authorized Capital			Remarks
	Shares issued and outstanding	Unissued shares	Total	
Ordinary shares	1,435,544,446	607,615,554	2,043,160,000	Listed stocks

\* All shares issued by the Company are listed stocks.

Year Month	Issuing Price	Authorized Capital		Paid-Up Capital		Remarks		
		Number of Shares (1,000 shares)	Amount (NT\$1,000)	Number of Shares (1,000 shares)	Amount (NT\$1,000)	Source of Capital	Subscriptions paid with property other than cash	Others
1996.06	14	1,143,160	11,431,600	600,000	6,000,000	Cash capital increase of NT\$1,345,025,600	None	Note 1
						Earned surplus turned capital increase of NT\$232,589,280		
						Capital increase shares by capital surplus of 99,681,120		
1997.06	16	1,143,160	11,431,600	750,000	7,500,000	Cash capital increase of NT\$1,500,000,000	None	Note 2
1997.12	10	1,143,160	11,431,600	757,507	7,575,074	Corporate bonds converted to shares of NT\$75,073,950	None	Note 3
1998.02	10	1,143,160	11,431,600	772,380	7,723,805	Corporate bonds converted to shares of NT\$148,731,490	None	Note 4
1998.06	10	1,143,160	11,431,600	794,336	7,943,361	Corporate bonds converted to shares of NT\$219,556,020	None	Note 5
2000.06	10	2,043,160	20,431,600	1,144,336	11,443,361	Cash capital increase of NT\$3,500,000,000	None	Note 6
2004.09	10	2,043,160	20,431,600	1,206,983	12,069,834	Earned surplus turned capital increase of NT\$626,472,690	None	Note 7
2005.10	10	2,043,160	20,431,600	1,284,571	12,845,706	Earned surplus turned capital increase of NT\$775,872,050	None	Note 8
2009.04	9.5	2,043,160	20,431,600	1,684,571	16,845,706	Cash capital increase of NT\$4,000,000,000	None	Note 9
2010.09	10	2,043,160	20,431,600	1,380,331	13,803,311	Reduced capital by NT\$3,042,394,220 to make up for losses	None	Note 10
2011.07	10	2,043,160	20,431,600	1,435,544	14,355,444	Earned surplus turned capital increase of NT\$552,132,480	None	Note 11

Note 1: Tai-Cai-Zheng (I) No. 21847 dated April 12, 1996

Note 2: Tai-Cai-Zheng (I) No. 29725 dated May 1, 1997

Note 3: Tai-Cai-Zheng (I) No. 80508 dated November 3, 1997

Note 4: Tai-Cai-Zheng (I) No. 14139 dated January 26, 1998

Note 5: MOEA Jing (1998)-Shang No. 113778 dated June 9, 1998

Note 6: Tai-Cai-Zheng (I) No. 27800 dated April 29, 2000

Note 7: Jin-Guan-Zheng-I No. 0930132019 dated July 19, 2004

Note 8: Jin-Guan-Zheng-I No. 0940131295 dated August 2, 2005

Note 9: Jin-Guan-Zheng-I No. 0980002363 dated February 10, 2009

Note 10: Jin-Guan-Zheng-Fa No. 0990042786 dated August 20, 2010

Note 11: Jin-Guan-Zheng-Fa No. 1000030352 dated July 1, 2011

**(II) Shareholders:**

(information from the period after the book closure date in August 2021)

Date: August 31, 2021

Shareholders Quantity	Government Agencies	Financial Institutions	Other Institutions	Individual Investors	Foreign Institutions and Foreigners	Total
Number of People	1	15	277	170,889	134	171,316
Number of Shareholding	819	4,433,368	621,413,424	700,599,556	109,097,279	1,435,544,446
Shareholding Percentage	-	0.31%	43.29%	48.80%	7.60%	100%

**(III) Dispersion of equity ownership:**

(information from the period after the book closure date in August 2021)

Date: August 31, 2021; the nominal value is NT\$10 per share

Shareholding Classification			Number of Shareholders	Number of Shares Held	Shareholding Percentage %
1	-	999	42,781	9,581,239	0.67
1,000	-	5,000	104,348	212,095,736	14.77
5,001	-	10,000	13,776	110,570,087	7.7
10,001	-	15,000	3,622	46,448,334	3.24
15,001	-	20,000	2,529	47,329,073	3.3
20,001	-	30,000	1,747	45,254,639	3.15
30,001	-	40,000	751	27,148,356	1.89
40,001	-	50,000	497	23,480,751	1.64
50,001	-	100,000	807	58,975,826	4.11
100,001	-	200,000	246	34,935,896	2.43
200,001	-	400,000	115	32,177,124	2.24
400,001	-	600,000	21	10,387,547	0.72
600,001	-	800,000	19	13,514,954	0.94
800,001	-	1,000,000	15	13,845,000	0.96
Over 1,000,001			42	749,799,884	52.24
<b>Total:</b>			<b>171,316</b>	<b>1,435,544,446</b>	<b>100</b>

**(IV) Main shareholders list (contains shareholders with 5% or more shareholding ratio or the shareholders with top ten shareholding ratio):**

(information from the period after the book closure date in August 2021)

Date: August 31, 2021

Name of the Main Shareholder	Shares	Number of Shares Held	Shareholding percentage (%)
China Steel Corporation		582,673,153	40.59
Yung-Shun Wang		33,208,000	2.31
UBS Europe SE investment fund under the custody of Citibank(Taiwan) Limited		17,240,000	1.2
Chun Fa Co., Ltd.		13,959,000	0.97
Vanguard Emerging Market Stock Index Fund under the custody of JPMorgan Chase Bank N.A. Taipei Branch		11,616,000	0.81
Vanguard Total International Stock Index Fund under the custody of JPMorgan Chase Bank N.A. Taipei Branch		10,708,000	0.75
Ting Fa Investment Co., Ltd.		8,924,000	0.62
Deutsche Bank		5,496,000	0.38
iShares Core MSCI Emerging Markets ETF under the custody of Standard Chartered Bank		3,912,000	0.27
Vanguard Equity Index II investment fund under the custody of JPMorgan Chase Bank N.A. Taipei Branch		3,739,000	0.26

**(V) Stock price, net worth, earnings, dividends and related information for the previous two years:**

Item		Year	2020	2021	Current year up to Thursday, Mar. 31, 2022 (Note 8)
Market value per share (Note 1)	Highest		17.25	64.70	49.15
	Lowest		5.40	13.10	36.55
	Average		9.22	36.89	43.31
Net value per share (Note 2)	Pre-distribution		10.61	15.72	16.43
	Post-distribution		Not applicable	Not applicable	Not applicable
Earnings per share (Note 3)	Weighted average shares		1,435,544 thousand shares	1,435,544 thousand shares	1,435,544 thousand shares
	Earnings per share		4.42	0.01	0.35
Dividends per share	Cash dividends		0.3	2.8	Not applicable
	Stock dividends	Dividends from earnings	-	-	-
		Dividends from capital reserve	-	-	-
	Cumulative undistributed dividends (Note 4)		-	-	-
Return on investment analysis	PE ratio (Note 5)		24.92	8.35	Not applicable
	Price-dividend ratio (Note 6)		30.73	13.175	-
	Cash dividend yield (Note 7)		0.0325	0.0759	-

\* If retained earnings or capital reserves were used for capital increase, market prices and cash dividends that were retroactively adjusted based on the number of shares after distribution shall be disclosed.

Note 1: List the highest and lowest market price of common shares for each fiscal year and calculate the average market price for each fiscal year based on trading value and volume in each fiscal year.

Note 2: Please fill these rows based on the number of shares that have been issued at the end of the fiscal year and the distribution plan approved at the meeting of the Board of Directors or the Shareholders' Meeting in the subsequent fiscal year.

Note 3: If there are any retroactive adjustments needed due to stock grants, the earnings per share before and after the adjustment should be listed.  
Note 4: If there are any conditions in issuing equity securities that allow for unpaid out dividend for the year to be accumulated to subsequent years in which there is profit, the Company should separately disclose the accumulated unpaid out dividend up to that year.  
Note 5: Price to earnings ratio = average closing price per share for the year / earnings per share.  
Note 6: Price to dividend ratio = average closing price per share for the year / cash dividends.  
Note 7: Cash dividend yield = cash dividends / average closing price per share for the year.  
Note 8: Data on net asset value per share and earnings per share from the latest quarter that has been verified by CPAs up to the date of publication of this annual report shall be filled. For all other columns, the Company shall fill information for the current fiscal year until the publication date of this annual report.

## **(VI) Company Dividend Policy and Implementation:**

### 1. Dividend policy:

The dividend policy specified in Article 28-1 of the Company's Articles of Incorporation is as follows: In the event of surplus earnings after closing of annual accounts, after taxes are paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 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 shareholder's meeting shall determine whether to distribute dividends or retain the earnings.

The Company shall allocate no less than 30% of the distributable earnings for the distribution of shareholder dividends and bonuses each year. However, dividends may be canceled if the accumulated earnings available for distribution are less than 3% of the paid-up capital.

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%.

### 2. Current year earnings distribution proposal to the shareholders meeting

(1) 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.

(2) The Company plans to distribute bonuses in common stocks at NT\$2.8 per share.

(3) The Company plans to authorize the Chairman to determine the ex-dividend date for the cash dividends after the shareholder's meeting passes the earnings distribution proposal. Cash dividends shall be issued to the "NTD" to each shareholder. The decimals shall be rounded up to the nearest NTD and the difference shall be listed as company expenses.

Earnings Distribution Statement

2021

Item	Unit: NT\$ Amount
Balance of undistributed earnings at the beginning of the year	\$ 301,632,130
Remeasurement of defined benefit plan converted into retained earnings	(157,217,051)
Changes due to impact of long-term equity investments	8,542,821
Balance of undistributed earnings after adjustment	152,957,900
After-tax net profit of 2021	6,350,411,089
Minus: Statutory surplus reserves	(620,173,686)
Plus: Reversal of special surplus reserve	425,838,746
Distributable earnings	6,309,034,049
Common stock bonus available for distribution - 1,435,544,446 common stocks at NT\$2.8 per share (cash NT\$2.8)	(4,019,524,449)
Undistributed earnings at the end of the period	\$ 2,289,509,600

Chairman:  
Min-Hsiung Liu

Managerial Officer:  
Kuei-Sung Tseng

Chief Accounting Officer:  
Wen-Ping Huang

**(VII) Effects of the stock dividends proposed by the shareholders' meeting on the company's business performance and earnings per share:** Not applicable.

**(VIII) Employee and Director remuneration:**

1. Percentage or range of rewards distributed to employees and Directors as stipulated in the Company's Articles of Incorporation:

Provisions related to the distribution of remuneration for employees and Directors in the Company's Articles of Incorporation are as follows: If the Company has profit for the year, it shall allocate no less than 0.1% for employee remuneration and no more than 1% for Directors remuneration. 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.”

2. Accounting treatment if the actual allocated amount is different than the estimated amount for the current accrued remuneration for employees and Directors and the share calculation for bonus shares allocations:

The Company's remuneration for employees and Directors shall be no lower than 0.1% and under 1% of the earnings before tax of the year and before deducting remuneration for

employees and Directors. The board of directors shall decide to distribute the remuneration as shares or cash. The remuneration for employees and Directors estimated for the 2021 fiscal year were estimated based on this principle. If there are changes made to the amount before the issuance of the individual annual financial report, the changes shall be adjusted and accounted for as annual expenses. If there are changes made to the amount after the issuance of the individual annual financial report, the changes shall be accounted for as changes in accounting estimates and recognized in the financial report of the following year.

3. Employees' remuneration resolved by the Board of Directors:

(1) Employee remuneration: NT\$307,803,807.

(2) Directors' remuneration: NT\$61,560,761.

(3) The aforementioned amounts shall be distributed in cash and there is no difference from the estimates in 2021.

4. If there is any discrepancy between the actual amount of rewards distributed to employees and Directors (including number and dollar amount of shares distributed, as well as share price), the recognized amount of rewards for employees and Directors in the 2020 fiscal year, the amount, causes and treatment of such discrepancies shall be stated: The Company's actual distributed employee and Directors' remuneration in 2020 were consistent with the amount recognized in the Consolidated Financial Report of 2020.

**(IX) Status of company share buyback**

Thursday, March 31, 2022

Times of buyback	1st Buyback in 2000	Remarks
Objective of share buyback	Transfer to employees	None
Buyback Period	From October 12, 2000 to November 10, 2000	
Price range of shares to be bought back	NT\$2.55-5.15 per share	
Stock type and quantities repurchased	Ordinary shares: 19,791,000 shares	
Amount of shares repurchased	56,439,252	
Ratio of the number of shares bought back and expected number of shares to be bought back (%)	98.96	
Number of retired and transferred shares	19,791,000 shares	
Cumulative number of shares of the Company	0	
Percentage of cumulative number of shares of the Company of the total issued shares (%)	0	

## II. Issuance of corporate bonds

Type of corporate bonds	First tranche of unsecured ordinary corporate bonds in 2020	Second tranche of unsecured ordinary corporate bonds in 2020
Issuance date	March 27, 2020	September 25, 2020
Nominal value	One type of NT\$1 million	One type of NT\$1 million
Issuing price	Issued at 100% of face value	Issued at 100% of face value
Total amount	NT\$2 billion	NT\$1 billion
Interest rate	Fixed annual interest rate at 0.78%	Fixed annual interest rate at 0.65%
Deadline and maturity date	5 years Maturity date: March 27, 2025	5 years Maturity date: September 25, 2025
Guarantee agencies	None	None
Trustee	Trust Department, Taipei Fubon Commercial Bank	Trust Department, Taipei Fubon Commercial Bank
Underwriter	2 underwriters including Fubon Securities Co., Ltd.	Fubon Securities Co., Ltd.
Certifying attorney	I-Cheng Joint Law Office	I-Cheng Joint Law Office
Certifying CPA	Deloitte, Taiwan	Deloitte, Taiwan
Redemption method	Principal repayment in full at the expiry of the issuance period	Principal repayment in full at the expiry of the issuance period
Outstanding principal balance	NT\$2 billion	NT\$1 billion
Articles for redemption or early liquidation	None	None
Restrictive provisions	None	None
Name of credit rating agency (CRA), rating date, and results of corporate bond ratings	Taiwan Ratings Corp. November 8, 2019; Rating twA	Taiwan Ratings Corp. September 3, 2020; Rating twA
Other rights attached	Dollar amount of common shares already converted (swapped or warranted) and global depository receipts or other negotiable securities as of the publication date of this annual report	None
	Issuance and conversion (swap or subscription) methods	None
Possible dilution of equity or impact to the shareholders' equity caused by regulations on the issuance and conversion, exchange, or subscription to stocks	None	None
Name of commissioned custodian of exchangeable underlyings	None	None

**III. Issuance of preferred stocks: None.**

**IV. Issuance of global depository receipts (GDR): None.**

**V. Issuance of employees' stock option certificate and new restricted employee shares: None.**

**VI. Mergers, acquisitions or issuance of new shares for acquisition of shares of other companies: None.**

**VII. Implementation status of the capital utilization plan: The Company has completed all securities issuance or offering or has completed the plan within the most recent three years but has not seen significant benefits.**

## **E. Business overview**

### **I. Business activities**

#### **(I) Business scope: The Company's principal business activities, revenue distribution, current products (services) and new products (services) under development shall be listed.**

1. Operations of animal husbandry business.
2. Manufacturing, processing, and import/export of timber, agricultural products (excluding mushrooms and asparagus) and iron wire (under 12mm).
3. Manufacturing, processing, wholesale, retail, and domestic sales/export of slotted angle iron, iron pipes, fish net, Tetoron fiber, plastic fiber, and iron plate.
4. 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.
5. 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.
6. Processing, manufacturing, and domestic sale/export of aluminum products and materials.
7. Processing, manufacturing, and domestic sale/export of steel and non-iron metal furniture.
8. Processing, manufacturing, and domestic sale/export of wood and plastic furniture.
9. Processing, manufacturing, and domestic sale/export of silicon steel sheets.
10. 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).
11. Processing, manufacturing, and domestic sale/export of transportation equipment (automobile, motorcycle, and bicycle parts) and jacks.
12. Design, manufacturing, processing, and domestic sale/export of mechanical bodies and machinery parts.
13. Processing, manufacturing, and domestic sale/export of oxidized soft and hard iron powder, magnets, magnetic materials, metallurgy powder, and ceramic materials.
14. (1) F107100 Wholesale of basic chemical raw materials.  
(2) F207100 Retail sale of basic chemical materials.  
(3) C801010 Basic chemical manufacturing industry.
15. All business items that are not prohibited or restricted by law, except those that are subject to special approval.

The Company's businesses consist mainly of the production and sale of carbon steel products. Its main products include hot-rolled steel coils, cold-rolled steel coils, galvanized steel coils, and carbon steel pipes. The Company plans to develop products with higher added value in the future such as high-strength and thin cold and hot-rolled steel coils and ultra-thick and ultra-high-strength large-scale structural steel pipes.

The planned sales volume percentages of main products in 2022 are as follows:

Primary Product	Percentage (%)
Hot-rolled steel coils	79.91
Cold-rolled steel coils	13.04
Galvanized steel coils	3.79
Steel pipes	3.26
Total	100

## (II) Industry Overview

### 1. Current status and development

In the first half of 2021, the steel industry benefited from the reduction in production due to overhauls of steel plants in the previous year, which resulted in relatively reduced supply of steel materials. The gradual recovery of the manufacturing sector caused downstream industries to increase inventory with additional purchase orders. The combined effects of soaring sea freight rates, shortage of containers, and severe delays across the globe created a global supply shortage in the steel market. However, the spread of the Delta variant in the second half of the year prevented the restoration of normal operations of the supply chain. The material shortages and transportation issues hindered the production of related industries. These factors, coupled with the low season in certain areas, reduced the demand for steel materials. As steel plant production capacity gradually recovered, downstream inventory began to accumulate and procurement activities slowed. Overall, prices in the global steel market began to fall in the third quarter and steel prices fell from previous highs. In the fourth quarter, the interruption of the global supply chain, port congestion, and delayed deliveries remained unresolved. As a result, the global demand for steel materials fell and the increase in steel prices stopped as prices began to fall.

Loose monetary policies maintained by governments and readily available capital on the market in 2021 led to rising inflation. As the prices of raw materials soared, the deficiencies in logistics led to a significant increase in transportation prices that has not yet been resolved. China's policies for reducing production capacity of raw steel and the EU's draft for the Carbon Border Adjustment Mechanism (CBAM) have ushered in an era of carbon neutrality. It means that short and medium-term carbon neutrality will begin to affect the supply, demand, and cost of the overall steel industry. Future minimum steel prices will gradually increase with support from the demand. Starting from 2022, the Russo-Ukrainian War will affect the supply in the overall steel industry. As both countries are major steel exporters, the geopolitical conflict will impact the economy. In conclusion, as countries gradually transition to carbon neutrality, the supply of steel will remain relatively tight.

Economic growth will persist as the Purchasing Managers' Index (PMI) in major countries continue to expand, despite the the gradual tightening of loose monetary policies

to curb inflation. The fiscal policies that were previously passed will also power economic growth and demand for steel.

## 2. Relationship with upstream, midstream, and downstream industries

Chung Hung is a single-roll plant that produces hot-rolled steel coils, cold-rolled steel coils, carbon steel pipes, and hot-dipped galvanized steel coils. It is a midstream producer in the steel industry. Its main materials consist of slabs and hot-rolled steel coils and upstream materials are sourced from integrated steel mills. Suppliers include steel mills in Japan, Vietnam, and Taiwan. The steel products produced by the Company are supplied to downstream single cold-rolling plants, galvanization plants, and pipe production plants. Other industries that require the Company's products include construction, transportation vehicles (automobiles, motorcycles, and bicycles), industrial machinery, and electrical/electronic machinery (home appliances and personal computers).

## 3. Product trends and competition

### (1) Hot-rolled products:

A. Domestic market: Competition is intense due to the ease with which general steel materials can be imported, the presence of numerous competitors in the market, and limited demand in Taiwan.

Export markets: Taiwan is located in the geographic center of East Asia and the sales of steel materials is easily affected by export competition from China, Russia, Japan, Korea, Vietnam, and India. Price wars often ensue for regular-grade steel materials

Therefore, the development of high-quality and differentiated steel products has become an important trend and challenge.

B. The production of ultra-thin plates is relatively difficult for hot rolling mills due to equipment and technology constraints. To replace parts of the products and improve market competition, we actively seek to develop ultra-thin plates.

C. High-grade pickling and oiling products may replace certain cold-rolled products to reduce the cost of customers' materials and improve competitiveness.

### (2) Cold-rolled products:

A. The production of ultra-thin plates is extremely challenging for cold rolling mills due to equipment and technology constraints as well as the thickness of the final products. Customers must use small rollers to produce 0.08-0.30mm products with high overall costs and low benefits. The development of ultra-thin plates is mainly targeted at products with 0.13-0.149mm in 1B thickness and medium to high-carbon steel products SB50C, SB65C, SK85M, and SK95M with a thickness of 0.25-0.30mm.

B. Cold-rolled fineblanking and formed products retain higher spherical rates, precision in thickness, and surface quality suitable for automobile components with requirements for high-surface quality and complicated punching forms, particularly

seatbelt components, gearboxes, and clutches.

- C. The high-strength thin cold-rolled plates 2B and 4B with a thickness of 0.25-0.50mm pose challenges to the cold rolling process and products are suitable for stationery, LED cable racks, and IC components.

(3) Steel pipes:

- A. Expand to markets outside the United States, and develop products such as FPC-certified construction pipelines, structural pipelines, pile-driving pipes, distribution pipes, and fire safety pipelines.
- B. Integrate upstream and downstream resources and use Chung Hung's structural pipes in public infrastructure and construction projects to expand the scope of use.

(4) Galvanized products:

High-strength galvanized products are highly versatile and it is relatively difficult for thin plates in the hot rolling process. The SGH540 is suitable for making racks in stores.

### **(III) Overview of Technology and R&D**

The Company is committed to the development of new products and technologies and the development of artificial intelligence (AI). We continue product quality improvements, process research, and equipment technology establishment to create applications for smart equipment, smart production, and smart operations. We also establish the Smart Production and Sales Promotion Committee to promote the development of a smart system for production, equipment maintenance, production scheduling, quality management, product sales, occupational safety, and environmental protection.

To cultivate talents required for AI development and facilitate the smooth introduction of AI, the Company actively participates in external training courses and constantly seeks assistance from professionals of the parent company, the industry, and academia. The notable achievements in 2021 were as follows.

1. Product development

- (1) Cold-rolling - Development of streamlined steel coil process.
- (2) Steel pipes - API 5CT K55 5" product development.
- (3) Steel pipes - Development of high-thickness API oil well pipes with heat-treatable upgrades.
- (4) Steel pipes - Development of X70M-grade oil pipeline products with a diameter of more than 16".

2. Product quality improvements

Improved the production technology and quality of thin hot-rolling plates with a strength of 400kg and cold-rolled medium carbon steel.

3. Process research

Establishment of the hot rolling low-temperature rolled fineblanking technology and improved reheating furnace slab reheating temperature control technology.

#### 4. Equipment technology establishment

- (1) Added automatic surface inspection system (ASIS) to the hot-rolling tempering and recoiling line and the pickling production line of the Pickling & Galvanizing Department.
- (2) Forming mode and roll abrasion prediction in pipe production and the smart monitoring system for the inner bead cutter.

#### 5. Artificial intelligence (AI)

- (1) Improved reheating furnace slab reheating temperature control technology: The project was completed in 2021. It improves the temperature control of the reheating furnace and reduces temperature variation. In addition to reducing product quality variation, it also reduces fuel consumption.
- (2) Optimized management of air compressors of the Cold Rolling Department: The project has entered the final phase for parameter optimization, which is expected to be completed in the second quarter of 2022. After completion, it will help us formulate the most suitable air compressor start-up capacity to avoid excessive activations and waste of compressed air capacity.

### **(IV) Long-term and Short-term Business Development Plans**

#### 1. Short-term plans

Making full use of group resources and strengthening production, sales, transportation, and storage. Gaining information on market trends and creating win-win with clients. Preparing equipment conversion and strengthening production management. Enhance digital management and ensuring the passing down of knowledge through human resources. Fully implement safety and health policies and carbon reduction and fulfilling social responsibilities.

#### 2. Long-term plans

- (1) Continuing to convert equipment to strengthen production capabilities and improving quality and technology.
- (2) Gaining information on market developments, implementing flexible production and sales operations, intensifying customer services, and co-creating industry development.
- (3) Revitalizing human resources, ensuring the transfer of technical know-how, creating a happy work environment, and attaining sustainable development goals for a sustainable enterprise.
- (4) Cultivating AI technology talents, promoting smart production and sales, and strengthening information security management to lay the foundations for long-term development.

- (5) Improve energy conservation and carbon reduction and attain carbon neutrality targets in response to international targets for net zero emissions.

## **II. Market, production and sales**

### **(I) Market analysis**

#### 1. Sales region for the main products:

The Company's product sales in 2021 included domestic sales which accounted for 74.06% of the total sales volume of 2.1196 million tons (61.28% in 2020). Exports accounted for 25.94% and export regions include China, Japan, Korea, Southeast Asia, South Asia, Middle East, Australia, Europe and the Americas. Regions such as Southeast Asia (10.33%), South Asia (2.59%), United States and Canada (1.42%), Europe (4.53%), Japan and Korea (3.48%), Hong Kong and China (1.19%), New Zealand and Australia (1.59%), and the Middle East (0.81%) accounted for a larger proportion of export sales.

#### 2. Market share: The market share of the Company's products on the domestic market (based on sales in the domestic market).

- (1) Hot-rolled products (including imports): 25.2%
- (2) Cold-rolled products (including imports): 10.4%
- (3) Galvanized products (including imports): 5.8%
- (4) Steel pipe products (including imports): 4.9%

#### 3. Future market supply/demand and growth:

Starting from 2022, the impact of the Russo-Ukrainian War has caused rising prices in energy and commodities and created an immense gap in steel materials for the European market. Due to the continuation of official policy in Mainland China for "guaranteeing supply and stabilizing prices", market prices only rose slowly. However, midstream and downstream industries in other countries worry about the rising cost of steel materials as coal and iron prices rise and the supply shortage caused by the Russo-Ukrainian War and have begun to increase inventory, causing steel prices to rise across the board.

Due to abundant investments in domestic private and public construction in recent years, the government has launched the "Three Major Programs for Investing in Taiwan". Investments have exceeded the target of NT\$1.5 trillion in the period from Jul. 2019 to the end of 2021. The Programs will be renewed for 3 years to the end of 2024. In addition, the return of Taiwanese businesses and their investments in expansion of plants have also powered the growth in domestic construction demand. Private investments and consumption bloomed and powered the growth in domestic demand. The government also actively develops the electric vehicle, 5G, green electricity, and renewable energy industries, and will continue to power the domestic steel demand. As environmental protection, carbon reduction, and energy issues come to the fore, they will result in the establishment of a carbon tax system and increase cost. Steel prices are expected to be supported by these situations.

4. Factors affecting competitive niches and long-term Market development, as well as response strategies:

(1) Favorable factors for long-term market development:

● Stable supply of materials

The stability of material supplies has profound implications for single-roll plants. With a stable supply of materials, fair pricing, and short lead time, the Company is less affected by market price fluctuations in the international slab spot market.

● US infrastructure policy increases downstream orders and demand for products

The United States House of Representatives passed a US\$1 trillion infrastructure bill on Nov. 5, 2021. According to estimates of the American Iron and Steel Institute (AISI), it is expected to increase steel demand by 40 million to 45 million tons in the next 5 years, which will benefit the export sales of the Company's steel products.

● As the globe works together to attain carbon neutrality, steel production and supply will be controlled

To achieve the 2050 carbon neutrality targets, countries across the world have set up carbon trading measures such as carbon tariffs, carbon taxes, and carbon sinks, which will invariably increase costs in the future. However, the reduction in production and overhauls of steel plants in other countries for supporting carbon reduction will decrease the supply of steel and support higher steel prices.

(2) Unfavorable factors for future market development and response strategies

● India produces iron ore and Vietnamese steel plants adopt penetration pricing to counter imports, which in turn affect sales in the Southeast Asian market.

As India produces iron ore, it has greater advantages in terms of cost and uses low-price hot-rolled products to affect the market. Vietnamese steel plants are also affected by low-price steel products from India and thus adjusted their sales prices. As a result, the fluctuations in international steel prices have affected market order.

Response strategies

The Company' sales Strategy is one with “main focus on domestic sales and supplemented by exports”. The Company reviews the sales volume and prices each month to increase flexibility in overall sales. The Company adjusts the product portfolio based on market demand to stabilize the domestic sales market and reduce the impact of foreign steel products. The Company improves niche products for exports to strengthen market segregation. The Company focuses on improving product quality and process technology to improve the Company's competitiveness. It also actively develops and improve steel quality to achieve market segmentation and create a brand image for the Company. The Company shall continue to improve the added value of the product and develop niche products to maintain the advantages of the Company's products on the market.

- Export markets implement tariff protection or non-tariff barriers to trade

The on-tariff barriers to trade implemented by Southeast Asian countries, Section 232 of the Trade Expansion Act of the United States, and the EU Steel Safeguard still pose threats to the steel industry. The competition in the steel market has intensified and Taiwan does not have free trade agreements or differentiated duty agreements with other countries, which is detrimental to product sales and competition.

#### Response strategies

The management team leverages advantages in flexibility and mobility to operate production and sale strategies with more flexibility and form strategic alliances with friendly manufacturers. The Company must also integrate resources of the group top achieve synergy. It must also dedicate itself to the analysis of product and production line costs and marginal contributions to quickly adjust the product portfolio. All employees of the Company shall dedicate all efforts on opening up channels and uphold the highest guiding principles for “mutual prosperity and coexistence with domestic and foreign customers to become the optimal partner”. The Company shall continue to diversify products and work hard to develop niche products to separate the market. The Company shall provide customized manufacturing services and work hard on technology quality to satisfy customer requirements. It shall focus on the fundamentals and embrace changes with flexibility to stabilize development and generate profits.

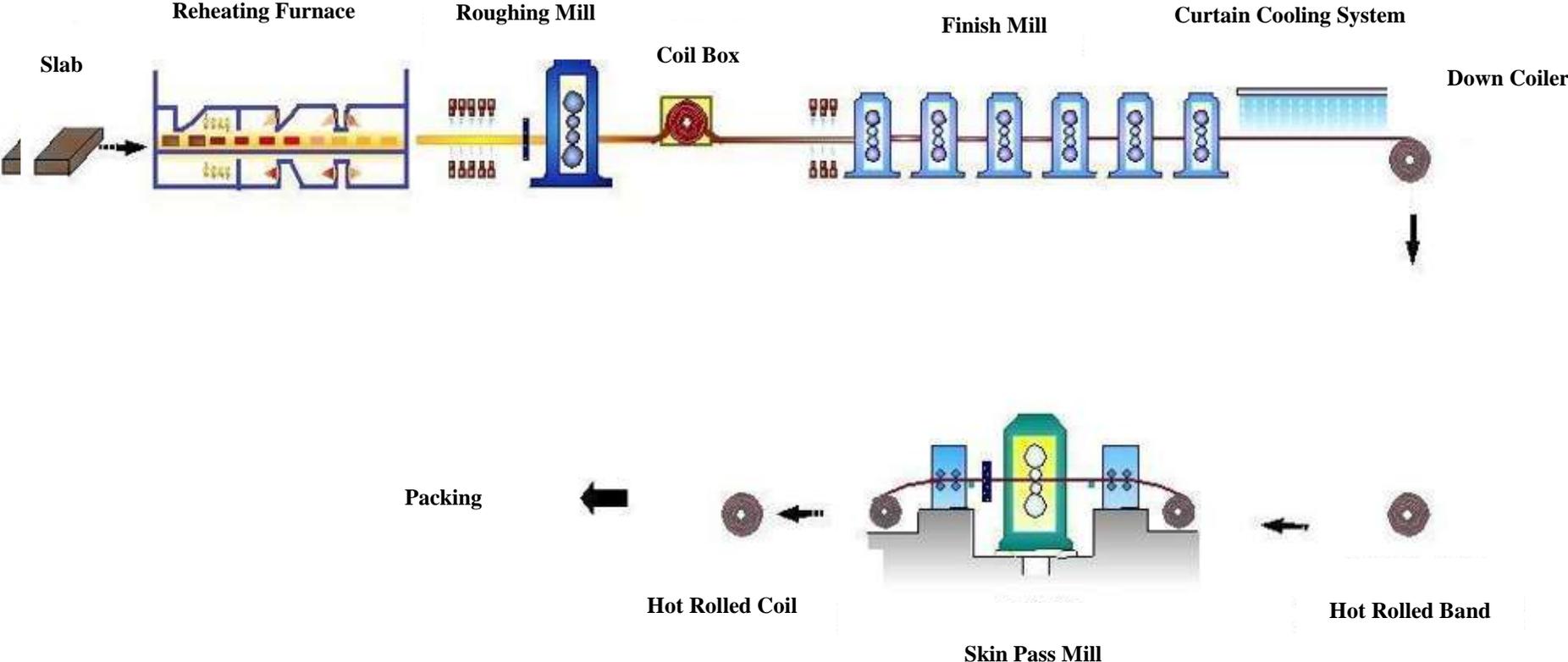
## **(II) Major product manufacturing processes**

### 1. Applications main products

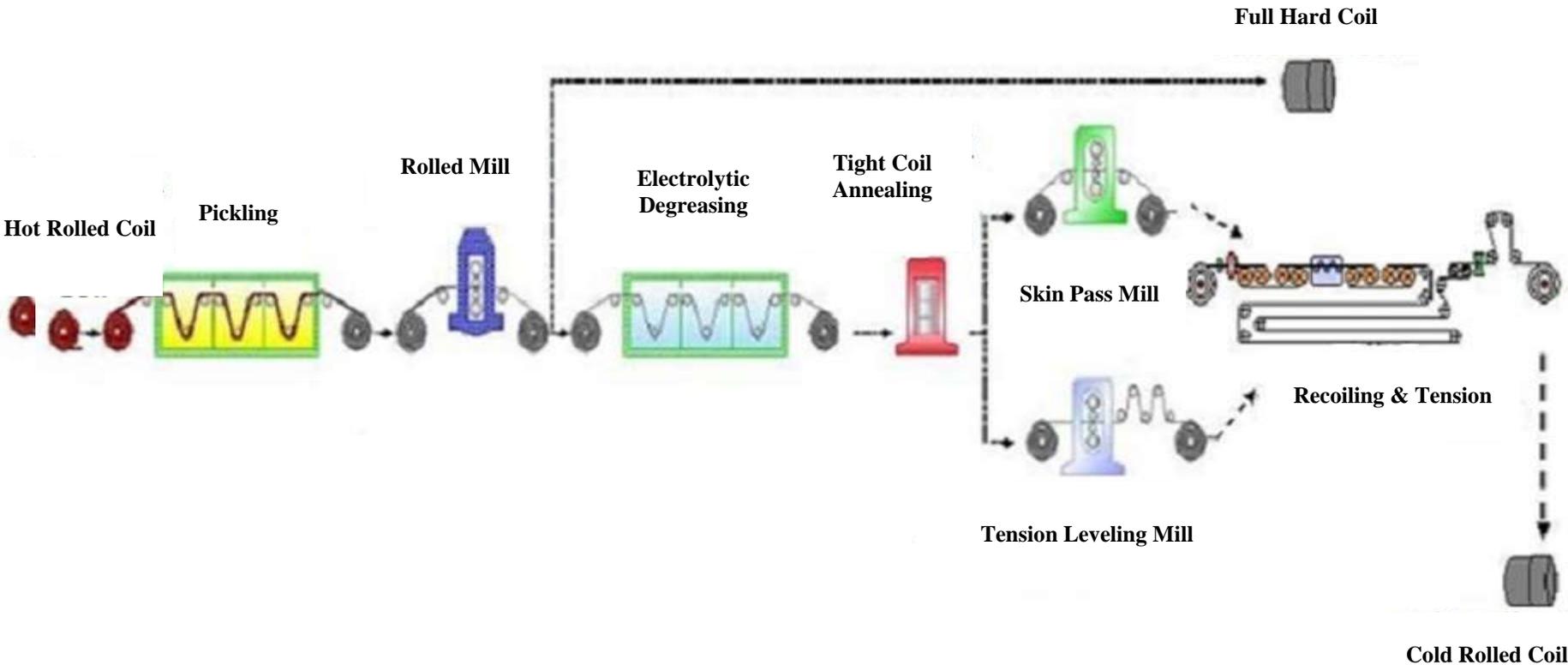
Product	Applications
Hot-rolled steel coils	<ul style="list-style-type: none"> <li>● Re-rolling steel coils such as processing into cold-rolled steel plates and galvanized (coated) steel plates.</li> <li>● Soft steel for processing into products such as containers, tools, and agricultural machinery.</li> <li>● Structural steel plates for processing into products such as structural steel for buildings, bridges, and vessels, automobile components, containers, oil tanks, and crane beams.</li> <li>● Production steel materials such as production of steel pipes for various purposes.</li> </ul>
Cold-rolled steel coils	Steel products such as chains, umbrella runners, stationery, wheel rims, galvanized products, pipes, furniture, paint, container panels, panel tube bending, electroplating, stamping, electrical appliances, household products, and parts for the automotive industry.
Galvanized steel coils	Widely adopted in household appliances, construction materials, transportation, pre-galvanized steel pipes, and office furniture.
Steel pipes	Civil engineering construction materials such as API steel pipes, structural steel pipes, high and low-pressure ducts, galvanized steel pipes, drainage, gas transportation, and railings.

2. Production process

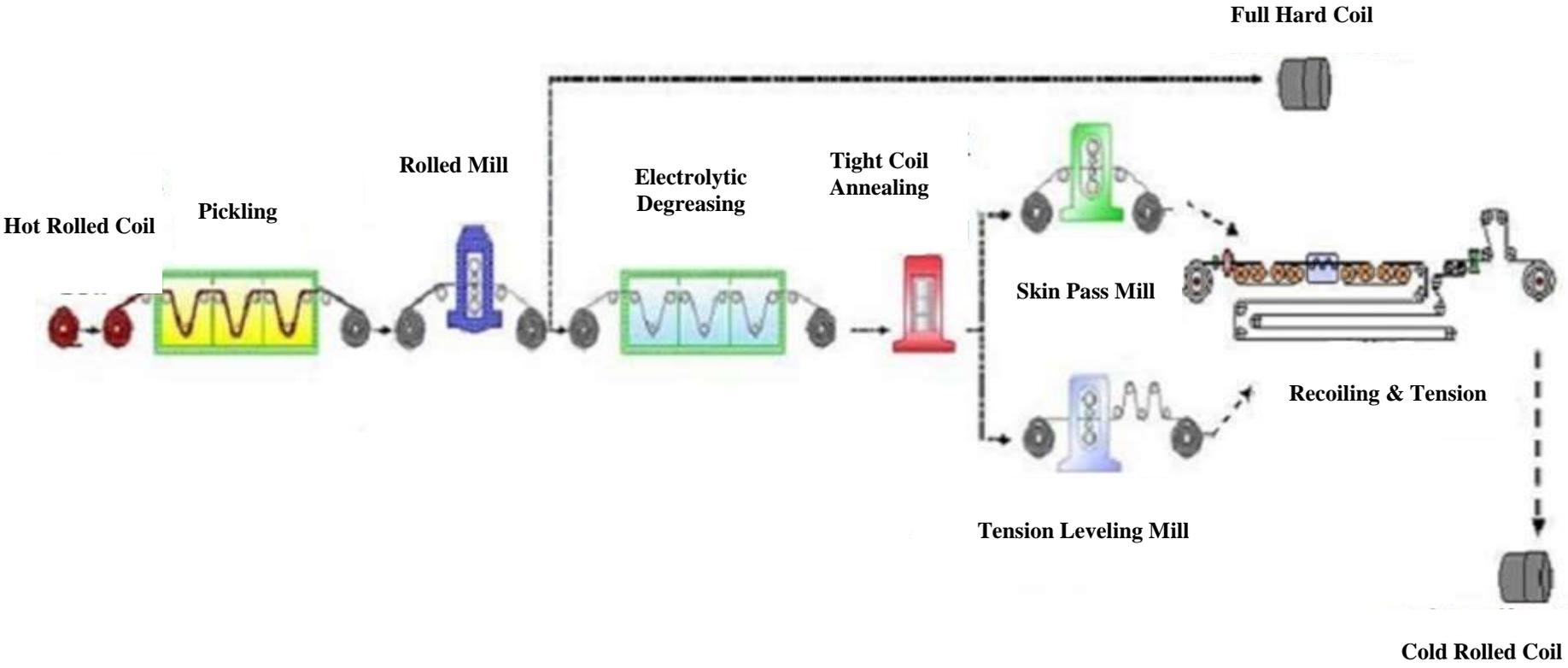
(1) Hot-rolled steel coils



(2) Cold-rolled steel coils

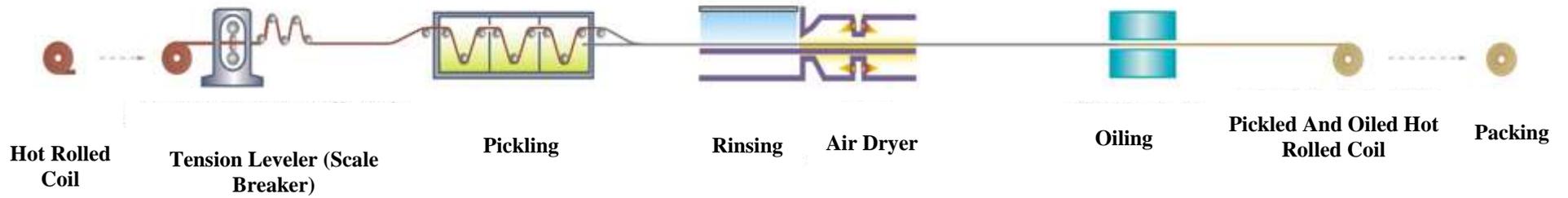


(3) Steel pipe products

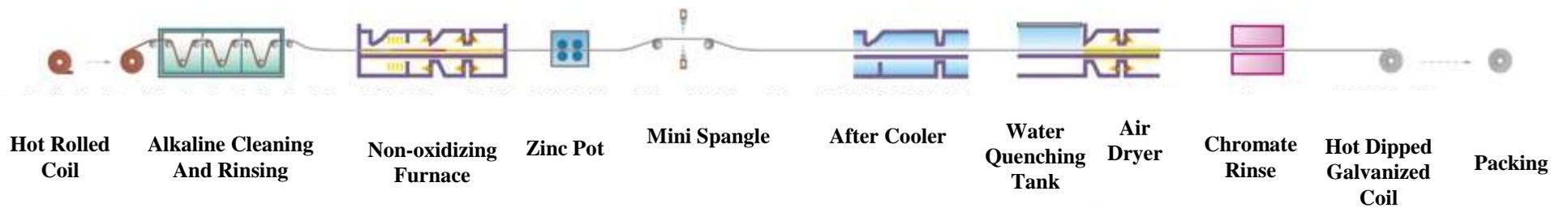


(4) Pickling of galvanized products

**Pickling**



**Galvanizing**



### (III) State of supply of chief raw materials

The hot-rolled steel coils produced by the Company are mainly provided for its own consumption and external sales. The main materials are slabs which are currently sourced from areas such as Japan, Vietnam, and Taiwan with stable sources of materials and quality. The materials used for cold-rolling and steel pipes are hot-rolled steel coils. Certain supplies are sourced from Taiwan and the material supplies are stable.

### (IV) Names of customers who accounted for more than 10% of the sales in any of the last two years, and sales as a percentage of total sales

#### 1. Purchase (excluding returns and discounts):

Unit: NT\$1000

Item	2021				2020				2022 up to the end of the first quarter
	Name	Amount	Proportion to net purchases of goods for the entire year (%)	Relationship with the issuer	Name	Amount	Proportion to net purchases of goods for the entire year (%)	Relationship with the issuer	
1	Dragon Steel	16,347,526	34	Related party	China Steel	17,341,242	62	Related party	Information at the end of the quarter before the publication date of the 2022 Annual Report is information from 2021. Therefore, the information is the same as the information on the left.
2	SUMITOMO	14,460,401	30	Supplier	Dragon Steel	9,479,326	34	Related party	
3	China Steel	8,085,884	17	Related party	Others	982,900	4	N/A	
4	China Steel Global Trading	6,402,704	13	Related party					
5	Others	2,978,856	6	N/A					
	Net amount for purchases	48,275,371	100		Net amount for purchases	27,803,468	100		

Description of changes: The Japanese-made slabs which bought from CSC was replaced by direct purchase; and the price of raw materials increased, resulting in an increase in the unit price of purchases.

#### 2. Sales (excluding returns and discounts):

Unit: NT\$1000

Item	2021				2020				2022 up to the end of the first quarter
	Name	Amount	Proportion to net sales of goods for the entire year (%)	Relationship with the issuer	Name	Amount	Proportion to net sales of goods for the entire year (%)	Relationship with the issuer	
1	Company A	7,752,757	15	client	Company C	4,765,887	13	client	Information at the end of the quarter before the publication date of the 2022 Annual Report is information from 2021. Therefore, the information is the same as the information on the left.
2	Company B	6,807,648	13	client	Company B	4,005,402	11	client	
3	Company C	6,635,545	12	client	Company A	3,474,689	10	client	

4	Others	31,823,106	60	N/A	Others	24,160,064	66	N/A	
	Net sales	53,019,056	100		Net sales	36,406,042	100		

Description of changes: The unit price of steel products in 2021 rose.

#### (IV) Table of consolidated production volume in the 2 most recent years

Unit: NT\$1000; tons

Output Volume	Year	2021			2020		
		Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Primary Product							
Hot-rolled products		2,400,000	2,035,735	41,465,057	2,400,000	2,179,523	28,498,111
Cold-rolled products		360,000	266,478	6,804,607	360,000	271,435	4,663,506
Steel pipes		90,667	43,837	1,192,722	90,667	58,243	1,188,934
Galvanized products		30,000	29,674	794,694	30,000	26,434	487,205
<b>Total</b>		<b>2,880,667</b>	<b>2,375,724</b>	<b>50,257,080</b>	<b>2,880,667</b>	<b>2,535,635</b>	<b>34,837,756</b>

Note 1: Production capacity refers to the volume of product that can be produced by a company using existing production equipment and under normal operation, after taking into consideration factors such as necessary downtime, holiday, etc.

Note 2: Substitutable production capacity may be included in the production capacity and be stated in the note.

#### (V) Consolidated sales volume in the most recent two fiscal years

Unit NT\$1000; tons

Volume Value	Year	2021				2020			
		Domestic sales		Export sales		Domestic sales		Export sales	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Primary Product									
Hot-rolled products		1,285,565	31,103,176	440,776	10,571,703	1,137,823	16,473,061	822,885	11,399,705
Cold-rolled products		202,676	5,703,481	58,042	1,701,795	234,935	4,207,002	43,481	766,325
Steel pipes		12,216	490,702	29,231	814,560	11,131	240,397	52,860	1,013,013
Galvanized products		69,256	1,992,568	21,793	641,071	105,998	1,873,640	22,320	432,899
<b>Total</b>		<b>1,569,713</b>	<b>39,289,927</b>	<b>549,842</b>	<b>13,729,129</b>	<b>1,489,887</b>	<b>22,794,100</b>	<b>941,546</b>	<b>13,611,942</b>

#### (VII) Special key performance indicators in the steel industry

The steel industry is characterized by high capital investments, high energy consumption, high technology intensity, and high entry barriers. The upstream, midstream, downstream sections of the industry have very close relationships. Steel companies mostly adopt measures such as reducing inventory, reducing leverage, and reducing cost to increase profitability. Therefore, the financial ratios and profitability are more representative of the operational and management performance in the steel industry. They are used as key performance indicators due to the uniqueness of the industry.

The Company's financial ratios and profitability analysis in 2021 and 2020 can be referenced in the Financial analysis of the most recent 5 years in Chapter F. Financial Conditions of this Annual Report. The vaccination rate has risen across the world in 2021 as the epidemic subsided and world governments continued to implement measures to stimulate the economy, and the global market has gradually recovered. In 2021, the Company's liability to asset ratio amounted to 39.80% and long-term funds to fixed assets ratio amounted to 272.02%; current ratio was 173.51% and interest protection multiples was 154.41; return on assets was 19.78% and return on shareholder's equity was 33.60%; earnings per share was NT\$4.42.

Faced with severe challenges in the environment, the Company maintains capital liquidity and changes in the interest and exchange rates and works hard to enhance performance, improve processes, improve quality, and reduce cost. It aims to adopt a stable financial structure to achieve sustainable operations and development.

### III. Human resources

#### Number of employees, average years of, average age, and education of employees for the last two years until the public date of this report

March 31, 2022

The Company and subsidiaries of the Company		Year	End of 2020	End of 2021	2022 up to March 31
Number of employees			1,198	1162	1,158
Average Age			46.26	47.16	47.39
Average years of services			17.55	18.41	15.57
Academic qualification %	Doctorate		0.08	0.17	0.17
	Master's		11.02	11.27	11.23
	College		53.76	53.97	53.97
	High school (vocational high school)		32.55	32.44	32.47
	High School and below		2.59	2.15	2.16

Note: The Company had 6 Directors who did not serve concurrently as employees.

#### **IV. Environmental management measures and environmental protection expenditures**

The Company upholds the core values for environmental health and safety including the "respect for the environment " and "energy conservation and carbon emissions reduction", and remains committed to improving upholding environmental protection, continuing energy conservation and carbon emissions reduction, strengthening participation in consultation services, and continuing to improve environmental safety and health management performance. The Company also passed various certifications and accreditation (ISO 4001, ISO 45001, CNS 45001, ISO 50001, ISO 14064-1, and ISO 14064-2) and received numerous awards.

The Company has set up the "Carbon Reduction and Carbon Neutrality Promotion Team in response to the international net zero initiatives and the Carbon Border Adjustment Mechanism (CBAM) of the European Union, and established short, medium, and long-term carbon reduction targets to actively meet the challenge of net zero emissions. In terms of climate change mitigation, the Company adopted the the " Task Force on Climate-related Financial Disclosures (TCFD)" framework published by the Financial Stability Board (FSB) to inventory the risks and opportunities of climate change for the Company and response measures. By implementing the energy management systems, greenhouse gas emissions management, and 1% electricity conservation policies, the Company supports the national energy conservation and carbon emissions reduction targets and established action plans for energy conservation and carbon emissions reduction for continuous implementation.

As the distribution of carbon rights has become a popular trend for future development, the Company's "heating furnace heavy oil to natural gas conversion project" has obtained 155,112 metric tons CO<sub>2</sub>e in carbon credits and underwent external verification for the fourth to fifth year of the offsetting program in 2021. We plan to apply for 98,584 metric tons CO<sub>2</sub>e in carbon credits from the Environmental Protection Administration in 2022. The offsetting program will be valid for two more years and is expected to reduce carbon emissions by 364,418 metric tons CO<sub>2</sub>e, which is equal to the carbon absorption of 936 Da'an Forest Parks.

In addition, the Company shall continue to use clean fuel such as natural gas and reduce electricity consumption by 1% each year. The energy conservation and carbon emissions reduction results in 2021 were excellent and the GHG emissions intensity in 2021 was 0.1342 metric tons CO<sub>2</sub>e/metric tons product. The GHG emissions intensity in recent years has been maintained below 0.15 metric tons CO<sub>2</sub>e/metric tons product, and we have effectively controlled the impact of the greenhouse effect on the environment. In terms of fossil fuel consumption in greenhouse gas management in 2021, the Company's unit product emissions intensity, measured by CO<sub>2</sub>e emissions from fuel consumption for every ton of product produced, was 0.0682. The GHG emissions from power consumption was 0.066 tons CO<sub>2</sub>e for every ton of product produced.

In terms of greenhouse gas inventory, the Company's organization boundaries for the inventory was set based on the operation control method which meet the requirements in the

Greenhouse Gas Inventory Guidelines of the Environmental Protection Administration. As a result of the epidemic in 2021, the Company only conducted external certification for the Hot Rolling Department (entity regulated by the Environmental Protection Administration Executive Yuan). The results of the greenhouse gas inventory for 2020 passed third-party external certification in July 2021 and we obtained the ISO 14064-1 Inventory Statement. The self-inventoried greenhouse gas emissions in 2021 amounted to 330,621.459 ton CO<sub>2</sub>e per year (third-party external certification is set to be completed by the end of August 2022).

In conclusion, the Company is a steel company and part of an industry with high energy intensity. In response to the pressure of rising environmental protection awareness in Taiwan and to reduce the environmental protection issues in the production process of the industry, the Company actively implements climate change response, carbon management, energy management, and air pollutant management to meet regulatory requirements. We also implement action plans to attain annual targets. The Company shall continue to evaluate and identify opportunities for reduction and improvements and fulfill corporate social responsibility.

- (I) Total amount of losses and penalties incurred due to environmental pollution in the most recent fiscal year up to the publication date of this annual report:

There were no records of losses or penalties due to environmental pollution from January 2021 to March 2022.

- (II) Future response strategies and potential expenditures

1. Expenses for pollution prevention (governance), changes in permits, detection of pollutant emissions, appointment of qualified removal and processing plants for adequate removal and processing of waste, land restoration, greenhouse gas emissions reduction (energy conservation investments), personnel training, third-party certification (audits) of the management system, special assistance projects, and regulatory fees for environmental protection (air pollution fees, soil pollution fees, etc.).
2. Environmental protection expenditures in 2021 amounted to NT\$70,751 thousand.

Item	Amount (NT\$1000)
1. Air pollution prevention costs	13,320
2. Water pollution prevention costs	6,063
3. Industrial waste disposal expenses	28,462
4. Soil pollutant expenses, land restoration, and soil and groundwater inspections	205
5. Toxic chemical (statuary expenses, review, and certification expenses)	0
6. Drinking water inspection expenses (including the cost of repairs)	212
7. Energy conservation investment, employee training, consultation, and verification expenses	22,489
Total	70,751

3. Total estimated environmental protection expenditures in 2022 is approximately NT\$71,995 thousand.

Item	Amount (NT\$1000)
1. Air pollution prevention costs	4,458
2. Water pollution prevention costs	10,913
3. Industrial waste disposal expenses	33,699
4. Soil pollutant expenses, land restoration, and soil and groundwater inspections	255
5. Toxic chemical (statuary expenses, review, and certification expenses)	3
6. Drinking water inspection expenses (including the cost of repairs)	244
7. Energy conservation investment, employee training, consultation, and verification expenses	22,423
Total	71,995

(III) Responding to the European Union's Restriction of Hazardous Substances Directive (RoHS)

1. The Company's products are RoHS compliant.
2. Impact of compliance with RoHS on the Company's financial operations: None.

**V. Protection measures for work environment and employees' personal safety**

Chung Hung upholds the core value of "respect for life" in its Environmental Safety and Health Policy. In terms of occupational safety and health, the Company implements operations based on "facility improvements, supervisory inspection, training, health management, and contractor management". We also implement the annual occupational safety and health management plan as well as ISO 45001 and CNS 45001 internal and external audits to confirm the implementation and effectiveness of the management systems, and implement PDCA system operations to improve the safety and health performance. The Company established the "Occupational Safety and Health Committee" to fully implement safety and health management. The Company also established the "Corporate Occupational Safety and Health Committee" and the President serves as the chair. The members of the Committees of different levels consist of occupational safety and health personnel, management personnel, medical personnel, and labor representatives. Among the members, the labor representatives account for more than one third of all members. They convene meetings once every 2 months to discuss safety and health issues and management performance.

**(I) Improvement of facilities**

1. Continue to promote regional collective defense for occupational safety and inspections by senior managers: For 15 high-risk operations in the plants (falling from heights, tripping, clamping hazards, collisions, separation of access of personnel and vehicles, cutting (slicing) (abrasion) injuries, and contact with hazardous chemicals), the plants continue to self-audits and collective prevention measures. They continue to uncover potential hazards so that employees are aware of the hazards of the work environment, implement improvements for deep-rooted issues, continue to reduce operating risks, and enhance personal occupational safety awareness and accountability. 686 potential hazards were discovered in 2021 and the improvement rate was 100%.
2. Inventory and inspections of fixed crane hoisting hooks (hooks with pins attached to the crane): According to the results, there were 11 hooks in the Hot Rolling Department, 4 in

the Cold Rolling Department, 13 in the Pickling & Galvanizing Department, and 3 in Lukang Steel Pipe Plant. The operations and management were normal.

3. Inventory and inspections of safety pins of equipment on the production line: The main function of safety pins is to protect workers in the event of machinery and equipment failure or when they enter machines and equipment in operations which may cause injury due to coiling, clamping, crushing, or falling objects. Results of the use in different plants in 2021: There were 31 pins in the Hot Rolling Department, 71 in the Cold Rolling Department, 54 in the Pickling & Galvanizing Department, 13 in Dafa Steel Pipe Plant, and 10 in Lukang Steel Pipe Plant. The operations and functions were normal.
4. Three-tiered construction safety review meetings: When processing overhauls or large-scale projects with a cost of more than NT\$5 million, the contract execution unit assembles related units to complete a three-tier construction safety review meeting (contract execution unit → plant units → supporting head office unit ). The Company uses rigorous pre-construction review meetings to discuss and identify all hazardous risks, perform preventive tasks, and minimize hazards in construction.

## **(II) Supervisor Inspections**

1. Constant safety observations by supervisors: To control and alleviate potential hazards in high-risk operations, the Company implements dynamic safety observations for "high-risk operations" and requires units to list topics for annual observation. The observations are carried out in accordance with the plan to control high-risk operations and review the compliance of high-risk operations and the corresponding SJP to reduce the risks in hazard management and control. Among the actual cases in 2021, there were 1,985 cases for Team Leaders, 360 cases for (Deputy) Section Chiefs, 40 cases for (Deputy) Plant Directors, and the completion rate was 120%.
2. Occupational safety audits: The Company uses monthly occupational safety audits to inspect managers' regular observation and dynamic observation of high-risk operations and compliance in SJP revision discussions to verify actual onsite implementation. We conducted 508 audits in 2021 and the compliance rate was 94%. The 6% non-compliance rate was attributed to safety facilities and failure to prepare complete records. Follow-up and improvements were completed in the audit registration and maintenance system.

## **(III) Training**

1. 12 basic occupational safety regulations: The Company converts the occupational hazards that had occurred in plants and the nature of their operations into 12 basic regulations and tests employees and contractors during occupational safety audits to increase employees' occupational safety awareness. As of 2021, a total of 525 personnel have passed the recital of the 12 basic regulations by 2021.
2. CPR and AED response: In 2021, a total of 10 tests (2 tests per plant) were conducted to test the emergency response capabilities of first aid personnel in first aid operations, CPR operations, and the use of AEDs in each of the five plants. The test results were all "qualified".
3. Traffic safety - defensive driving experience: The Company organized the "large vehicle visual blind spot and motorcycle examination experience", "simulated nighttime

scenarios and defensive riding experience for emergencies", and "VR hazard identification experience" based on the common causes of traffic accidents for employees to help employees understand what it feels like to be in an accident and increase their traffic safety knowledge and defensive riding skills.

4. In 2021, the Company continued to organize 14 training courses including "radiation protection training", "traffic safety defensive skill training", "refresher training for personnel in confined spaces", "refresher training for personnel operating forklifts with a capacity of 1 metric ton or more", and "general hazard training" in 35 sessions for a total of 1,495 participants to increase the safety and health awareness of employees and contractors as well as their capabilities and professional skill.

#### **(IV) Health management**

1. Labor work environment monitoring: Every year, the Company appoints a qualified environmental monitoring institution to carry out environmental monitoring. There is a total of 27 items (e.g., n-hexane, potassium dichromate, noise, integrated temperature and heat index, etc.) which are monitored twice a year. In 2021, there was one noise point in the Cold Rolling Department that exceeded 85 dB (91 dB), and the improvement works were completed (after relocating the source of the noise, the value was reduced to 77 dB).
2. Employee health inspection management and promotion: The Company screens employees with high-risk health conditions ( low-density lipoprotein  $\geq 190$  mg/dL, atrial fibrillation in EKG results, old myocardial infarction, myocardial ischemia, and hemoglobin A1C  $\geq 8\%$ ) and conducts supervisor health care, occupational physician visits, follow-up by professional nurses, and health promotion activities. We aim to teach employees the importance and methods for preventing and controlling metabolic disorders and encourage employees to develop healthy lifestyles. In 2021, there were 154 employees with high-risk health conditions, which was a reduction of 43% compared to 269 employees in 2020.
3. Four major plans for preventing human-factor hazards, irregular work load, acts of infringements, and maternal health:
  - (1) Maternity health protection programs: In 2021, we activated maternity health protection programs for 1 female worker who was included in level 1 management and did not need to change her work.
  - (2) Irregular work load: The Company conducted the "overwork measurement table" survey with a recovery rate of 100%. According to the evaluation results, employees with high risks accounted for 1.7%, those with medium risks accounted for 53.8%, and those with low risks accounted for 44.5%. Interviews and health instructions from occupational physicians have been provided for all 1.7% high-risk employees, and supervisor health care measures have been provided for the 53.8% with medium risks.
  - (3) Ergonomic hazards: The Company conducted the "self-reported musculoskeletal symptoms" survey with a recovery rate of 100%. According to the evaluation results, 0% of employees had level A symptoms, 1.3% had level B symptoms, 0% had level C symptoms, 18.9% had level D symptoms, and 79.8% reported no discomfort or symptoms. Interviews and health instructions from occupational physicians have been

provided for the 1.3% with level A or B symptoms. The occupational physicians determined that such symptoms were not directly related to the work contents or work posture.

(4) Acts of infringement: The completion rate of the Company's risk assessment survey for plants (departments) was 100%. The external risks and internal risks of the plants (departments) were surveyed and the risk items included physical violence, verbal violence, psychological violence, and sexual harassment. The results of the survey for plants (departments) showed 0% high risk, 1.8% medium risk, and 98.2% low risk. Management measures have been adopted for the medium and low risks (e.g., providing information for employees to learn about different patterns of workplace violence) and personal protection (e.g., courses for enhancing employees' communication skills and their use of complaint channels).

4. COVID-19:

(1) The Company established the "COVID-19 Epidemic Prevention Plan" and implemented continuous adjustments for related epidemic prevention measures based on the changes announced by the Central Epidemic Command Center.

(2) Epidemic prevention measures: For entry into plants or administration departments, the Company requires body temperature measurement by forehead thermometers, real-name contact tracing records, separated attendance for employees, management and control of training courses, assemblies, business travel, and club and travel activities, disinfection of the environment, reporting mechanisms, and increased vaccination rates.

(3) Epidemic prevention results: No confirmed cases among personnel. The results of the self-health examination of employees and family members were "normal".

**(V) Contractor management**

1. Contractor management: The Company organizes seminars for facilitating communication between contractors and occupational safety personnel as well as autonomous safety and health management evaluations for contractors each year. In addition to providing contractors with opportunities to learn from each other, the Company provides bonus incentives as encouragement for contractors and occupational safety employees of contractors with outstanding performance.
2. Autonomous safety and health management evaluation for long-term onsite contractors: To encourage contractors to implement safety and health management, the Company implements an evaluation of the "Detailed Evaluation Regulations for Contractor Safety and Health Autonomous Management Performance Bonus Distribution" established by the plants in accordance with the "Contractor Safety and Health Autonomous Management Performance Bonus Distribution Regulations". The Company provides group and personal rewards as encouragement for contractors and occupational safety employees of contractors with outstanding performance in annual statistics.

## **VI. Employer/employee relations**

(I) The Company's employee welfare policies, continuing education, training, retirement systems and implementation status, the agreement between employees and employer and employees' rights and interests:

### 1. Employee welfare

- (1) The Company established the Employee Welfare Committee to take charge of welfare affairs of all employees. All budgets and expenditures of the welfare fund are discussed and supervised through regular meetings of the Employee Welfare Committee (once every 3 months).
- (2) Welfare items include subsidies for birthdays, national holidays, unit tourism activities, club activities, occupational injuries, hospitalization, funerary subsidies, emergency conciliatory funds for deaths, marriage, childbirth, children education, and children (employee) scholarships. the Company also organizes large-scale company-wide outdoor activities to improve employees' morale and advance community engagement activities.
- (3) Emergency loans for employees: Full-time employees of the Company may request emergency loans from the Welfare Committee in the event of emergencies.
- (4) The Employee Welfare Committee organizes group insurance for employees. The insured includes the employee, spouses, children, and parents. Insurance policies include periodic life insurance, injury insurance, hospitalization and medical insurance, major illness insurance, and cancer insurance. We also organize group medical insurance for employees with policies including life insurance, injury insurance, hospitalization and medical insurance, cancer insurance and notifiable disease insurance.
- (5) The Committee provides employees with information on contracted stores and updates the information periodically.

### 2. Employee education and training status

Employee training is one of the key work items of the Company. The Company schedules annual training programs for personnel on all levels based on the Company's operational policies, business objectives, and requirements of the departments. In addition, employees of various departments require professional training based on the nature of their work to improve the quality of human resources and advantages for development.

The Company provides employees with an open and diverse learning environment and employees can continue to challenge themselves through internal/external training, OJT, and guidance from supervisors/peers. In addition, the Company also provides employees with maximum satisfaction through training for new employees/professional skills/management skills/general knowledge courses. These measures allow them to experience the joy of growth in knowledge for a brighter future.

The Company has established the "Regulations on the Advancement of Education and Training" to provide related training courses based on requirements for jobs and

professional skills. The courses aim to improve the overall quality of employees and improve business performance. Employees receive an average of 9.5 hours of internal/external training. Total expenditures amounted to NT\$1,532 thousand.

3. Employee retirement system

The Company's employee retirement system is based on the Labor Standards Act and the Company's retirement regulations. In addition, the Company has set regulations to allow employees whose combined years of service and age is greater than 60 to apply for retirement. The Company also pays the pension in accordance with the pension payment standards set forth in the Labor Standards Act.

The Company has established a Labor Pension Preparatory Fund Supervision Commission in accordance with laws and sets aside labor pension preparatory funds each month. The Company also contributes 6% of employees' salaries as pension to the Bureau of Labor Insurance for personnel applicable to the new labor pension system in accordance with the Labor Pension Statutes which entered into force on July 1, 2005.

4. Employees' code of conduct and ethics policy

The Company has established the "Employee Work Rules" to stipulate rules on services and established the "Rewards and Penalties Regulations" to govern employees' conduct. The Company has established the "Code of Ethical Conduct for Directors" and "Code of Ethical Conduct for Supervisors and Senior Managerial Officers" to improve corporate governance performance. The Company established the "Chung Hung Steel Employee Code of Ethics" to ensure that all employees' conduct meet ethical standards and to prevent illegal and unlawful actions. Please refer to the Company's website (<http://www.chsteel.com.tw>).

5. Employer-employee relations and employee rights maintenance measures

The Company organizes periodic employees-employer meetings and employees can express their opinions through labor representatives and during the meetings. The opinions are processed in accordance with procedures after employees-employer negotiations. The Company enjoys harmonious employees-employer relations. To improve the Company's employees' cohesiveness with the Company, the Company has established an awareness for "employees equal shareholders" to provide employees with additional protection for their life after retirement. The Company began implementing employee shareholding trusts in July 2004 and employees may freely apply for membership to set aside funds from their salaries to the trust. The Company provides a 20% incentive fund based on the amount set aside by each member every month and all appropriated funds are sent to the trust account of the appointed financial institution to acquire and manage the Company's shares.

(II) Losses arising as a result of labor disputes in the recent year up until the publication date of this annual report: None.

(III) Estimations for possible losses in the future and response measures:

Employee-employer relations have remained harmonious. Officers of all levels work hard to take care of employees and resolve issues as quickly as possible. Internal management

regulations are also processed in accordance with the Labor Standards Act. The Company organizes employee seminars and employee-employer meetings regularly to maintain smooth communication channels between employees and management. There have been no disputes between employees and management.

## VII. Information security management:

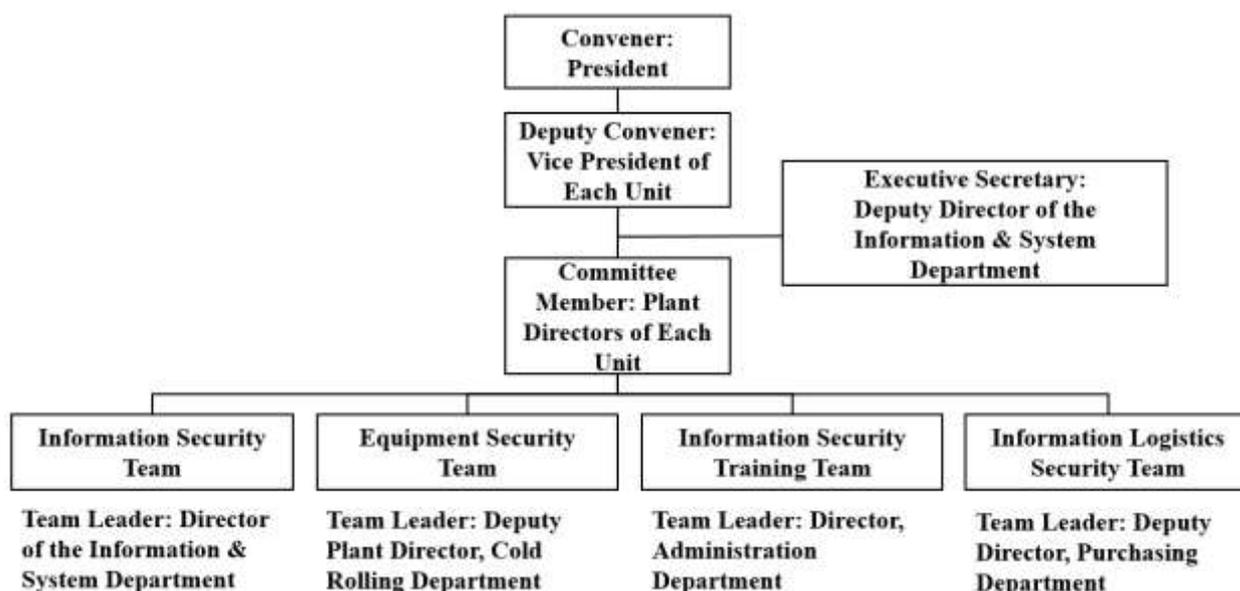
(I) Describe the information security risk management framework, information security policy, specific management plans, and resources invested for information security management.

### 1. Information security risk management framework

#### (1) Corporate information security governance organization

Chung Hung established the "Information Security Committee" in 2021 which oversees 4 teams including the Information Security Team, Equipment Security Team, Information Security Training Team, and Information Resource Security Team. They are responsible for organizing the establishment, execution, risk management, and compliance audits of information security and protection policies. The Convener convenes meetings every quarter to review the implementation status. If the Convener cannot attend the meeting, the Deputy Convener convenes (designated by the Convener) attends the meeting on behalf of the Convener. The Committee reports the implementation status and review results to the Board of Directors each year.

#### (2) Organizational Structure of Chung Hung's Corporate Information Security Committee



## 2. Information Security Policy

### (1) Corporate information security management strategy and framework

**Objective:** To ensure the secure and stable operations of Chung Hung's information systems, provide trusted information services, ensure the confidentiality, integrity, and availability of information assets, and facilitate smooth progression of the Company's businesses, the Company established the Chung Hung Information Security Policy (hereinafter referred to as the Policy) as the Company's highest guiding principles for information security management.

**Scope:** The Policy applies to all employees of Chung Hung as well as contractors that use the Company's business information or provide services and their personnel.

**Targets:**

- A. Ensure the confidentiality, integrity, and availability of information related to the Company's business operations and protect the security of the Company's information.
- B. Enhance information security protection to achieve the goal of continuous business operations.

**Strategy:**

- A. Evaluate the security requirements of information operations and establish relevant procedures and standards to ensure the confidentiality, integrity, and availability of information assets.
- B. Establish the information security organization and the division of responsibilities to facilitate the implementation of information security operations.
- C. Establish the tiers of responsibility for information security in the Company to execute the required tasks.
- D. Establish the information security incident reporting and response mechanism to ensure adequate response, control, and handling of information security incidents.
- E. Regularly increase employees' awareness of information security to reduce damage from information security incidents caused by human factors.

**Review:** The formulation and revision of this policy shall be processed by the Information Security Committee and submitted to the Chairman of the Board of Directors for approval. The Policy shall be reviewed at least once every year or reevaluated in the event of material changes in the organization. The Policy shall be amended based on the result of the review to ensure the appropriateness and effectiveness of the Policy.

(2) Corporate information security risk management and continuous improvement framework



(3) Specific management plans

Proposal	Description
Computer Anti-virus Information	All server computers must be equipped with anti-virus software and servers must have anti-virus software virus code updates with automatic updates to prevent infections and spread of the virus.
Employee Internet information	<ol style="list-style-type: none"> <li>1. When employees apply for Internet access, they will be granted external access with the approval of the Vice President of the Department.</li> <li>2. When accessing the Internet, employees must abide by related regulations in the Company's "Ethical Corporate Operating Procedures and Code of Conduct" and "Personal Data Security Maintenance and Management Regulations", and must not engage in illegal or malicious behavior online.</li> </ol>
E-mail Information	When employees apply for the Company's e-mail service, they must agree to cooperate with the Company in investigations of the contents of e-mails.
Computer use information	<ol style="list-style-type: none"> <li>1. New personal computers must be added to the company domain to ensure the implementation of the Company's Information Security</li> </ol>

Proposal	Description
	<p>Policy.</p> <p>2. If an employee downloads legal software or media from the Internet, the employee must state the purpose and method of acquisition and provide the authorization certificate of the original manufacturer for corporate use.</p> <p>3. The installation and use of computer hardware and legal software media that do not belong to the Company are strictly prohibited.</p> <p>4. To ensure information security and maintain normal computer operations, the computer asset management software must be installed on personal computers for processing documents.</p>
Process control computer information	After the new machine is purchased and switched on, the employee must complete operating system installation and virus scan before connecting it to the Internet.
VPN management	<p>1. The application for the use or suspension of use of the virtual private network to connect to the ERP server for official business shall be processed with the approval of the Vice President of the Department.</p> <p>2. The virtual private network account will be closed on the first business day after the employee's resignation or the approved termination date on the "Virtual Private Network Request Form" or the requested deactivation date.</p>
External storage media	Control the use of external storage devices

#### (4) Resources invested in information security management

Results of the implementation of enterprise information security measures in 2021:

- A. The Company established the Information Security Management Committee which convened 2 meetings in 2021 (August 12 and November 10) to review the implementation status of the Information Security Policy of all units.
- B. Purchased information security products to enhance information security protection capacity (e.g., Secondary authentication for SSL VPN and plans for MDR endpoint detection and response protection configuration).
- C. Set up firewall for IT and OT network segmentation in each plant.
- D. Actual implementation of information security audit and protection in 2021:
  - (a) Perform annual software audits on personal computer for document processing.
  - (b) Mandatory quarterly audits on file access of USB external storage devices.
  - (c) Monthly checks on document processing (OA) personal computers for prolonged periods of usage without shutdown.
  - (d) Monthly statistics of suspected virus infections on personal computers.
- E. Information security training for employees and new recruits in 2021.

(II) Losses arising as a result of major information security incidents in the most recent year up until the publishing date of this annual report, potential impact, and response measures. If the amount cannot be reasonably estimated, the reason for the inability to provide a reasonable estimation shall be explained.

Chung Hung's auxiliary server suffered a virus attack on Oct. 27, 2021. The Company immediately activated information security defenses and conducted an investigation of the online attack. We also continued to review and strengthened the existing infrastructure to fully improve network security to ensure data security and integrity. The information security incident did not affect the Company's production, sales, and operations.

### VIII. Important contracts

Contracting parties, main content, restrictive clauses, and contract commencement date/expiration date of important supply/sales contracts, technology cooperation contracts, engineering contracts, long-term loan contracts, and other important contracts with material impact on shareholder equity that continue to be valid as of the publication date of the Annual Report or expiry in the most recent fiscal year.

Nature of the Contract	Contracting Party	Commencement Date/Expiration Date	Main Content	Restrictive provisions
Material supply contract	Nippon Steel Corporation	2020.04.01-2025.06.30	Supply of slabs	None.
Long-term natural gas supply contract	Shinhsiung Natural Gas Inc.	2015.01.01-2024.12.31	Shinhsiung Natural Gas provides fuel required for the heating furnace of the Hot Rolling Department	None.
Long-term natural gas supply contract	Nan Jehn Natural Gas Co., Ltd.	2021.11.01-2024.10.31	Nan Jehn provide fuel required for the annealing furnace of the Cold Rolling Department	None.
Long-term natural gas supply contract	CPC Corporation, Taiwan	2021.09.01-2026.08.31	CPC provides fuel required for ARP production in the Pickling & Galvanizing Department	None.
Long-term steam supply contract	China Steel Corporation	2019.01.01-2023.12.31	Steam is used for heating on the production line of the Pickling and Galvanizing Department	None.
Long-term hydrogen and nitrogen supply contract	Linde Lienhwa Industrial Gases Co., Ltd.	2019.02.01-2024.01.31	Linde Lienhwa Industrial Gases provides fuel required in the Cold Rolling Department and Pickling & Galvanizing Department	None.

Nature of the Contract	Contracting Party	Commencement Date/Expiration Date	Main Content	Restrictive provisions
Land lease contract	Costco President Taiwan Inc.	2011.08.24-2031.08.23	Land lease	<p>1. The lessee retains the right to issue a written notice to the lessor regarding the intended contract renewal period 18 to 24 months prior to the expiry of the operations period. The maximum contract renewal period shall be ten years but it may not be lower than five years.</p> <p>2. The lessee may terminate the Contract at any time after a period of ten years from the first day of the lease for any reason, provided that it shall be required to issue a written notice to the lessor no less than six months in advance to explain the reason for its failure to continue the lease (hereinafter referred to as the "termination notice period") and it shall be required to obtain the lessor's written approval. The lessor may not refuse the request without a legitimate reason. However, where the lessee suffers more than two years (inclusive) of consecutive losses in the operations on the base/building and cannot continue the lease, it shall not be required to obtain the lessor's written approval (however, it shall be required to provide certification documents from an accountant).</p>

## F. Financial Conditions

### I. Condensed balance sheets, statements of comprehensive income, names of accountants, and audit opinions in the most recent five years

#### (I) Condensed balance sheet

##### 1. Consolidated condensed balance sheet – International Financial Reporting Standards

Unit: NT\$1000

Item		Financial data for the last 5 years (Note 1)				
		2021 (Note 2)	2020	2019	2018	2017
Current assets		17,052,944	7,036,111	9,209,104	11,663,757	8,853,782
Property, plant and equipment		10,164,924	11,162,643	12,552,287	13,249,030	14,031,648
Intangible assets		0	0	0	0	0
Other assets		10,261,466	8,901,303	8,702,215	8,508,126	8,491,421
Total assets		37,479,334	27,100,057	30,463,606	33,420,913	31,376,851
Current liabilities	Pre-distribution	9,828,452	5,167,233	8,502,445	12,430,048	10,619,202
	Post-distribution	Note 3	5,597,896	8,502,445	12,573,603	10,619,202
Non-current liabilities		5,089,484	6,699,550	7,392,264	6,227,619	8,831,990
Total liabilities	Pre-distribution	14,917,936	11,866,783	15,894,709	18,657,667	19,451,192
	Post-distribution	Note 3	12,297,446	15,894,709	18,801,222	19,451,192
Equity attributed to the owners of the parent company		22,561,398	15,233,274	14,568,897	14,763,246	11,925,659
Capital stock		14,355,444	14,355,444	14,355,444	14,355,444	14,355,444
Capital surplus		903	903	903	903	903
Retained earnings (accumulated losses)	Pre-distribution	7,073,840	1,302,766	762,128	904,506	(2,083,776)
	Post-distribution	Note 3	872,103	762,128	760,951	(2,083,776)
Other equity		1,131,211	(425,839)	(549,578)	(497,607)	(346,912)
Treasury stock		0	0	0	0	0
Non-controlling equity		0	0	0	0	0
Total equity	Pre-distribution	22,561,398	15,233,274	14,568,897	14,763,246	11,925,659
	Post-distribution	Note 3	14,802,611	14,568,897	14,619,691	11,925,659

Note 1: The financial data from 2017 to 2021 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2022. Therefore, the information at the end of the quarter before the publication date is the information from 2021.

Note 3: The proposal of the Company's 2021 earnings allocation remains to be approved by the resolution of the shareholders' meeting.

## 2. Individual condensed balance sheet – International Financial Reporting Standards

Unit: NT\$1000

Item	Year	Financial data for the last 5 years (Note 1)				
		2021 (Note 2)	2020	2019	2018	2017 (Note 3)
Current assets		17,039,020	7,032,476	9,204,726	11,654,994	8,847,559
Property, plant and equipment		10,164,924	11,162,643	12,552,287	13,249,030	14,031,648
Intangible assets		0	0	0	0	0
Other assets		10,272,296	8,904,784	8,705,393	8,515,140	8,496,333
Total assets		37,476,240	27,099,903	30,462,406	33,419,164	31,375,540
Current liabilities	Pre-distribution	9,825,358	5,167,079	8,501,245	12,428,299	10,617,891
	Post-distribution	Note 4	5,597,742	8,501,245	12,571,854	10,617,891
Non-current liabilities		5,089,484	6,699,550	7,392,264	6,227,619	8,831,990
Total liabilities	Pre-distribution	14,914,842	11,866,629	15,893,509	18,655,918	19,449,881
	Post-distribution	Note 4	12,297,292	15,893,509	18,799,473	19,449,881
Capital stock		14,355,444	14,355,444	14,355,444	14,355,444	14,355,444
Capital surplus		903	903	903	903	903
Retained earnings (accumulated losses)	Pre-distribution	7,073,840	1,302,766	762,128	904,506	(2,083,776)
	Post-distribution	Note 4	872,103	762,128	760,951	(2,083,776)
Other equity		1,131,211	(425,839)	(549,578)	(497,607)	(346,912)
Treasury stock		0	0	0	0	0
Total equity	Pre-distribution	22,561,398	15,233,274	14,568,897	14,763,246	11,925,659
	Post-distribution	Note 4	14,802,611	14,568,897	14,619,691	11,925,659

Note 1: The financial data from 2017 to 2021 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2022. Therefore, the information at the end of the quarter before the publication date is the information from 2021.

Note 3: Based on the recompiled Financial Report. (The Company merged the subsidiary Hung Li Steel Corporation in June 2018 and recompiled the 2017 Individual Financial Report)

Note 4: The proposal of the Company's 2021 earnings allocation remains to be approved by the resolution of the shareholders' meeting.

## (II) Condensed income statement

### 1. Consolidated condensed consolidated income statement – International Financial Reporting Standards

Unit: NTS1000

Item \ Year	Financial data for the recent 5 years (Note 1)				
	2021 (Note 2)	2020	2019	2018	2017
Operating revenue	53,744,012	36,790,154	40,470,129	48,238,885	40,792,444
Gross profit	7,546,402	1,454,500	1,244,928	4,384,886	3,889,103
Operating profit (loss)	6,523,650	338,212	(217,589)	2,875,777	2,573,740
Non-operating income and expenses	489,426	190,053	228,474	158,071	32,563
Profit before income tax	7,013,076	528,265	10,885	3,033,848	2,606,303
Net profit for the year	6,350,411	528,260	10,791	3,033,223	2,606,273
Loss from discontinued operations	0	0	0	0	0
Net profit for the period	6,350,411	528,260	10,791	3,033,223	2,606,273
Income (loss) from discontinued operations	0	0	0	0	0
Other comprehensive income (loss) for the period (net income after-tax)	1,408,376	136,117	(61,585)	(195,636)	(90,428)
Total comprehensive income (loss) for the period	7,758,787	664,377	(50,794)	2,837,587	2,515,845
Net profit attributable to owners of the parent company	6,350,411	528,260	10,791	3,033,223	2,606,273
Net profit attributable to non-controlling equity	0	0	0	0	0
Total comprehensive income (loss) attributed to the owners of the parent company	7,758,787	664,377	(50,794)	2,837,587	2,515,845
Total comprehensive income attributed to non-controlling equity	0	0	0	0	0
Basic earnings per share (NT\$) (Note 3)	4.42	0.37	0.01	2.11	1.82

Note 1: The financial data from 2017 to 2021 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2022. Therefore, the information at the end of the quarter before the publication date is the information from 2021.

Note 3: Calculated by weighted average number of shares issued and outstanding.

## 2. Individual condensed consolidated income statement – International Financial Reporting Standards

Unit: NT\$1000

Item \ Year	Financial data for the last 5 years (Note 1)				
	2021 (Note 2)	2020	2019	2018	2017 (Note 3)
Operating revenue	53,733,214	36,789,518	40,467,516	48,233,721	40,788,590
Gross profit	7,535,604	1,453,864	1,242,315	4,379,722	3,885,249
Operating profit (loss)	6,514,174	337,801	(217,532)	2,871,898	2,571,306
Non-operating income and expenses	497,078	190,459	228,417	161,325	34,822
Profit before income tax	7,011,252	528,260	10,885	3,033,223	2,606,128
Net profit for the year	7,011,252	528,260	10,885	3,033,223	2,606,273
Loss from discontinued operations	0	0	0	0	0
Current period net income	7,011,252	528,260	10,791	3,033,223	2,606,273
Income (loss) from discontinued operations	0	0	0	0	0
Other comprehensive income (loss) for the period (net income after tax)	6,350,411	136,117	(61,585)	(195,636)	(90,428)
Total comprehensive income (loss) for the period	7,758,787	664,377	(50,794)	2,837,587	2,515,845
Basic earnings per share (NT\$) (Note 4)	4.42	0.37	0.01	2.11	1.82

Note 1: The financial data from 2017 to 2021 have been audited by CPAs.

Note 2: The Company's Annual Report is published on March 31, 2022. Therefore, the information at the end of the quarter before the publication date is the information from 2021.

Note 3: Based on the recomputed Financial Report. (The Company merged the subsidiary Hung Li Steel Corporation in June 2018 and recomputed the 2017 Individual Financial Report)

Note 4: Calculated by weighted average number of shares issued and outstanding.

(III) Names of auditors and opinions:

Year	Name of the accounting firm	Certifying CPA	Audit opinion
2021	Deloitte, Taiwan	Yu-Hsiang Liu and Chia-Ling Chiang	Unqualified opinion
2020	Deloitte, Taiwan	Yu-Hsiang Liu and Chia-Ling Chiang	Unqualified opinion
2019	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified opinion
2018	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified opinion plus emphasis paragraphs (Note)
2017	Deloitte, Taiwan	Jui-Hsuan Hsu and Yu-Hsiang Liu	Unqualified opinion

Note: The Company has, since 2018, adopted the amended Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC), and Standard Interpretations Committee (SIC) endorsed by the FSC and applicable starting from 2018.

## II. Financial analysis for the last 5 years

### (I) Financial analysis

#### 1. Consolidated financial analysis – International Financial Reporting Standards

Analysis Item (Note 5)		Year	Financial analysis for the last 5 years (Note 1)				
			2021 (Note 3)	2020	2019	2018	2017
Financial structure	Debt-to-assets ratio (%)		39.80	43.79	52.17	55.82	61.99
	Long-term fund to property, plant, and equipment ratio (%)		272.02	196.48	174.95	158.43	147.93
Solvency	Current ratio (%)		173.51	136.17	108.31	93.83	83.38
	Quick ratio (%)		29.37	45.34	24.69	21.86	29.43
	Interest coverage ratio		154.41	7.13	1.08	22.68	12.95
Operating performance	Accounts receivables turnover (times)		55.83	50.43	49.23	37.21	33.69
	Average collection days		6.53	7.23	7.41	9.80	10.83
	Inventory turnover (times)		5.38	6.36	5.23	6.54	7.56
	Accounts payables turnover (times)		42.56	162.09	106.54	45.76	27.80
	Average inventory turnover days		67.84	57.38	69.78	55.81	48.28
	Property, plant, and equipment turnover (times)		5.04	3.10	3.13	3.53	2.80
	Total assets turnover (times)		1.66	1.28	1.26	1.48	1.31
Profitability	Return on assets (%)		19.78	2.08	0.34	9.70	8.93
	Return on equity (%)		33.60	3.55	0.07	22.73	24.43
	Net profit before taxes as a percentage of paid-in capital (%)		48.85	3.68	0.07	21.13	18.16
	Net profit margin (%)		11.82	1.44	0.02	6.28	6.39
	Earnings per share (NT\$) (Note 2)		4.42	0.37	0.01	2.11	1.82
Cash flow	Cash flow ratio (%)		20.59	91.76	29.55	5.67	27.32
	Cash flow adequacy ratio (%)		84.74	201.99	167.45	117.67	169.50
	Cash reinvestment ratio (%)		2.87	9.77	5.03	1.56	6.61
Leverage	Operating leverage		1.12	4.44	-	1.41	1.55
	Financial leverage		1.01	1.34	0.63	1.05	1.09

Reasons for changes in financial ratios in recent two years. (Analysis can be omitted for the change is less than 20%)

- The percentage of long-term fund in PP&E rose by 38% from the previous year mainly due to increase in the net value of shareholder equity.
- The current ratio increased by 27% from the previous year mainly because the increase in current assets was greater than the increase in current liabilities.
- The quick ratio decreased by 35% from the previous year mainly because the increase in quick assets was lower than the increase in current liabilities.
- Interest protection multiples rose by 2066% from the previous year mainly due to an increase in pre-tax profit.
- The payables turnover ratio declined by 74% from the previous year mainly due to the increase in the average accounts payable.
- The PP&E turnover ratio and total assets turnover ratio rose by 63% and 30%, respectively, from the previous year mainly due to increase in net sales value.
- The return on assets ratio rose by 851% and the return on equity rose by 846% compared to the previous year mainly due to the increase in net profit after tax.
- The net profit to paid-in capital ratio before tax rose by 1227% from the previous year mainly due to an increase in net profit before tax.
- The net profit ratio and earnings per share rose by 721% and 1095% from the previous year mainly due to an increase in net income for the year.
- The cash flow ratio and cash reinvestment ratio decreased by 78% and 71% from the previous year mainly due to a decrease in net cash inflow from operating activities.
- The cash flow adequacy ratio decreased by 58% from the previous year mainly due to a decrease in net cash inflow from operating activities and increase in inventories in the five preceding years.
- The degree of operating leverage declined by 75% from the previous year mainly because the increase in net operating income was lower than the increase in operating profit.
- The degree of financial leverage declined by 25% from the previous year mainly due to a decrease in interest expenses.

## 2. Individual financial analysis – International Financial Reporting Standards

Analysis Item (Note 5)		Financial analysis for the last 5 years (Note 1)					
		Year	2021 (Note 3)	2020	2019	2018	2017 (Note 4)
Financial structure	Debt-to-assets ratio (%)		39.80	43.79	52.17	55.82	61.99
	Long-term fund to property, plant, and equipment ratio (%)		272.02	196.48	174.95	158.43	147.93
Solvency	Current ratio (%)		173.42	136.10	108.27	93.77	83.32
	Quick ratio (%)		29.27	45.31	24.66	21.79	29.37
	Interest coverage ratio		154.37	7.13	1.08	22.68	15.40
Operating performance	Accounts receivables turnover (times)		55.82	50.43	49.22	37.21	34.94
	Average collection days		6.53	7.23	7.41	9.80	10.44
	Inventory turnover (times)		5.38	6.36	5.23	6.54	7.64
	Accounts payables turnover (times)		42.56	162.09	106.54	45.76	28.02
	Average inventory turnover days		67.84	57.38	69.78	55.81	47.77
	Property, plant, and equipment turnover (times)		5.04	3.10	3.13	3.53	3.12
	Total assets turnover (times)		1.66	1.28	1.26	1.48	1.33
Profitability	Return on assets (%)		19.78	2.08	0.34	9.70	8.98
	Return on equity (%)		33.60	3.55	0.07	22.73	24.43
	Net profit before taxes as a percentage of paid-in capital (%)		48.84	3.68	0.07	21.12	18.15
	Net profit margin (%)		11.82	1.44	0.02	6.28	6.39
	Earnings Per Share (NT\$) (Note 2)		4.42	0.37	0.01	2.11	1.82
Cash flow	Cash flow ratio (%)		20.60	91.77	29.57	5.65	27.32
	Cash flow adequacy ratio (%)		84.73	192.73	154.18	99.75	151.94
	Cash reinvestment ratio (%)		2.87	9.77	5.03	1.55	6.60
Leverage	Operating leverage		1.12	4.44	-	1.41	1.55
	Financial leverage		1.01	1.34	0.63	1.05	1.07

Please explain reasons for changes in financial ratios in the last two years. (Analysis can be omitted for the change is less than 20%)

- The percentage of long-term fund in PP&E rose by 38% from the previous year mainly due to increase in the net value of shareholder equity.
- The current ratio increased by 27% from the previous year mainly because the increase in current assets was greater than the increase in current liabilities.
- The quick ratio decreased by 35% from the previous year mainly because the increase in quick assets was lower than the increase in current liabilities.
- Interest protection multiples rose by 2065% from the previous year mainly due to an increase in pre-tax profit.
- The payables turnover ratio decreased by 74% from the previous year mainly due to the increase in the average accounts payable.
- The PP&E turnover ratio and total assets turnover ratio rose by 63% and 30%, respectively, from the previous year mainly due to increase in net sales value.
- The return on assets ratio rose by 851% and the return on equity rose by 846% compared to the previous year mainly due to the increase in net profit after tax.
- The net profit to paid-in capital ratio before tax rose by 1227% from the previous year mainly due to an increase in net profit before tax.
- The net profit ratio and earnings per share rose by 721% and 1095% from the previous year mainly due to an increase in net income for the year.
- The cash flow ratio and cash reinvestment ratio decreased by 78% and 71% from the previous year mainly due to a decrease in net cash inflow from operating activities.
- The cash flow adequacy ratio decreased by 56% from the previous year mainly due to a decrease in net cash inflow from operating activities and increase in inventories in the five preceding years.
- The degree of operating leverage declined by 75% from the previous year mainly because the increase in net operating income was lower than the increase in operating profit.
- The degree of financial leverage declined by 25% from the previous year mainly due to a decrease in interest expenses.

Note 1: The financial data from 2017 to 2021 have been audited by CPAs.

Note 2: Calculated by weighted average number of shares issued and outstanding.

Note 3: The Company's Annual Report is published on March 31, 2022. Therefore, the information at the end of the quarter before the publication date is the information from 2021.

Note 4: Based on the recompiled Financial Report. (The Company merged the subsidiary Hung Li Steel Corporation in June 2018 and recompiled the 2017 Individual Financial Report)

Note 5: The end of Annual Report should include the following formulas:

1. Financial structure

(1) Debt-to-assets ratio = total liabilities / total assets.

(2) Long-term fund ratio for property, plant, and equipment = (total equity + non-current liabilities) / net for property, plant, and equipment.

2. Solvency

(1) Current ratio = current assets / current liabilities.

(2) Quick ratio = (current assets - inventories - prepaid expenses – other financial assets-current – other current assets) / current liabilities.

(3) Interest coverage ratio = earnings before interest expense and net income / interest expense.

3. Operating performance

(1) Receivables (including accounts receivable and notes receivable arising from operation) turnover ratio = net sales / average receivables (including accounts receivable and notes receivable arising from operation) balances.

(2) Average collection period = 365 / receivables turnover.

(3) Inventory turnover = cost of goods sold / average inventory.

(4) Payable (including accounts payable and notes payable arising from operation) turnover ratio = cost of goods sold / average payables (including accounts payable and notes payable arising from operation) balances.

(5) Average days of sales = 365 / inventory turnover.

(6) Property, plant, and equipment turnover ratio = net sales / average net for property, plant, and equipment.

(7) Total assets turnover ratio = net sales / average total assets.

4. Profitability

(1) Return on assets = (net income + interest expenses × (1 - tax rate)) / average total assets.

(2) Return on shareholder's equity = net income / average shareholders' equity.

(3) Net profit margin = net income / net sales.

(4) Earnings per share = (profit or loss attributable to owners of the parent company - preferred stock dividends) / weighted average number of shares issued.

5. Cash flow

(1) Cash flow ratio = net cash flow from operating activities / current liabilities.

(2) Net cash flow adequacy ratio = net cash flow from operating activities for the last 5 years / most recent five years (capital expenditure + inventory + cash dividend).

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

6. Leverage:

(1) Operating leverage = (net operating income – variable operating cost and expenses) / operating income.

(2) Financial leverage = operating income / (operating income - interest expenses).

### **III. Audit Committee's Audit Report for 2021**

Chung Hung Steel Corporation  
Audit Committee's Audit Report

Hereby approves

The Company's 2021 Individual Financial Report and Consolidated Financial Report (audited and certified by CPAs Yu-Hsiang Liu and Chia-Ling Chiang 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 2022 Annual Shareholders Meeting

Audit Committee, Chung Hung Steel Corporation

Convener: Juh-Shan Chiou

February 24, 2022

## **IV. 2021 Standalone Financial Report**

### **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, 2021 and 2020, 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 (collectively referred to as the "standalone financial statements").

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, 2021 and 2020, 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.

#### **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, 2021. 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.

The key audit matters of the Corporation's standalone financial statements for the year ended December 31, 2021 are stated as follows:

##### **The Existence of Revenue from Sale of Goods on Specific Customers**

The domestic sales revenue among the Corporation's top ten customers for the year ended December 31, 2021 was NT\$19,952,276 thousand, which represented 38% of the sales revenue. Because the sales revenue from the above-mentioned specific customers has grown significantly compared to the sales revenue from the previous year, we considered the existence of sales revenue from the above-mentioned specific customers as a key audit matter. Refer to Notes 4 and 24 to standalone financial statements for the related accounting policies and disclosures on sales revenue.

The audit procedures we performed included the following:

1. We obtained an understanding of the design and implementation of the internal controls and tested the operating effectiveness of controls related to the existence of sales revenue.
2. We tested the sales details of specific customers by selecting samples, including sales orders, shipping documents and cash collections, and we confirmed that the collections of counterparties were consistent with the record of transactions and the accuracy of revenue recognized.
3. We obtained subsequent details of sales returns and allowances of the specific customers and tested whether there is any unusual sales returns and allowances by selecting samples and confirmed that sales revenue existed before the balance sheet date.

### **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 IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the Republic of China, 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 to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the 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, 2021 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audits resulting in this independent auditors' report are Yu-Hsiang Liu and Jia-Ling, Jiang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 24, 2022

#### 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, 2021		December 31, 2020	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 507,465	1	\$ 285,899	1
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	-	-	242,410	1
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	1,170,412	3	819,454	3
Accounts receivable (Notes 4, 9 and 24)	930,578	2	830,087	3
Accounts receivable from related parties (Notes 4, 9, 24 and 30)	47,355	-	117,238	-
Other receivables (Note 9)	9,051	-	19,321	-
Other receivables from related parties (Notes 9 and 30)	211,007	1	26,523	-
Current tax assets (Note 26)	-	-	202	-
Inventories (Notes 4, 5 and 10)	12,717,439	34	4,236,420	16
Prepayments (Note 11)	443,116	1	150,961	1
Other financial assets - current (Notes 12 and 31)	1,000,000	3	300,000	1
Other current assets	2,597	-	3,961	-
<b>Total current assets</b>	<b>17,039,020</b>	<b>45</b>	<b>7,032,476</b>	<b>26</b>
<b>NONCURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4 and 8)	62,040	-	43,345	-
Investments accounted for using equity method (Notes 4 and 13)	4,089,098	11	2,698,045	10
Property, plant and equipment (Notes 4, 14, 30 and 32)	10,164,924	28	11,162,643	41
Right-of-use assets (Notes 4 and 15)	62,920	-	78,330	-
Investment properties (Notes 4 and 16)	5,982,297	16	5,983,185	22
Prepayments for equipment (Note 32)	70,290	-	95,659	1
Refundable deposits	5,651	-	6,220	-
<b>Total noncurrent assets</b>	<b>20,437,220</b>	<b>55</b>	<b>20,067,427</b>	<b>74</b>
<b>TOTAL</b>	<b>\$ 37,476,240</b>	<b>100</b>	<b>\$ 27,099,903</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 17 and 31)	\$ 4,562,252	12	\$ 404,630	2
Short-term bills payable (Note 17)	999,641	3	3,599,577	13
Contract liabilities - current (Note 24)	95,155	-	57,283	-
Accounts payable (Note 19)	1,360,732	4	27,500	-
Accounts payable to related parties (Notes 19 and 30)	469,577	1	313,224	1
Other payables (Notes 20 and 30)	1,174,438	3	580,115	2
Current tax liabilities (Notes 4 and 26)	652,941	2	-	-
Provisions - current (Notes 4 and 21)	206,850	1	-	-
Lease liabilities - current (Notes 4 and 15)	15,408	-	15,230	-
Refund liabilities	265,047	1	153,756	1
Other current liabilities	23,317	-	15,764	-
<b>Total current liabilities</b>	<b>9,825,358</b>	<b>27</b>	<b>5,167,079</b>	<b>19</b>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable (Note 18)	2,996,174	8	2,995,039	11
Long-term bank borrowings (Note 17)	1,200,000	3	2,000,000	8
Long-term bills payable (Note 17)	239,792	1	1,109,674	4
Deferred tax liabilities (Notes 4 and 26)	182,222	-	182,222	1
Lease liabilities - noncurrent (Notes 4 and 15)	48,519	-	63,898	-
Net defined benefit liabilities (Notes 4, 5, and 22)	387,777	1	313,717	1
Guarantee deposits received (Note 16)	35,000	-	35,000	-
<b>Total noncurrent liabilities</b>	<b>5,089,484</b>	<b>13</b>	<b>6,699,550</b>	<b>25</b>
<b>Total liabilities</b>	<b>14,914,842</b>	<b>40</b>	<b>11,866,629</b>	<b>44</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)</b>				
Ordinary shares	14,355,444	38	14,355,444	53
Capital surplus	903	-	903	-
Retained earnings				
Legal reserve	144,632	-	90,568	-
Special reserve	425,839	1	549,578	2
Unappropriated earnings	6,503,369	18	662,620	3
Total retained earnings	7,073,840	19	1,302,766	5
Other equity	1,131,211	3	(425,839)	(2)
<b>Total equity</b>	<b>22,561,398</b>	<b>60</b>	<b>15,233,274</b>	<b>56</b>
<b>TOTAL</b>	<b>\$ 37,476,240</b>	<b>100</b>	<b>\$ 27,099,903</b>	<b>100</b>

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

# CHUNG HUNG STEEL CORPORATION

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

	For the Year Ended December 31			
	2021		2020	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 24 and 30)				
Sales	\$ 53,019,056	99	\$ 36,406,042	99
Service revenue	624,450	1	324,620	1
Other operating revenue	<u>89,708</u>	-	<u>58,856</u>	-
Total operating revenue	53,733,214	100	36,789,518	100
OPERATING COSTS (Notes 10, 14, 25 and 30)	<u>46,197,610</u>	<u>86</u>	<u>35,335,654</u>	<u>96</u>
GROSS PROFIT	<u>7,535,604</u>	<u>14</u>	<u>1,453,864</u>	<u>4</u>
OPERATING EXPENSES (Note 25)				
Selling and marketing expenses	577,505	1	794,236	2
General and administrative expenses	<u>443,925</u>	<u>1</u>	<u>321,827</u>	<u>1</u>
Total operating expenses	<u>1,021,430</u>	<u>2</u>	<u>1,116,063</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>6,514,174</u>	<u>12</u>	<u>337,801</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES (Notes 13, 16, 25 and 30)				
Interest income	803	-	950	-
Other income	131,463	-	224,750	1
Other gains and losses	370,938	1	1,488	-
Finance costs	(45,715)	-	(86,219)	-
Share of the profit of associates	<u>39,589</u>	-	<u>49,490</u>	-
Total non-operating income and expenses	<u>497,078</u>	<u>1</u>	<u>190,459</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	7,011,252	13	528,260	2
INCOME TAX (Notes 4, 5 and 26)	<u>660,841</u>	<u>1</u>	-	-
NET PROFIT FOR THE YEAR	<u>6,350,411</u>	<u>12</u>	<u>528,260</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 22 and 23)				
Items that will not be reclassified subsequently to profit or loss:				

(Continued)

# CHUNG HUNG STEEL CORPORATION

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

	For the Year Ended December 31			
	2021		2020	
	Amount	%	Amount	%
Remeasurement of defined benefit plans	\$ (157,217)	-	\$ 12,378	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	369,653	1	28,579	-
Share of the other comprehensive income of associates	1,196,082	2	95,160	-
Items that may be reclassified subsequently to profit or loss:				
Share of the other comprehensive income of subsidiaries and associates	(142)	-	-	-
Other comprehensive income for the year, net of income tax	<u>1,408,376</u>	<u>3</u>	<u>136,117</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 7,758,787</u>	<u>15</u>	<u>\$ 664,377</u>	<u>2</u>
<b>EARNINGS PER SHARE (Note 27)</b>				
Basic	<u>\$ 4.42</u>		<u>\$ 0.37</u>	
Diluted	<u>\$ 4.40</u>		<u>\$ 0.37</u>	

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION

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

	Issued and Outstanding Ordinary Shares	Capital Surplus	Retained Earnings			Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2020	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ -	(\$ 549,578)	\$ 14,568,897
Appropriation of 2019 earnings (Note 23)								
Legal reserve	-	-	118	-	(118)	-	-	-
Special reserve	-	-	-	51,971	(51,971)	-	-	-
Net profit for the year ended December 31, 2020	-	-	-	-	528,260	-	-	528,260
Other comprehensive income for the year ended December 31, 2020, net of income tax	-	-	-	-	12,378	-	123,739	136,117
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	540,638	-	123,739	664,377
BALANCE AT DECEMBER 31, 2020	\$ 14,355,444	\$ 903	\$ 90,568	\$ 549,578	\$ 662,620	\$ -	(\$ 425,839)	\$ 15,233,274
Appropriation of 2020 earnings (Note 23)								
Legal reserve	-	-	54,064	-	(54,064)	-	-	-
Cash dividends	-	-	-	-	(430,663)	-	-	(430,663)
Reversal of special reserve	-	-	-	(123,739)	123,739	-	-	-
Net profit for the year ended December 31, 2021	-	-	-	-	6,350,411	-	-	6,350,411
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	(157,217)	(142)	1,565,735	1,408,376
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	6,193,194	(142)	1,565,735	7,758,787
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	8,543	-	(8,543)	-
BALANCE AT DECEMBER 31, 2021	\$ 14,355,444	\$ 903	\$ 144,632	\$ 425,839	\$ 6,503,369	(\$ 142)	\$ 1,131,353	\$ 22,561,398

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

# CHUNG HUNG STEEL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 7,011,252	\$ 528,260
Adjustments for:		
Depreciation expense	753,729	1,162,246
Net gain on financial assets at fair value through profit or loss	(318,331)	(78,903)
Finance costs	45,715	86,219
Interest income	(803)	(950)
Dividend income	(10,383)	(31,821)
Share of profit of associates	(39,589)	(49,490)
Loss on disposal of property, plant and equipment	-	9,371
Write-downs (reversal) of inventories	4,859	(304,435)
Recognition of impairment loss	646,025	576,317
Recognition of provisions	206,850	-
Others	1,097	692
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	560,741	17,844
Accounts receivable	(100,491)	(364,070)
Accounts receivable from related parties	69,883	(71,505)
Other receivables	10,297	(13,290)
Other receivables from related parties	(184,484)	513,416
Inventories	(8,485,878)	2,645,652
Prepayments	(295,155)	77,570
Other current assets	1,364	(2,271)
Contract liabilities	37,872	(227,769)
Accounts payable	1,333,232	(2,172)
Accounts payable to related parties	156,353	247,627
Other payables	588,691	71,195
Other current liabilities	7,553	(670)
Net defined benefit liabilities	(83,157)	(47,765)
Refund liabilities	111,291	144
Cash generated from operations	2,031,533	4,741,442
Income taxes refund (paid)	(7,698)	147
Net cash generated from operating activities	<u>2,023,835</u>	<u>4,741,589</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	-	1,934
Acquisition of investments accounted for using the equity method	(200,000)	-
Acquisition of property, plant and equipment	(353,847)	(397,582)
Decrease (Increase) in refundable deposits	569	(588)
Increase in other financial assets	(700,000)	-

(Continued)

# CHUNG HUNG STEEL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2021	2020
Interest received	\$ 776	\$ 950
Dividends received from others	<u>54,859</u>	<u>31,821</u>
Net cash used in investing activities	<u>(1,197,643)</u>	<u>(363,465)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	117,158,161	99,915,564
Repayments of short-term borrowings	(113,000,539)	(104,665,801)
Increase in short-term bills payable	8,200,064	10,900,027
Decrease in short-term bills payable	(10,800,000)	(9,100,000)
Proceeds from issuance of bonds	-	2,994,328
Proceeds from long-term borrowings	300,000	3,150,000
Repayments of long-term borrowings	(1,100,000)	(5,760,000)
Proceeds from long-term bills payable	240,118	200,536
Repayments of long-term bills payable	(1,110,000)	(1,700,000)
Repayments of principal of lease liabilities	(15,232)	(15,074)
Dividends paid to owner of the corporation	(430,663)	-
Interest paid	<u>(46,535)</u>	<u>(77,942)</u>
Net cash used in financing activities	<u>(604,626)</u>	<u>(4,158,362)</u>
NET INCREASE IN CASH	221,566	219,762
CASH AT THE BEGINNING OF THE YEAR	<u>285,899</u>	<u>66,137</u>
CASH AT THE END OF THE YEAR	<u>\$ 507,465</u>	<u>\$ 285,899</u>

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION

## NOTES TO STANDALONE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

---

### 1. GENERAL INFORMATION

Chung Hung Steel Corporation (the Corporation) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils.

The Corporation's shares have been listed on the Taiwan Stock Exchange since February 1992.

As of December 31, 2021, and 2020, China Steel Corporation (CSC), the Corporation's parent and major shareholder (40.58%), controls the Corporation's management and operations.

The standalone financial statements are presented in the Corporation's functional currency, the New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The standalone financial statements were approved by the Corporation's board of directors and authorized for issue on February 24, 2022.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Corporation accounting policies:

- b. The IFRSs endorsed by FSC for application starting from 2022

New IFRSs	Effective Date Announced by IASB
"Annual Improvements to IFRS Standards 2018-2020"	January 1, 2022 (Note 1)
Amendments to IFRS 3 "Reference to the Conceptual Framework"	January 1, 2022 (Note 2)
Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"	January 1, 2022 (Note 3)
Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"	January 1, 2022 (Note 4)

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

Note 2: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 3: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the standalone financial statements were authorized for issue, the Corporation has assessed that the application of other standards and interpretations will not have a material impact on the Corporation's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS17 and IFRS 19 – Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

As of the date the standalone financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

##### **Statement of Compliance**

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

##### **Basis of Preparation**

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

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

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

The subsidiaries and associates are incorporated in the standalone financial statements under the equity method. To make net profit for the year, other comprehensive income and equity in the standalone financial statements equal to those attributed to owners of the Corporation on consolidated financial statements, the effect of the differences between basis of standalone and basis of consolidation are adjusted in the investments accounted for using equity method, the related share of the profit or loss, the related share of other comprehensive income of subsidiaries, associates and joint ventures and related equity.

##### **Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the balance sheet date; and
- c. Cash unless the asset is restricted from being used for an exchange or used to settle a liability for more than least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities expected to be settled within 12 months after the reporting period; and
- c. Liabilities without an unconditional right to defer settlement for at least twelve months after the reporting period.

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

## **Foreign Currencies**

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

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

## **Inventories**

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

## **Investment in Associates**

The Corporation uses the equity method to account for its investments in subsidiaries.

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

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

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation losing control of the subsidiary are accounted for as equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Corporation's share of loss of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation's net investment in the subsidiary), the Corporation continues recognizing its share of further loss, if any.

Unrealized profits or losses on downstream transactions with subsidiaries are eliminated in the standalone financial statements. Profits and losses on transactions with subsidiaries other than downstream are recognized in standalone financial statements only to the extent of interests in the subsidiary that are not related to the Corporation.

## **Investment in Associates**

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The operating results and assets and liabilities of associates are incorporated in these standalone financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the share of equity of associates.

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

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

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Corporation transacts with their associates, profits and losses on these transactions are recognized in the standalone financial statements only to the extent of interests in the associate that are not related to the Corporation.

### **Property, Plant, and Equipment**

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Freehold land is not depreciated.

Except for depreciation of the rollers (spare parts) that belong to the cold rolling department, the depreciation of the rollers (spare parts) that belong to the hot rolling department and pickling & galvanizing mill department is calculated based on their level of wear, and other depreciation is recognized so as to write off the cost of assets less their residual value over their estimated useful lives, using the straight-line method; each major part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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

### **Investment Properties**

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

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial

recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer from property, plant and equipment classification to investment properties, the deemed cost of property for subsequent accounting is its carrying amount at the end of owner-occupation.

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

### **Impairment of Property, Plant and Equipment, Right-of-use Asset and Investment Properties**

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

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

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

### **Financial Instruments**

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

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

#### **a. Financial assets**

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

##### **1) Measurement category**

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

##### **a) Financial asset at FVTPL**

Financial asset is classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL.

Financial assets mandatorily classified as at FVTPL were investments in equity instruments which are not designated as at FVTPL. Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 29.

## b) Financial assets at amortized cost

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

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

Financial assets at amortized cost, including cash, accounts receivable at amortized cost, other receivables, other financial assets and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

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

## c) Investments in equity instruments at FVTOCI

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

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

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

## 2) Impairment of financial assets

The Corporation recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

The Corporation always recognizes lifetime Expected Credit Loss (i.e. ECL) for accounts receivable. For other financial assets, the Corporation recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Corporation measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

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

### 3) Derecognition of financial assets

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

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

#### b. Equity instruments

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

#### c. Financial liabilities

##### 1) Subsequent measurement

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

##### 2) Derecognition of financial liabilities

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

### **Provisions**

Provisions are measured at the best estimate including risks and uncertainties of the expenditure required to settle the obligation on the balance sheet date.

When the Corporation expects that the unavoidable costs of the performance of contractual obligations to exceed the expected economic benefits that may be gained from the contract, the Corporation recognizes provisions for the performance of its obligations in the onerous contract.

### **Revenue Recognition**

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

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

a. Sale of goods

Revenue is recognized when the control of products is transferred to customers. The customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms. Transaction price received is recognized as a contract liability until performance obligations are satisfied.

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

b. Providing of services

Service revenue is recognized when services are provided by reference to the stage of completion of services provided.

## Leases

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

a. The Corporation as lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Corporation as lessee

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

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

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

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term the Corporation remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the standalone balance sheets.

### **Government Grants**

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognized in profit or loss in the period in which they are received.

### **Borrowing Costs**

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

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

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

### **Employee Benefits**

#### **a. Short-term employee benefits**

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

#### **b. Retirement benefits**

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

Net defined benefit liability represents the actual deficit in the Corporation's defined benefit plan.

### **Taxation**

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

### Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

### Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the standalone financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

### Current and deferred taxes for the year

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

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

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

The Corporation considers the possible impact of the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates on cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## Measurement of Inventories

Inventories are stated at the lower of cost or net realizable value, and the Corporation uses judgment and estimate to determine the net realizable value of inventory at the balance sheet date. Since the net realizable value of inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

## Realizability of Deferred Tax Assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Considering climate change in the steel industry and unpredictability of future profit, deferred tax assets were not recognized.

## Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the pension cost of defined benefit plan under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of expenses and liabilities.

## 6. CASH

	<u>December 31</u>	
	2021	2020
Cash on hand	\$ 640	\$ 640
Checking accounts and demand deposits	<u>506,825</u>	<u>285,259</u>
	<u>\$ 507,465</u>	<u>\$ 285,899</u>

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS- CURRENT

	<u>December 31</u>	
	2021	2020
<u>Financial assets mandatorily at FVTPL</u>		
Emerging market shares	<u>\$ -</u>	<u>\$ 242,410</u>

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

	<u>December 31</u>	
	2021	2020
<u>Current</u>		
Domestic listed shares	<u>\$ 1,170,412</u>	<u>\$ 819,454</u>
<u>Non-current</u>		
Domestic unlisted shares	<u>\$ 62,040</u>	<u>\$ 43,345</u>

Riselink Venture Capital Corp. conducted capital reduction and refunded NT\$1,934 thousand in September 2020 .

## 9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	2021	2020
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	\$ <u>930,578</u>	\$ <u>830,087</u>
Accounts receivable - related parties	\$ <u>47,355</u>	\$ <u>117,238</u>
<u>Other receivables (including related parties)</u>		
Receivables from price settlement	\$ 170,204	\$ 886
Receivables from disposal of scrap	49,662	32,961
Others	<u>192</u>	<u>11,997</u>
	<u>\$ 220,058</u>	<u>\$ 45,844</u>

### a. Accounts receivable

The Corporation allows an average credit period of 30 days (the aging of receivables from sales of goods is based upon the date of examination and acceptance of the goods settlement is monthly or 60 days after shipment date). Refer to Note 29 (d) for credit risk management policies.

The expected credit losses on accounts receivable are estimated using a provision matrix approach considering the past default experience of the debtor and an analysis of the debtor's current financial position. As the Corporation's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status rather than distinguishing each different customer group.

The following table details the loss allowance of accounts receivable based on the Corporation's provision matrix.

### 2021

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 977,933	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 977,933
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 977,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,933</u>

### 2020

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 947,325	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 947,325
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 947,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 947,325</u>

The amounts of accounts receivable from single customer that exceed 10% of total accounts receivable were as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
A company	\$ 244,817	\$ -
B company	169,772	88,499
C company	121,226	8,707
D company	108,898	95,493
E company	44,206	186,520
F company	<u>-</u>	<u>147,430</u>
	<u>\$ 688,919</u>	<u>\$ 526,649</u>

The Corporation entered into accounts receivable factoring contract (without recourse). Under the contract, the Corporation is authorized to sell accounts receivable to Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectability of the accounts receivable.

Receivables sold for the years ended December 31, 2021 and 2020 were as follows:

<b>Buyer of Accounts Receivable</b>	<b>Advances Received at Year - Beginning</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-End</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>For the year ended December 31, 2021</u>						
Mega Bank	\$ 601,245	\$ 1,614,825	\$ 1,762,534	\$ 453,536	1.03	NT\$841.2 million
Bank of Taiwan	67,274	183,448	204,706	46,016	1.03	NT\$200 million
Bank of Taiwan	14,577	60,977	53,075	22,479	1.44	USD\$20 million
	<u>\$ 683,096</u>	<u>\$ 1,859,250</u>	<u>\$ 2,020,315</u>	<u>\$ 522,031</u>		
<u>For the year ended December 31, 2020</u>						
Mega Bank	\$ 926,731	\$ 2,243,387	\$ 2,568,873	\$ 601,245	1.09	NT\$855 million
Bank of Taiwan	-	193,763	126,489	67,274	1.09	NT\$200 million
Bank of Taiwan	124,214	195,829	305,466	14,577	2.06	USD\$20 million
	<u>\$ 1,050,945</u>	<u>\$ 2,632,979</u>	<u>\$ 3,000,828</u>	<u>\$ 683,096</u>		

The above credit lines are revolving.

b. Other receivables

The expected losses on other receivables are estimated using expected credit loss rate based on the other receivables overdue days. As of December 31, 2021 and 2020, there was no allowance for doubtful accounts.

## 10. INVENTORIES

	December 31	
	2021	2020
Raw materials	\$ 6,207,596	\$ 1,608,738
Supplies	309,073	368,565
Work in progress	730,616	488,875
Finished goods	4,262,064	1,764,310
Others	6,418	3,872
Raw materials and supplies in transit	<u>1,201,672</u>	<u>2,060</u>
	<u>\$ 12,717,439</u>	<u>\$ 4,236,420</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2021 and 2020 was NT\$45,058,843 thousand and NT\$34,475,079 thousand, respectively, including write-down of inventory of NT\$4,859 thousand and reversal of inventory write-down of NT\$304,435 thousand, respectively.

## 11. PREPAYMENTS

	December 31	
	2021	2020
Input tax	\$ 312,282	\$ 104,098
Tax overpaid retained for offsetting future tax payable	102,533	-
Prepayments for purchases	24,036	41,340
Others	<u>4,265</u>	<u>5,523</u>
	<u>\$ 443,116</u>	<u>\$ 150,961</u>

## 12. OTHER FINANCIAL ASSETS

	December 31	
	2021	2020
Current		
Pledged time deposits (Note 31)	\$ 700,000	\$ 300,000
Pledged demand deposits (Note 31)	<u>300,000</u>	<u>-</u>
	<u>\$ 1,000,000</u>	<u>\$ 300,000</u>

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2021	2020
Investments in subsidiaries	\$ 46,320	\$ 28,329
Investments in associates	<u>4,042,778</u>	<u>2,669,716</u>
	<u>\$ 4,089,098</u>	<u>\$ 2,698,045</u>

a. Investments in subsidiaries

			<u>December 31, 2021</u>	<u>December 31, 2020</u>
			<u>Amount</u>	<u>Amount</u>
<b>Unlisted Companies</b>				
Hong	Kao	Investment Corporation	<u>\$46,320</u>	<u>\$28,329</u>
<b>Subsidiary Companies Name</b>			<b>Percentage of Ownership Interests and Voting Rights (%)</b>	
			<u>December 31, 2021</u>	<u>December 31, 2020</u>
Hong	Kao	Investment Corporation	100	100

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2021 and 2020 was based on the audited financial statements for the same years.

b. Investments in associates

		<u>December 31</u>	
		<u>2021</u>	<u>2020</u>
Material associates			
	Transglory Investment Corp. (TIC)	\$ 3,829,875	\$ 2,669,716
Associates that are not individually material		<u>212,903</u>	<u>-</u>
		<u>\$ 4,042,778</u>	<u>\$ 2,669,716</u>

1) Material associates

Name of Associate	Nature of Activities	Principal Place of Business	<b>Proportion of Ownership and Voting Rights (%)</b>	
			<u>December 31</u>	<u>December 31</u>
			<u>2021</u>	<u>2020</u>
TIC	General investment	Taiwan	40.91	40.91

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2021 and 2020 was based on the audited financial statements for the same years.

The summarized financial information below represents amounts shown in the associates' standalone financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

TIC

		<u>December 31</u>	
		<u>2021</u>	<u>2020</u>
Current assets		\$ 1,052	\$ 2,470
Non-current assets		9,470,285	6,598,420
Current liabilities		<u>(110,059)</u>	<u>(75,063)</u>
Equity		<u>\$ 9,361,278</u>	<u>\$ 6,525,827</u>
Proportion of the Corporation's ownership (%)		40.91	40.91

(Continued)

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Equity attributable to the Corporation	<u>\$ 3,829,875</u>	<u>\$ 2,669,716</u>
Carrying amount	<u>\$ 3,829,875</u>	<u>\$ 2,669,716</u> (Concluded)
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Operating revenue	<u>\$ 79,856</u>	<u>\$ 134,062</u>
Net profit for the year	69,510	120,233
Other comprehensive income	<u>2,874,151</u>	<u>230,522</u>
Total comprehensive income for the year	<u>\$ 2,943,661</u>	<u>\$ 350,755</u>
Comprehensive income attributable to the Corporation	<u>\$ 1,204,430</u>	<u>\$ 143,494</u>

2) Information about associates that are not individually material was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
The Corporation's subsidiaries' share of		
Net profit for the year	\$ 3,448	\$ -
Other comprehensive income	<u>9,455</u>	<u>-</u>
Total comprehensive income	<u>\$ 12,903</u>	<u>\$ -</u>

The Corporation held more than 20% of the shares with its parent company CSC and fellow subsidiaries and accounted for using the equity method.

Refer to Table 5 "Information on Investees" for the nature of main business, principal place of business and countries of incorporation of associates that are not individually material.

## 14. PROPERTY, PLANT AND EQUIPMENT

### For the year ended December 31, 2021

	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Spare Parts</b>	<b>Construction in Progress and Equipment to be Inspected</b>	<b>Total</b>
<u>Cost</u>							
Balance at January 1, 2021	\$ 3,988,983	\$ 5,001,703	\$ 22,862,804	\$ 4,483,434	\$ 1,291,199	\$ 125,357	\$ 37,753,480
Additions	-	10,378	210,281	57,033	166,262	(58,286)	385,668
Disposals	-	-	(6,257)	(9,908)	(126,691)	-	(142,856)
Balance at December 31, 2021	<u>\$ 3,988,983</u>	<u>\$ 5,012,081</u>	<u>\$ 23,066,828</u>	<u>\$ 4,530,559</u>	<u>\$ 1,330,770</u>	<u>\$ 67,071</u>	<u>\$ 37,996,292</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2021	\$ -	\$ 2,008,941	\$ 19,637,206	\$ 4,050,064	\$ 894,626	\$ -	\$ 26,590,837
Depreciation expense	-	132,758	346,556	98,414	159,634	-	737,362
Disposals	-	-	(6,257)	(9,908)	(126,691)	-	(142,856)
Impairment loss	-	-	646,025	-	-	-	646,025
Balance at December 31, 2021	<u>\$ -</u>	<u>\$ 2,141,699</u>	<u>\$ 20,623,530</u>	<u>\$ 4,138,570</u>	<u>\$ 927,569</u>	<u>\$ -</u>	<u>\$ 27,831,368</u>
Carrying amount at December 31, 2021	<u>\$ 3,988,983</u>	<u>\$ 2,870,382</u>	<u>\$ 2,443,298</u>	<u>\$ 391,989</u>	<u>\$ 403,201</u>	<u>\$ 67,071</u>	<u>\$ 10,164,924</u>

For the year ended December 31, 2020

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 3,988,983	\$ 4,993,389	\$ 22,734,037	\$ 4,419,879	\$ 1,428,295	\$ 116,329	\$ 37,680,912
Additions	-	8,314	139,625	76,676	108,284	9,028	341,927
Disposals	-	-	(10,858)	(13,121)	(245,380)	-	(269,359)
Balance at December 31, 2020	<u>\$ 3,988,983</u>	<u>\$ 5,001,703</u>	<u>\$ 22,862,804</u>	<u>\$ 4,483,434</u>	<u>\$ 1,291,199</u>	<u>\$ 125,357</u>	<u>\$ 37,753,480</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2020	\$ -	\$ 1,877,331	\$ 18,539,349	\$ 3,938,749	\$ 773,196	\$ -	\$ 25,128,625
Depreciation expense	-	131,610	676,183	124,436	213,654	-	1,145,883
Disposals	-	-	(1,487)	(13,121)	(245,380)	-	(259,988)
Impairment loss	-	-	423,161	-	153,156	-	576,317
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 2,008,941</u>	<u>\$ 19,637,206</u>	<u>\$ 4,050,064</u>	<u>\$ 894,626</u>	<u>\$ -</u>	<u>\$ 26,590,837</u>
Carrying amount at December 31, 2020	<u>\$ 3,988,983</u>	<u>\$ 2,992,762</u>	<u>\$ 3,225,598</u>	<u>\$ 433,370</u>	<u>\$ 396,573</u>	<u>\$ 125,357</u>	<u>\$ 11,162,643</u>

Depreciation of the rollers is calculated based on their level of wear; depreciation of other assets is recognized based on the following useful lives:

Buildings	
Facility	5-50 years
Main structure	31-60 years
Machinery and equipment	
Power equipment	3-30 years
High-temperature equipment	5-18 years
Other equipment	
Computer equipment	3-10 years
Office, air condition and extinguishment equipment	3-20 years
Transportation equipment	5-16 years
Others	3-18 years
Tank	10 years

The Corporation bought farmlands for warehouse at the Jia Xing Section and Quing Shui Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit the Corporation from registering the title of these farmlands in the Corporation's name; thus, the registration was made in the name of an individual person. The individual person consented to fully cooperate with the Corporation in changing the land title in the future and pledged the land to the Corporation as collateral. As of December 31, 2020 and 2019, the carrying amount of those remaining farmlands recognized as land were both NT\$55,433 thousand.

The continuous cold rolling line, continuous pickling galvanizing line, quenching and tempering rolling line and rolling work roll of the Corporation's acid plating plant are evaluated to have no future recoverable amount by the management. An impairment loss of NT\$576,317 thousand was recognized under operating costs.

Based on the market conditions and the evaluated capacity, the Corporation assessed that the recoverable amount of a portion of the plant and equipment in the steel pipe plant was estimated to be less than its carrying amount; therefore, recognized an impairment loss of NT\$646,025 thousand was recognized under operating costs for the year ended December 31, 2021. The Corporation performs evaluation of impairment by reviewing the recoverable amounts based on value in use. In assessing value in use, the estimated future cash flow is discounted to its present value using annual discount rate at 7.19%.

## 15. LEASE ARRANGEMENTS

### a. Right-of-use assets

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Carrying amount</u>		
Land	\$ 55,852	\$ 68,233
Transportation equipment	<u>7,068</u>	<u>10,097</u>
	<u>\$ 62,920</u>	<u>\$ 78,330</u>
	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Additions to right-of-use assets	<u>\$ 69</u>	<u>\$ 22,143</u>
Depreciation charge for right-of-use assets		
Land	\$ 12,450	\$ 12,446
Transportation equipment	<u>3,029</u>	<u>3,029</u>
	<u>\$ 15,479</u>	<u>\$ 15,475</u>

Except for the addition and recognition of depreciation expenses listed above, the Corporation's right-of-use assets did not undergo significant sub-lease and impairment for the year ended December 31, 2021 and 2020.

### b. Lease liabilities

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Carrying amount</u>		
Current	<u>\$ 15,408</u>	<u>\$ 15,230</u>
Non-current	<u>\$ 48,519</u>	<u>\$ 63,898</u>

Range of discount rates for lease liabilities was as follows:

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Land (%)	0.65-1.31	0.85-1.31
Transportation equipment (%)	0.76	0.76

### c. Material lease activities and terms

The Corporation leases several pieces of land to store steel products, with the lease terms of 3 to 10 years. The Corporation does not have bargain purchase options to acquire the leasehold land at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 16.

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Expenses relating to short-term leases	<u>\$ 12,728</u>	<u>\$ 21,525</u>
Expenses relating to low-value asset leases	<u>\$ 1,353</u>	<u>\$ 1,890</u>
Total cash outflow for leases	<u>(\$ 30,167)</u>	<u>(\$ 39,533)</u>

For transportation equipment which qualified as short-term leases and several other equipment which qualified as low-value asset leases, the Corporation has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these leases.

16. INVESTMENT PROPERTIES

For the year ended December 31, 2021

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2021 and December 31, 2021	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2021	\$ -	\$ 16,956	\$ 16,956
Depreciation expense	<u>-</u>	<u>888</u>	<u>888</u>
Balance at December 31, 2021	<u>\$ -</u>	<u>\$ 17,844</u>	<u>\$ 17,844</u>
Carrying amount at December 31, 2021	<u>\$ 5,959,074</u>	<u>\$ 23,223</u>	<u>\$ 5,982,297</u>

For the year ended December 31, 2020

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2020 and December 31, 2020	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2020	\$ -	\$ 16,068	\$ 16,068
Depreciation expense	<u>-</u>	<u>888</u>	<u>888</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 16,956</u>	<u>\$ 16,956</u>
Carrying amount at December 31, 2021	<u>\$ 5,959,074</u>	<u>\$ 24,111</u>	<u>\$ 5,983,185</u>

The Corporation as lessor leased land in Longdong section in Kaohsiung on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The amounts of rental revenue for the years ended December 31, 2021 and 2020 were NT\$83,446 thousand and NT\$81,889 thousand, respectively, and were included in other income. As of December 31, 2021 and 2020, the Corporation received the same margin of NT\$35,000 thousand based on the lease contract.

As of December 31, 2021 and 2020, notes receivable and advance rental were as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Notes receivable	\$ 51,598	\$ 50,587
Less: Advance rental	<u>51,598</u>	<u>50,587</u>
	<u>\$ -</u>	<u>\$ -</u>

The future rentals to be received under operating leases for the leasing out of investment properties are as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
1st year	\$ 94,793	\$ 87,569
2nd year	86,618	84,956
3rd year	88,232	86,618
4th year	89,996	88,232
5th year	91,796	89,996
Later than 5 years	<u>453,028</u>	<u>544,824</u>
	<u>\$ 904,463</u>	<u>\$ 982,195</u>

The above buildings of investment properties are depreciated on a straight-line basis over 31-55 years useful lives.

The fair value of the investment properties was arrived at on the basis of valuations carried out in November 2019 and December 2021 by real estate appraiser and on the basis of information at the Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated using Level 3 inputs under market approach, cost approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Fair value	<u>\$ 13,667,266</u>	<u>\$ 9,996,358</u>
Expense rate (%)	27.52	25.14
Depreciation rate (%)	1.90-2.57	1.90-2.57

All investment properties are owned by the Corporation and had not been pledged to secure borrowings.

## 17. BORROWINGS

### a. Short-term borrowings and bank overdrafts

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Unsecured loans	\$ 2,700,000	\$ 200,000
Bank overdrafts (Note 31)	666,391	154,630
Letters of credit	<u>1,195,861</u>	<u>50,000</u>
	<u>\$ 4,562,252</u>	<u>\$ 404,630</u>
Interest rate (%)	0.21-0.75	0.32-0.75

### b. Short-term bills payable

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Short-term bills payable	\$ 1,000,000	\$ 3,600,000
	<u>359</u>	<u>423</u>
Less: Unamortized discounts	<u>\$ 999,641</u>	<u>\$ 3,599,577</u>
Interest rate (%)	0.56	0.35-0.36

As of December 31, 2021 and 2020, all short-term bills payable were non-guarantee commercial paper.

### c. Long-term borrowings

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Credit bank loans		
Due on various dates through December 2024	<u>\$ 1,200,000</u>	<u>\$ 2,000,000</u>
Interest rate (%)	0.79	0.75-0.92

### d. Long-term bills payable

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Long-term bills payable	\$ 240,000	\$ 1,110,000
Less: Unamortized discount	<u>208</u>	<u>326</u>
	<u>\$ 239,792</u>	<u>\$ 1,109,674</u>
Interest rate (%)	0.62	0.73-0.91

Long-term bills payable have revolving credit lines within the payment terms according to the contracts, and need to be utilized to some extent. As of December 31, 2021 and 2020, all long-term bills payable were non-guarantee commercial paper.

## 18. BONDS PAYABLE

	<u>December 31</u>	
	2021	2020
Unsecured domestic bonds	\$ 3,000,000	\$ 3,000,000
Less: Issuance cost of bonds payable	<u>3,826</u>	<u>4,961</u>
	<u>\$ 2,996,174</u>	<u>\$ 2,995,039</u>

The major terms of unsecured domestic bonds are as follow:

Issuer	Issuance Period	Total Amount	Coupon Rate (%)	Repayment and Interest Payment
The Corporation	5 years; expired in March 2025	\$ 2,000,000	0.78	Repayable in March 2025; interest payable annually.
The Corporation	5 years; expired in September 2025	1,000,000	0.65	Repayable in September 2025; interest payable annually.

## 19. ACCOUNTS PAYABLE

	<u>December 31</u>	
	2021	2020
<u>Accounts payable</u>		
Operating – non-related parties	<u>\$ 1,360,732</u>	<u>\$ 27,500</u>
Operating - related parties	<u>\$ 469,577</u>	<u>\$ 313,224</u>

The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 20. OTHER PAYABLES

	<u>December 31</u>	
	2021	2020
Salaries and incentive bonus	\$ 487,058	\$ 289,532
Compensation of employees and remuneration and transportation allowances of directors	371,146	36,320
Export fees	57,829	26,007
Utilities	55,505	59,229
Outsourced repair and construction	32,317	34,572
Freight	31,401	27,497
Processing fee	8,935	23,367
Others	<u>130,247</u>	<u>83,591</u>
	<u>\$ 1,174,438</u>	<u>\$ 580,115</u>

## 21. PROVISIONS-CURRENT

	<u>December 31</u>	
	2021	2020
Onerous contracts	\$ <u>206,850</u>	\$ <u>-</u>

	<u>December 31</u>	
	2021	2020
Balance at beginning of the year	\$ -	\$ -
Recognized	<u>206,850</u>	<u>-</u>
Balance at end of the year	\$ <u>206,850</u>	\$ <u>-</u>

The provision for onerous contracts represents the present value of the future payments that the Corporation was presently obligated to make under non-cancellable onerous purchase contracts, less revenue expected to be earned on the contracts

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

### b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Act, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation makes contributions, equal to a portion of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Corporation has no right to influence the investment policy and strategy.

The amounts included in the standalone balance sheets in respect of the Corporation's defined benefit plans were as follows:

	<u>December 31</u>	
	2021	2020
Present value of defined benefit obligation	\$ 1,601,663	\$ 1,475,529
Fair value of plan assets	<u>(1,213,886)</u>	<u>(1,161,812)</u>
Net defined benefit liabilities	\$ <u>387,777</u>	\$ <u>313,717</u>

Movements of net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2021	\$ 1,475,529	\$ (1,161,812)	\$ 313,717
Service cost			
Current service cost	18,626	-	18,626
Interest expense (income)	<u>7,372</u>	<u>(6,001)</u>	<u>1,371</u>
Recognized in profit or loss	<u>25,998</u>	<u>(6,001)</u>	<u>19,997</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(14,600)	(14,600)
Actuarial loss - changes in demographic assumptions	33,010	-	33,010
Actuarial loss - changes in financial assumptions	52,523	-	52,523
Actuarial loss - experience adjustments	<u>86,284</u>	<u>-</u>	<u>86,284</u>
Recognized in other comprehensive income	<u>171,817</u>	<u>(14,600)</u>	<u>157,217</u>
Contributions from the employer	<u>-</u>	<u>(95,550)</u>	<u>(95,550)</u>
Benefits paid	<u>(71,681)</u>	<u>64,077</u>	<u>(7,604)</u>
Balance at December 31, 2021	<u>\$ 1,601,663</u>	<u>\$ (1,213,886)</u>	<u>\$ 387,777</u>
Balance at January 1, 2020	<u>\$ 1,475,725</u>	<u>\$ (1,101,865)</u>	<u>\$ 373,860</u>
Service cost			
Current service cost	20,114	-	20,114
Interest expense (income)	<u>10,971</u>	<u>(8,473)</u>	<u>2,498</u>
Recognized in profit or loss	<u>31,085</u>	<u>(8,473)</u>	<u>22,612</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(35,652)	(35,652)
Actuarial loss - changes in demographic assumptions	2,834	-	2,834
Actuarial loss - changes in financial assumptions	34,948	-	34,948
Actuarial gain - experience adjustments	<u>(14,508)</u>	<u>-</u>	<u>(14,508)</u>
Recognized in other comprehensive income	<u>23,274</u>	<u>(35,652)</u>	<u>(12,378)</u>
Contributions from the employer	<u>\$ -</u>	<u>\$ (67,584)</u>	<u>\$ (67,584)</u>
Benefits paid	<u>(54,555)</u>	<u>51,762</u>	<u>(2,793)</u>
Balance at December 31, 2020	<u>\$ 1,475,529</u>	<u>\$ (1,161,812)</u>	<u>\$ 313,717</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Operating costs	\$ 16,845	\$ 19,066
Operating expenses	<u>3,152</u>	<u>3,546</u>
	<u>\$ 19,997</u>	<u>\$ 22,612</u>

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

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Discount rate (%)	0.5	0.5
Expected rate of salary increase (%)	2.5	2.125
Turnover rate (%)	0-4.5	0-4.5

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Discount rate		
0.25% increase	\$ (36,735)	\$ (34,960)
0.25% decrease	<u>\$ 37,995</u>	<u>\$ 36,197</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 36,597</u>	<u>\$ 34,984</u>
0.25% decrease	<u>\$ (35,578)</u>	<u>\$ (33,972)</u>

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

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
The expected contributions to the plan for the next year	<u>\$ 139,466</u>	<u>\$ 79,110</u>
The average duration of the defined benefit obligation	9.4 years	9.7 years

## 23. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<u>\$ 20,431,600</u>	<u>\$ 20,431,600</u>
Numbers of shares issued and fully paid (in thousands)	<u>1,435,544</u>	<u>1,435,544</u>
Shares issued	<u>\$ 14,355,444</u>	<u>\$ 14,355,444</u>

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 thousand shares upon obtaining the approval in the shareholders' meeting. The number of authorized shares approved by the Department of Commerce, Ministry of Economic Affairs is 2,043,160 thousand shares.

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and the right to dividends.

### b. Capital surplus

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Additional paid-in capital	<u>\$ 903</u>	<u>\$ 903</u>

In 2009, CSC had transferred its treasury shares to its employees and subsidiaries. The Corporation recognized a compensation cost and capital surplus of NT\$743 thousand. In July 2011, CSC issued ordinary shares for cash capital. Under the Company Law, CSC should reserve 10% of the shares for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost and capital surplus.

Such capital surplus may be used only to offset deficit.

### c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that 10% of the annual net income less any deficit should be appropriated as a legal reserve; a certain percentage should be appropriated as special reserve; the remainder may be declared as dividends or retained as proposed by the Corporation's board of directors and approved in the shareholders' meetings.

In June 2020, the shareholders in the shareholders' meeting resolved and approved to allocate no less than 30% of the distributable surplus every year to distribute dividends. However, if the cumulative distributable surplus is less than 3% of the paid-in capital, it may not be distributed.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in shares at

an appropriate ratio, with cash dividends to be at least 50% of total dividends.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2020 and 2019 were approved by the shareholders in the shareholders' meeting in August 2021 and June 2020, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividend Per Share (NT\$)</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Legal reserve	\$ 54,064	\$ 118		
Special reserve (reversal)	(123,739)	51,971		
Cash dividends	430,663	-	\$ 0.3	\$ -

The appropriations of earnings for 2021 had been proposed by the Corporation's board of directors on February 2022 as follows:

	<b>Appropriations of Earnings</b>	<b>Dividend Per Share (NT\$)</b>
Legal reserve	\$ 620,174	
Reversal of special reserve	(425,839)	
Cash dividends	4,019,524	\$ 2.8

The appropriations of earnings for 2021 are subject to the resolution of the shareholders' meeting to be held in June 2022.

Information about the appropriation of earnings and offsetting deficit, proposed by the shareholders' meetings and the Corporation's board of directors, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Exchange differences on translating foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of the year	\$ -	\$ -
Recognized during the year		
Share from associates accounted for using the equity method	<u>(142)</u>	<u>-</u>
Balance at end of the year	<u>\$ (142)</u>	<u>\$ -</u>

e. Unrealized gains and losses on financial assets at fair value through other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of the year	\$ (425,839)	\$ (549,578)
Recognized during the period		
Unrealized gains and losses - equity instruments	369,653	28,579
Share from associates accounted for using the equity method	<u>1,196,082</u>	<u>95,160</u>
Other comprehensive income recognized in the year	<u>1,565,735</u>	<u>123,739</u>
Cumulative unrealized gain or loss of equity instruments transferred to retained earnings due to disposal	<u>(8,543)</u>	<u>-</u>
Balance at end of the year	<u>\$ 1,131,353</u>	<u>\$ (425,839)</u>

## 24. OPERATING REVENUE

a. Contract balances

	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>January 1, 2020</b>
Accounts receivable	<u>\$ 977,933</u>	<u>\$ 947,325</u>	<u>\$ 511,750</u>
Contract liabilities - current			
Sale of goods	<u>\$ 95,155</u>	<u>\$ 57,283</u>	<u>\$ 285,052</u>

b. Disaggregation of revenue

Refer to Statement 16.

## 25. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Rental income	\$ 86,876	\$ 85,229
Grant income	24,207	94,705
Dividend income	10,383	31,821
Indemnity income	-	4,108
Others	<u>9,997</u>	<u>8,887</u>
	<u>\$ 131,463</u>	<u>\$ 224,750</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Gain on financial assets at fair value through profit or loss	\$ 318,331	\$ 78,903
Loss on disposal of property, plant and equipment	-	(9,371)
Service charge	(7,554)	(11,796)
Net foreign exchange gain (loss)	64,415	(51,578)
Other losses	<u>(4,254)</u>	<u>(4,670)</u>
	<u>\$ 370,938</u>	<u>\$ 1,488</u>

The components of net foreign exchange gain (loss) were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Foreign exchange gain	\$ 128,405	\$ 42,675
Foreign exchange loss	<u>(63,990)</u>	<u>(94,253)</u>
Net exchange gain (loss)	<u>\$ 64,415</u>	<u>\$ (51,578)</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Interest on bank overdrafts and loans	\$ 45,534	\$ 73,637
Interest on loans from related parties (Note 30)	-	12,990
Interest on lease liabilities	<u>854</u>	<u>1,044</u>
Total interest expense financial liabilities measured at amortized cost	46,388	87,671
Less: Amounts included in the cost of qualifying assets	<u>673</u>	<u>1,452</u>
	<u>\$ 45,715</u>	<u>\$ 86,219</u>

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Capitalized amounts	\$ 673	\$ 1,452
Capitalized annual rates (%)	0.56-0.72	0.62-0.83

d. Depreciation

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Property, plant and equipment	\$ 737,362	\$ 1,145,883
Investment properties	888	888
Right-of-use assets	<u>15,479</u>	<u>15,475</u>
	<u>\$ 753,729</u>	<u>\$ 1,162,246</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Analysis of depreciation by function		
Operating costs	\$ 745,529	\$ 1,089,347
Operating expenses	7,312	72,011
Deduction of other income	<u>888</u>	<u>888</u>
	<u>\$ 753,729</u>	<u>\$ 1,162,246</u>
		(Concluded)

e. Operating expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Direct operating expenses of investment properties that generated rental income	\$ 11,401	\$ 11,387
Direct operating expenses of investment properties that did not generate rental income	<u>7,265</u>	<u>7,265</u>
	<u>\$ 18,666</u>	<u>\$ 18,652</u>

f. Employee benefits

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Short-term employee benefits		
Salaries	\$ 1,850,603	\$ 1,065,802
Labor and health insurance	98,075	86,243
Others	<u>214,994</u>	<u>123,232</u>
	<u>2,163,672</u>	<u>1,275,277</u>
Post-employment benefits		
Defined contribution plans	26,275	25,930
Defined benefit plans (Note 22)	<u>19,997</u>	<u>22,612</u>
	<u>46,272</u>	<u>48,542</u>
	<u>\$ 2,209,944</u>	<u>\$ 1,323,819</u>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,785,946	\$ 1,093,410
Operating expenses	<u>423,998</u>	<u>230,409</u>
	<u>\$ 2,209,944</u>	<u>\$ 1,323,819</u>

g. Compensation of employees and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes compensation of employees and remuneration of directors at rates of no less than 1% and no higher than 1%, respectively, of net profit before income tax less any deficit, compensation of employees, and remuneration of directors.

The compensation of employees and remuneration of directors for the years ended December 31, 2021 and 2020, which were approved by the Corporation's board of directors in February 2022 and February 2021, respectively, were as follows:

Amount

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Compensation of employees	\$ 307,804	\$ 29,897
Remuneration of directors	61,561	5,638

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Compensation of employees (%)	4.17	5.30
Remuneration of directors (%)	0.83	1.00

If there is a change in the proposed amounts after the annual standalone financial statements are authorized for issue, the difference is recorded as a change in accounting estimate and recognized in the next year.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the standalone financial statements for the year ended December 31, 2020 and 2019.

Information on compensation of employees and remuneration of directors resolved by the Corporation's board of directors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 26. INCOME TAX

### a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Current tax		
In respect of the current year	\$656,304	\$ -
In respect of prior years	<u>4,537</u>	<u>-</u>
	<u>\$660,841</u>	<u>\$ -</u>

The reconciliation of accounting profit and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Profit before income tax	<u>\$ 7,011,252</u>	<u>\$ 528,260</u>
Income tax expense at the statutory rate	\$ 1,402,250	\$ 105,652

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Permanent differences		
Profit on investments under equity method	(7,918)	(9,898)
Others	(64,523)	(34,379)
Unrecognized deductible temporary differences	121,919	31,128
Loss carryforwards	(795,424)	(92,380)
Investment deduction	-	(123)
In respect of the prior years	<u>4,537</u>	<u>-</u>
	<u>\$ 660,841</u>	<u>\$ -</u>

(Concluded)

b. No income tax was recognized in equity or other comprehensive loss.

c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Current tax assets		
Tax refund receivable	<u>\$ -</u>	<u>\$ 202</u>
Current tax liabilities		
Income tax payable	<u>\$ 652,941</u>	<u>\$ -</u>

d. Deferred tax liabilities

The movements of deferred tax liabilities were as follows:

For the year ended December 31, 2021

	<b>Balance at Beginning of the Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance at End of the Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	<u>\$ (182,222)</u>	<u>\$ -</u>	<u>\$ (182,222)</u>

For the year ended December 31, 2020

	<b>Balance at Beginning of the Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance at End of the Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	<u>\$ (182,222)</u>	<u>\$ -</u>	<u>\$ (182,222)</u>

e. Items for which no deferred tax assets have been recognized

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Loss carryforwards		
2022 maturity	\$ -	\$ 995,450
2023 maturity	-	187,880
2025 maturity	-	2,655,245
2029 maturity	-	106,994
	<u>-</u>	<u>106,994</u>
	<u>\$ -</u>	<u>\$ 3,945,569</u>
Investment credits (tax)		
Investment cost	\$ -	\$ 93
	<u>-</u>	<u>93</u>
Deductible temporary differences		
Impairment loss on assets	\$ 1,024,967	\$ 563,483
Net defined benefit liabilities	387,777	313,717
Amortization of deferred credits	344,401	399,479
Purchase contract loss	206,850	-
Sales discount payable	200,042	144,862
Provision for inventory loss	128,663	123,804
Others	122,891	103,533
	<u>1,024,967</u>	<u>1,648,878</u>
	<u>\$ 2,415,591</u>	<u>\$ 1,648,878</u>

f. Income tax assessments

The Corporation's income tax returns through 2019 have been assessed by the tax authorities.

## 27. EARNINGS PER SHARE

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Basic earnings per share	<u>\$ 4.42</u>	<u>\$ 0.37</u>
Diluted earnings per share	<u>\$ 4.40</u>	<u>\$ 0.37</u>

The net profit and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net profit for the year

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Attributable to owners of the Corporation	<u>\$ 6,350,411</u>	<u>\$ 528,260</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544
Effect of dilutive potential ordinary shares: Compensation of Employees'	<u>7,737</u>	<u>1,898</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,443,281</u>	<u>1,437,442</u>

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

## 28. CAPITAL MANAGEMENT

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue their operations while maximizing the return to shareholders through the optimization of the debt and equity balance.

## 29. FINANCIAL INSTRUMENTS

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

Management of the Corporation considers the carrying amount of financial assets and liabilities not carried at fair value approximates fair value.

### b. Fair value of financial instruments that are measured at fair value on a recurring basis.

#### 1) Fair value hierarchy

<u>December 31, 2021</u>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at FVTOCI				
Domestic listed shares	\$ 1,170,412	\$ -	\$ -	\$ 1,170,412
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>62,040</u>	<u>62,040</u>
	<u>\$ 1,170,412</u>	<u>\$ -</u>	<u>\$ 62,040</u>	<u>\$ 1,232,452</u>

(Continued)

	Level 1	Level 2	Level 3	Total
<u>December 31, 2020</u>				
Financial assets at FVTPL				
Emerging market shares	\$ <u>-</u>	\$ <u>-</u>	\$ <u>242,410</u>	\$ <u>242,410</u>
Financial assets at FVTOCI				
Domestic listed shares	\$ 819,454	\$ -	\$ -	\$ 819,454
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>43,345</u>	<u>43,345</u>
	<u>\$ 819,454</u>	<u>\$ -</u>	<u>\$ 43,345</u>	<u>\$ 862,799</u> (Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2021 and 2020.

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

	Financial Assets at FVTPL - Equity Instruments	Financial Assets at FVTOCI - Equity Instruments	Total
<u>For the year ended December 31, 2021</u>			
Balance at beginning of the year	\$ 242,410	\$ 43,345	\$ 285,755
Total profit or loss			
Recognized in profit or loss	318,331	-	318,331
Recognized in other comprehensive income	-	18,695	18,695
Disposal	<u>(560,741)</u>	<u>-</u>	<u>(560,741)</u>
Balance at end of the year	<u>\$ -</u>	<u>\$ 62,040</u>	<u>\$ 62,040</u>
<u>For the year ended December 31, 2020</u>			
Balance at beginning of the year	\$ 181,351	\$ 44,843	\$ 226,194
Total profit or loss			
Recognized in profit or loss	78,903	-	78,903
Recognized in other comprehensive income	-	436	436
Disposal	(17,844)	-	(17,844)
Capital reduction refunded	<u>-</u>	<u>(1,934)</u>	<u>(1,934)</u>
Balance at end of the year	<u>\$ 242,410</u>	<u>\$ 43,345</u>	<u>\$ 285,755</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 75,482</u>	<u>\$ -</u>	<u>\$ 75,482</u>

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

- a) The fair value of emerging shares was based on the closing price adjusted for liquidity risk premium.

b) The fair value of unlisted shares was based on the current net value.

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Financial assets</b>		
Fair value through profit or loss		
Mandatorily at fair value through profit or loss	\$ -	\$ 242,410
Measured at amortized cost (see 1 below)	2,711,107	1,585,288
Financial assets at fair value through other comprehensive income		
Equity instruments	1,232,452	862,799
<b>Financial liabilities</b>		
Measured at amortized cost (see 2 below)	13,302,653	11,218,515

- 1) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties and excluding tax refund receivable), other financial assets and refundable deposits.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables, refund liabilities, bonds payable, long-term borrowings, long-term bills payable, and guarantee deposits received.

d. Financial risk management objectives and policies

The Corporation's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, long-term borrowings (including current portion of long-term bank borrowings), long-term bills payable and lease liabilities. The Corporation's financial department coordinates domestic and international financial operations, prepares and analyzes internal risk reports to monitor and manage financial risks related to the operation of the Corporation. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), the risk of changes in interest rates (see (b) below) and the risk of other price (see (c) below).

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

a) Foreign currency risk

The Corporation was exposed to foreign currency risk due to sales and purchases, denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing the same currency for accounts receivable and payable to alleviate foreign currency risk and risk to manage futures.

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Corporation was mainly exposed to the fluctuation of USD. The following table details the Corporation's sensitivity to a 1% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis included only the outstanding foreign currency denominated monetary items, refer to Note 33. The following table shows the impact on profit of 1% decrease in NTD against USD.

	<b>USD Impact (Note)</b>	
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Profit before income tax	(\$11,834)	\$ 5,290

Note: This was mainly attributable to the exposure of outstanding USD cash, accounts receivable, short-term borrowings, accounts payable and other payables, which were not hedged at the balance sheet date.

b) Interest rate risk

The Corporation was exposed to interest rate risk because the Corporation borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Corporation's financial assets and liabilities with exposure to interest rates at the balance sheet date were as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Fair value interest rate risk		
Financial liabilities	\$ 3,060,101	\$ 3,074,167
Cash flow interest rate risk		
Financial assets	\$ 1,430,632	\$ 565,544
Financial liabilities	1,439,792	3,109,674

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2021 and 2020 would have been lower/higher by NT\$23 thousand and NT\$6,360 thousand, respectively.

c) Other price risk

The Corporation was exposed to equity price risk through their investments in domestic listed shares.

The equity price of the Corporation was evaluated by the closing price of the equity securities on a monthly basis.

Sensitivity analysis

If equity price of fair value through other comprehensive income financial assets had been lower by one dollar, the pre-tax-other comprehensive income, for the years ended December 31, 2021 and 2020 would both have been lower by NT\$33,109 thousand.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. As at the balance sheet date, the Corporation's maximum exposure to credit risk is the carrying amount of the financial assets on the standalone balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Corporation.

The Corporation made transactions only with the parties with good credit. The goods were delivered after the cash or L/C was received, and the Corporation did not provide financial guarantee to any company. Accounts receivable were due to time differences of L/C negotiation and there were no bad debt in the recent years; therefore, the credit risk is very low.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. The Corporation relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2021, the unutilized credit facility of the Corporation was NT\$44.5 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

The table below summarizes the maturity profile of the Corporation's financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	1-5 Years	Over 5 Years	Total
<u>December 31, 2021</u>				
Short-term borrowings	\$ 4,584,062	\$ -	\$ -	\$ 4,584,062
Short-term bills payable	1,000,000	-	-	1,000,000
Accounts payable (including related parties)	1,830,309	-	-	1,830,309
Other payables	1,174,438	-	-	1,174,438
Refund liabilities	265,047	-	-	265,047
Lease liabilities	16,086	35,783	14,364	66,233
Bonds payable	22,100	3,066,300	-	3,088,400
Long-term bank borrowings	9,480	1,215,258	-	1,224,738
Long-term bills payable	-	240,000	-	240,000
Guarantee deposits received	-	-	35,000	35,000
	<u>\$ 8,901,522</u>	<u>\$ 4,557,341</u>	<u>\$ 49,364</u>	<u>\$ 13,508,227</u>

(Continued)

December 31, 2020	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Short-term borrowings	\$ 406,794	\$ -	\$ -	\$ 406,794
Short-term bills payable	3,600,000	-	-	3,600,000
Accounts payable (including related parties)	340,724	-	-	340,724
Other payables	580,115	-	-	580,115
Refund liabilities	153,756	-	-	153,756
Lease liabilities	16,086	45,564	20,646	82,296
Bonds payable	22,100	3,088,400	-	3,110,500
Long-term bank borrowings	16,500	2,034,430	-	2,050,930
Long-term bills payable	-	1,110,000	-	1,110,000
Guarantee deposits received	-	-	35,000	35,000
	<u>\$ 5,136,075</u>	<u>\$ 6,278,394</u>	<u>\$ 55,646</u>	<u>\$ 11,470,115</u> (Concluded)

### 30. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Corporation and other related parties are disclosed below.

- a. The name of the company and its relationship with the Corporation

Company	Relationship
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiary
CHC Resources Corporation (CHC)	Fellow subsidiary
Info Champ Systems Corporation (ICSC)	Fellow subsidiary
CSC Steel Sdn. Bhd. (CSSB)	Fellow subsidiary
China Steel Global Trading Corporation (CSGT)	Fellow subsidiary
Himag Magnetic Corporation (HMC)	Fellow subsidiary
China Steel Machinery Corporation	Fellow subsidiary
China Ecotek Corporation	Fellow subsidiary
China Steel Security Corporation	Fellow subsidiary
Steel Castle Technology Corporation	Fellow subsidiary
China Steel Express Corporation	Fellow subsidiary
China Steel Structure Co., Ltd	Fellow subsidiary
Universal Exchange Inc.	Fellow subsidiary
China Steel Management Consulting Corp.	Fellow subsidiary
China Steel Chemical Corporation	Fellow subsidiary
Yu Cheng Lime Corporation	Fellow subsidiary
Wabo Global Trading Corporation	Fellow subsidiary
CSC Solar Corporation.	Fellow subsidiary
Kaohsiung Rapid Transit Corporation	Fellow subsidiary
Sing Da Marine Structure	Fellow subsidiary
CSGT Japan Co., Ltd.	Fellow subsidiary
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiary
CSE Transport Corporation	Fellow subsidiary
CSGT Metals Vietnam Joint Stock Company	Fellow subsidiary
Pacific Harbour Stevedoring Corporation	Other related party

b. Sale of goods

Account Items	Related Party Types /Name	For the Year Ended December 31	
		2021	2020
Sales	Fellow subsidiaries related to others	\$ 2,289,212	\$ 1,392,519
	Parent entity	<u>1,399</u>	<u>7,918</u>
		<u>\$ 2,290,611</u>	<u>\$ 1,400,437</u>
Service Revenue	Parent entity	\$ 564,537	\$ 319,010
	Fellow subsidiaries related to others	<u>38,137</u>	<u>18</u>
		<u>\$ 602,674</u>	<u>\$ 319,028</u>

The payment terms and prices of other related parties were no different from those of unrelated parties.

The abovementioned service revenue is from the agreements that the Corporation entered into with parent entity and fellow subsidiaries related to others in which the Corporation has to do certain processing work and charged based on the formula stated in the agreements. The Corporation bills the parent entity within one month after approval of delivery.

The Corporation entered into an agreement with fellow subsidiaries related to others under which the Corporation sells waste acid and the price is charged based on the formula stated in the agreement. The Corporation bills the fellow subsidiaries related to others within a month after acceptance by T/T based on the monthly amount of processing.

Account Items	Related Party Types /Name	For the Year Ended December 31	
		2021	2020
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 62,930	\$ 44,103
	HMC	14,448	9,179
	Others	<u>103</u>	<u>-</u>
		<u>\$ 77,481</u>	<u>\$ 53,282</u>

There is no significant profit or loss from the sale of the materials and oxidized iron powder of the Corporation to fellow subsidiaries.

c. Purchase of goods

Related Party Types/Name	For the Year Ended December 31	
	2021	2020
Parent entity	<u>\$ 8,085,884</u>	<u>\$ 17,341,242</u>
Fellow subsidiaries related to others		
DSC	16,347,526	9,479,326
CSGT	6,402,704	510,299
Others	<u>70,111</u>	<u>69,056</u>
	<u>22,820,341</u>	<u>10,058,681</u>
	<u>\$ 30,906,225</u>	<u>\$ 27,399,923</u>

The purchases were mainly slabs and hot rolling coils. Purchase from related parties were made under normal term in 2021. The purchase price and payment terms were incomparable in 2020 because the Corporation were not purchased from non-related parties

d. Accounts receivable from related parties

Account Items	Related Party Types /Name	December 31	
		2021	2020
Accounts receivable from related parties	Parent entity	\$ 33,745	\$ 52,905
	Fellow subsidiaries related to others		
	CSSB	-	53,331
	Others	13,610	11,002
		<u>13,610</u>	<u>64,333</u>
		<u>\$ 47,355</u>	<u>\$ 117,238</u>
Other receivable from related parties	Parent entity	\$ 170,204	\$ 886
	Fellow subsidiaries related to others		
	CHC	40,803	25,389
	Others	-	248
		<u>40,803</u>	<u>25,637</u>
		<u>\$ 211,007</u>	<u>\$ 26,523</u>

No guarantees have been received for accounts receivable and other receivable from related parties. No expenses have been recognized for the years ended December 31, 2021 and 2020 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

e. Accounts payable to related parties (excluding loans from related parties)

Account Items	Related Party Types /Name	December 31	
		2021	2020
Accounts payable to related parties	Parent entity	\$ 463,370	\$ 267,429
	Fellow subsidiaries related to others	1,554	41,816
	Other related parties	<u>4,653</u>	<u>3,979</u>
		<u>\$ 469,577</u>	<u>\$ 313,224</u>
Other payable to related parties	Parent entity	\$ 64,317	\$ 7,459
	Fellow subsidiaries related to others	16,737	9,187
	Other related parties	<u>3,807</u>	<u>3,023</u>
		<u>\$ 84,861</u>	<u>\$ 19,669</u>

The outstanding accounts payable to related parties and other payable to related parties were unsecured.

f. Loans from related parties

The Corporation borrowed money from the parent entity because of the need for short-term fund. The interest rate of the loan was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly. The amount has been fully paid as of December 31, 2020.

The loans from the parent entity were unsecured loans with interest expense of NT\$12,990 thousand for 2020.

g. Other transactions with related parties

1) Authorization fees

In May 2003, the parent company, Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel Corporation in April 2019) and Sumitomo Corporation entered into a joint venture agreement and established the joint venture company East Asia United Steel Corporation (EAUS) in July 2003. The parent company thus has a stable supply of high-quality slab through this joint venture. The parent company then signed a contract with the Corporation, transferring to the Corporation the right to buy slab from EAUS. The Corporation should pay authorization fees to the parent company under the contract. These fees (included in the purchase cost of materials) were NT\$67,640 thousand and NT\$86,665 thousand in 2021 and 2020, respectively. As of December 31, 2021 and 2020, authorization fees payable (included in payables to related parties) were NT\$13,104 thousand and NT\$15,697 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) Leases

- a) The Corporation entered into a contract with fellow subsidiaries related to others on the lease of the Corporation's part of the land, roof and warehouse. The rental revenue for the years ended December 31, 2021 and 2020 were NT\$3,995 thousand and NT\$4,011 thousand, respectively.
- b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land and warehouse. The rental revenue for the years ended December 31, 2021 and 2020 were both NT\$5,310 thousand.

3) Construction in progress and other expenditures

Other expenditures include import and export transportation fees, export agency fees, rent expenses, remuneration and transportation allowances of directors.

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
a) Other expenditures		
Parent entity	\$ 190,683	\$ 77,236
Fellow subsidiaries related to others	162,401	78,467
Other related parties	<u>136,611</u>	<u>133,514</u>
	<u>\$ 489,695</u>	<u>\$ 289,217</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
b) Capital expenditure		
Parent entity	\$ -	\$ 7,600
Fellow subsidiaries related to others		
ICSC	38,021	103,487
Others	<u>-</u>	<u>1,383</u>
	<u>38,021</u>	<u>104,870</u>
	<u>\$ 38,021</u>	<u>\$ 112,470</u>
		(Concluded)

4) Income from selling supplies and scrap (included in deductions of cost of goods sold)

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Fellow subsidiaries related to others		
CHC	\$ 479,895	\$ 269,902
Others	<u>3,018</u>	<u>16,094</u>
	<u>\$ 482,913</u>	<u>\$ 285,996</u>

h. Compensation of key management personnel

The remuneration to directors and other members of key management personnel were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Short-term employee benefits	\$ 108,073	\$ 43,149
Post-employment benefits	<u>1,410</u>	<u>2,179</u>
	<u>\$ 109,483</u>	<u>\$ 45,328</u>

### 31. ASSETS PLEDGED AS COLLATERAL OR SECURITY

The Corporation's assets mortgaged or pledged as collateral for Bank overdrafts were as follows (listed based on their carrying amounts):

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Time deposits (included in other financial assets - current)	\$ 700,000	\$ 300,000
Demand deposits (included in other financial assets - current)	<u>300,000</u>	<u>-</u>
	<u>\$ 1,000,000</u>	<u>\$ 300,000</u>

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2021 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$5,147,158 thousand.
- b. The Corporation had signed agreements to buy equipment for NT\$320,067 thousand, of which NT\$133,850 thousand had been paid (included in construction-in-progress and prepayments for equipment).
- c. The Corporation provided letters of credits for NT\$144,129 thousand guaranteed by financial institutions for several constructions, purchase agreements and import and export goods. Guarantee notes for NT\$33,074,575 thousand were provided to bank for credit line and purchases of raw material from CSC.

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

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currency (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2021</u>				
Monetary financial assets				
USD	\$ 27,573	27.68	(USD:NTD)	\$ 763,213
Monetary financial liabilities				
USD	70,327	27.68	(USD:NTD)	1,946,640
<u>December 31, 2020</u>				
Monetary financial assets				
USD	\$ 19,476	28.48	(USD:NTD)	\$ 554,666
Monetary financial liabilities				
USD	901	28.48	(USD:NTD)	25,659

For the years ended December 31, 2021 and 2020, realized and unrealized net foreign exchange gain or loss were gain of NT\$64,415 thousand and loss of NT\$51,578 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions.

### **34. SEPARATELY DISCLOSED ITEMS**

- a. Information about significant transactions and b. investees:
- 1) Financing provided to others (None)
  - 2) Endorsements/guarantees provided (None)
  - 3) Marketable securities held (excluding investments in subsidiaries and associates) (Table 1)
  - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (Table 2)
  - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
  - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
  - 9) Trading in derivative instruments (None)
  - 10) Information on investees (Table 5)
- c. Information on investments in mainland China (None)
- d. Major shareholders information (Table 6)

### **34. SEGMENT INFORMATION**

Disclosure of the segment information in standalone financial statements is waived.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**MARKETABLE SECURITIES HELD**

**DECEMBER 31, 2021**

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

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	DECEMBER 31, 2021				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Chung Hung Steel Corporation	Ordinary Shares Shouh Hwang Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current	730,000	\$ -	15	\$ -	Note 1
	Ordinary Shares China Steel Corporation	Parent company	Financial assets at fair value through other comprehensive income - current	33,109,239	\$ 1,170,412	-	\$ 1,170,412	
	Ordinary Shares Taiwan Ves-Power Co., Ltd.	-	Financial assets at fair value through other comprehensive income – non-current	958,333	\$ 55,114	2	\$ 55,114	2021.11.30 net value
	Risalink Venture Capital Corp.	-	Financial assets at fair value through other comprehensive income – non-current	3,948	391	3	391	2021.11.30 net value
	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income – non-current	250,000	6,535	5	6,535	2021.10.31 net value
					\$ 62,040		\$ 62,040	
Hung Kao Investment Corporation	Ordinary Shares China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income – non-current	1,003,980	\$ 35,490	-	\$ 35,490	

Note 1: The impairment loss has been recognized that resulted in zero carrying amount, and the entity was dissolved on January 3, 2022.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2021  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company	Type of Marketable Securities	Name of Marketable Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
						Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain/Loss on Disposal	Shares/Units	Amount
Chung Hung Steel Corporation	Ordinary shares	Yieh United Steel Corp.	Financial assets at fair value through profit or loss - current	-	-	36,728,800	\$242,410	-	\$ -	36,728,800	\$560,741	\$242,410	\$318,331	-	\$ -

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2021**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Relationship				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Chung Hung Steel Corporation	China Steel Corporation	Parent company	Purchase of goods	\$ 8,085,884	17	Letter of credit at sight/Payment after final acceptance	\$ -	NOT SIGNIFICANT DIFFERENCE	\$ (463,370 )	(25 )	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	16,347,526	34	Letter of credit at sight	-	NOT SIGNIFICANT DIFFERENCE	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	6,402,704	13	Letter of credit at sight/T/T within 7 business days after lading date (not included)	-	NOT SIGNIFICANT DIFFERENCE	-	-	
	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	(2,211,117 )	(4 )	T/T within 7 business days after lading date (not included)	-	NOT SIGNIFICANT DIFFERENCE	-	-	
	China Steel Corporation	Parent company	Service revenue	(567,537 )	(1 )	T/T as the end of the month of when invoice is issued after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED	33,745	3	

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 DECEMBER 31, 2021  
 (In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note2)	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hung Steel Corporation	China Steel Corporation	Parent company	\$ 170,204	(Note 1)	\$ -	-	\$ -	\$ -

Note 1: Receivables from price settlement (included in other receivables to related parties) which is not applicable to turnover rate.

Note 2: At the report date, amounts were received.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEES  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Number of Shares	%	Carrying Amount	Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2021	December 31, 2020						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Taiwan	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 46,320	\$ 7,554	\$ 7,554	Subsidiaries
Chung Hung Steel Corporation	Transglory Investment Corporation	Taiwan	General investment	2,001,152	2,001,152	306,824,279	40.91	3,829,875	69,510	28,587	Associates
Chung Hung Steel Corporation	Pro-Ascentek Investment Corporation	Taiwan	General investment	200,000	-	20,000,000	16.67	212,903	20,687	3,448	Associates

**TABLE 6****CHUNG HUNG STEEL CORPORATION****MAJOR SHAREHOLDER INFORMATION  
DECEMBER 31, 2021**

Major shareholders	Shares	
	Number of shares held	Shareholding (%)
China Steel Corporation	582,673,153	40.58

Note 1: The main shareholder information in this table is based on the last business day at the end of the quarter, and the shareholders hold more than 5% of the Corporation's ordinary shares that have completed unregistered delivery. The share capital recorded in the Corporation's standalone financial report and the actual number of shares delivered without physical registration may be different due to different calculation bases.

Note 2: In the case of the above information, if the shareholder delivers the shares to the trust, it is disclosed in the individual accounts of the trustee who opened the trust account by the trustee. As for the shareholder's declaration of insider's equity holding more than 10% of the shares in accordance with the Securities and Exchange Act, his shareholding includes his own shareholding and the shares delivered to the trust which has the decision rights over trust property, etc. Please refer to the public information for information on Market Observation Post System website of the Taiwan Stock Exchange.

## THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

ITEM	STATEMENT INDEX
MAJOR ACCOUNTING ITEMS IN ASSETS, LIABILITIES AND EQUITY	
STATEMENT OF CASH	1
STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME- CURRENT	2
STATEMENT OF ACCOUNTS RECEIVABLE	3
STATEMENT OF OTHER RECEIVABLES	Note 9
STATEMENT OF INVENTORIES	4
STATEMENT OF PREPAYMENTS	Note 11
STATEMENT OF OTHER FINANCIAL ASSETS	5
STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT	6
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	7
STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT	Note 14
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	Note 14
STATEMENT OF CHANGES IN ACCUMULATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	Note 14
STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS	8
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS	8
STATEMENT OF CHANGES IN INVESTMENT PROPERTIES	Note 16
STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF INVESTMENT PROPERTIES	Note 16
STATEMENT OF CHANGES IN ACCUMULATED IMPAIRMENT OF INVESTMENT PROPERTIES	Note 16
STATEMENT OF SHORT-TERM BORROWINGS	9
STATEMENT OF SHORT-TERM BILLS PAYABLE	10
STATEMENT OF ACCOUNTS PAYABLE	11
STATEMENT OF OTHER PAYABLES	Note 20
STATEMENT OF PROVISIONS - CURRENT	Note 21
STATEMENT OF BONDS PAYABLE	12
STATEMENT OF LONG-TERM BANK BORROWINGS	13
STATEMENT OF LEASE LIABILITIES	14
STATEMENT OF LONG-TERM BILLS PAYABLE	15
STATEMENT OF DEFERRED TAX LIABILITIES	Note 26
MAJOR ACCOUNTING ITEMS IN PROFIT OR LOSS	
STATEMENT OF OPERATING REVENUES	16
STATEMENT OF OPERATING COSTS	17
STATEMENT OF OPERATING EXPENSES	18
STATEMENT OF OTHER GAINS AND LOSSES	Note 25 (a) & (b)
STATEMENT OF FINANCE COSTS	Note 25 (c)
STATEMENT OF EMPLOYEE BENEFITS AND DEPRECIATION	19

**STATEMENT 1**

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF CASH**

**DECEMBER 31, 2021**

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

---

<b>Item</b>	<b>Amount</b>
Cash on hand	\$ 640
Cash in banks	
Demand deposits	23
Checking accounts	76,193
Foreign currency deposits	
USD \$ 15,556,687.55	430,609
	<hr/> 506,825 <hr/>
	<hr/> \$ 507,465 <hr/> <hr/>

Note: US\$1=NT\$27.68.

**STATEMENT 2**

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER**

**COMPREHENSIVE INCOME - CURRENT**

**DECEMBER 31, 2021**

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

---

Item	Shares	Acquisition Cost	Fair Value (Note)		
			Unit Price (NT\$)	Amount	
Domestic Listed Shares					
China Steel Corporation	33,109,239	\$ 635,641	\$35.35	<u>\$ 1,170,412</u>	Note
Plus: Evaluation adjustment		<u>534,771</u>			
		<u>\$ 1,170,412</u>			

Note: Fair value is measured on the basis of the closing price at the balance sheet date.

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF ACCOUNTS RECEIVABLE****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

---

Customer Name	Amount (Note 2)
Related Parties	
A company	\$ 33,745
B company	7,426
C company	4,275
Others (Note 1)	<u>1,909</u>
	<u>\$ 47,355</u>
Non-Related Parties	
D company	\$ 244,817
E company	169,772
F company	121,226
G company	108,898
H company	74,017
Others (Note 1)	<u>211,848</u>
	<u>\$ 930,578</u>

Note 1: The amount of individual customer included in others does not exceed 5% of the account balance.

Note 2: There are no accounts receivable that are past due over 1 year.

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF INVENTORIES****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost	Net Realizable Value (Note)
Raw materials	\$ 6,229,585	\$ 6,778,128
Supplies	387,020	418,083
Work in progress	735,249	789,331
Finished goods	4,285,975	4,410,402
Others	6,418	6,418
Raw materials and supplies in transit	1,201,855	1,139,457
Allowance for loss on inventory value	( 128,663)	-
	<u>\$ 12,717,439</u>	<u>\$ 13,541,819</u>

Note: Refer to Note 4 for details.

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF OTHER FINANCIAL ASSETS****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

<b>Bank Name</b>	<b>Interest Rates (%)</b>	<b>Period</b>	<b>Amount</b>	<b>Note</b>
Other Financial Assets - Current				
Time deposits				
Taiwan Business Bank	0.04	2021.11.29-2022.01.29	\$ 300,000	Note
Mega Bank	0.07	2021.12.10-2022.01.10	<u>400,000</u>	Note
			700,000	
Demand deposits				
Bank of Taiwan	0.04		<u>300,000</u>	Note
			<u>\$ 1,000,000</u>	

Note: As a collateral for bank borrowings.

## CHUNG HUNG STEEL CORPORATION

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT  
 FOR THE YEAR ENDED DECEMBER 31, 2021  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Balance, January 1, 2021		Additions (Note 1)		Decrease (Note 2)		Balance, December 31, 2021		Collateral
	Shares	Fair Value	Shares	Amount	Shares	Amount	Shares	Fair Value (Note 3)	
Domestic unlisted shares									
Riselink Venture Capital Corp.	3,948	\$ 866	-	\$ -	-	\$ 475	3,948	\$ 391	None
Taiwan Ves-Power Co., Ltd.	958,333	36,599	-	18,515	-	-	958,333	55,114	None
Pacific Harbour Stevedoring Corp.	250,000	5,880	-	655	-	-	250,000	6,535	None
		<u>\$43,345</u>		<u>\$ 19,170</u>		<u>\$ 475</u>		<u>\$ 62,040</u>	

Note 1: The unrealized gain on valuation of NT\$ 19,170 thousand was recognized as additions.

Note 2: The unrealized loss on valuation of NT\$ 475 thousand were recognized as decreases.

Note 3: Fair value is estimated pursuant to the evaluation method in Note 29.

## CHINA STEEL CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD  
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Investees	Balance, January 1, 2021		Additions (Note 1)		Decrease(Note 2)		Balance, December 31, 2021			Market Value or Net Assets Value		
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	% of Ownership	Amount	Unit Price (NT\$)	Total Amount	Collateral
Unlisted companies												
Transglory Investment Corporation	306,824,279	\$ 2,669,716	-	\$ 1,204,429	-	\$ 44,270	306,824,279	40.91	\$ 3,829,875	\$ 12.48	\$ 3,829,875	None
Hong Kao Investment Corporation	2,600,000	28,329	-	18,197	-	206	2,600,000	100	46,320	17.82	46,320	None
Pro-Ascentek Investment Corporation	-	-	20,000,000	213,045	-	142	20,000,000	16.67	212,903	10.65	212,903	None
		<u>\$ 2,698,045</u>		<u>\$ 1,435,671</u>		<u>\$ 44,618</u>			<u>\$ 4,089,098</u>		<u>\$ 4,089,098</u>	

Note 1: The increase came from long-term equity investment of NT\$200,000 thousand, investment income recognized under equity method of NT\$ 39,589 thousand and unrealized gain of financial assets at fair value through other comprehensive income of NT\$ 1,196,082 thousand.

Note 2: The decrease came from cash dividends NT\$ 44,476 thousand and exchange differences on translation of foreign financial statements under equity method of NT\$ 142 thousand.

## CHUNG HUNG STEEL CORPORATION

### STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Item	Land	Transportation Equipment	Total
Cost			
Balance, January 1,2021	\$ 90,792	\$ 15,238	\$ 106,030
Additions	69	-	69
Disposals	( <u>702</u> )	<u>-</u>	( <u>702</u> )
Balance, December 31,2021	<u>90,159</u>	<u>15,238</u>	<u>105,397</u>
Accumulated depreciation			
Balance, January 1,2021	( 22,559 )	( 5,141 )	( 27,700 )
Disposals	702	-	702
Depreciation expense	( <u>12,450</u> )	( <u>3,029</u> )	( <u>15,479</u> )
Balance, December 31,2021	( <u>34,307</u> )	( <u>8,170</u> )	( <u>42,477</u> )
	<u>\$ 55,852</u>	<u>\$ 7,068</u>	<u>\$ 62,920</u>

## CHUNG HUNG STEEL CORPORATION

## STATEMENT OF SHORT-TERM BORROWINGS

DECEMBER 31, 2021

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

Type	Contract Period	Range of Interest Rates (%)	Balance, End of Year	Credit Amount	Collateral or Pledge
Revolving loans					
Mizuho Bank, Ltd., Kaohsiung (Note 1)	2021.12.30-2022.01.28	0.33	\$ 800,000	\$ 2,502,600	None
Mitsubishi UFJ, Taipei	2021.12.30-2022.06.28	0.39	<u>1,900,000</u>	2,000,000	None
			<u>2,700,000</u>		
LC borrowing in NTD					
Bank of Taiwan, GangShan	2021.12.21-2022.03.21	0.75	282,659	5,500,000	None
Bank of Taiwan, GangShan	2021.12.28-2022.03.28	0.75	24,764	5,500,000	None
Taipei Fubon Bank, Kaohsiung	2021.12.28-2022.01.27	0.68	230,482	600,000	None
Cathay United Bank, Kaohsiung	2021.12.28-2022.01.04	0.72	10,507	560,000	None
Yuanta Commercial Bank, Kaohsiung	2021.12.28-2022.01.04	0.74	<u>8,012</u>	500,000	None
			<u>556,424</u>		
LC borrowing in USD					
Mizuho Bank, Ltd., Kaohsiung (Note 1)	2021.12.24-2022.01.03	0.64	<u>639,437</u>	2,502,600	None
Bank overdraft					
Taiwan Business Bank, LingYa Branch		0.32	278,807	-	Certificate of time deposit (Note 2)
Mega Bank, Kaohsiung Metropolitan		0.21	<u>387,584</u>	-	Certificate of time deposit (Note 2)
			<u>666,391</u>		
			<u>\$ 4,562,252</u>		

Note 1: Revolving loans and LC borrowing in USD shared credit amount.

Note 2: Refer to Note 31 for details.

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF SHORT-TERM BILLS PAYABLE**

**DECEMBER 31, 2021**

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

---

Financial Institution	Period	Interest Rates (%)	Amount		
			Issuance amount	Unamortized Amount	Carrying Amount
Bank SinoPac	2021.07.01-2022.06.30	0.56	<u>\$ 1,000,000</u>	<u>\$ 359</u>	<u>\$ 999,641</u>

**CHUNG HUNG STEEL CORPORATION**

**STATEMENT OF ACCOUNTS PAYABLE**

**DECEMBER 31, 2021**

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

---

<b>Vendor Name</b>	<b>Amount</b>
Related Parties	
A company	\$ 463,370
Others (Note)	<u>6,207</u>
	<u>\$ 469,577</u>
Non-related Parties	
B company	\$ 1,276,177
Others (Note)	<u>84,555</u>
	<u>\$ 1,360,732</u>

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

## CHUNG HUNG STEEL CORPORATION

STATEMENT OF BONDS PAYABLE  
DECEMBER 31, 2021

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

Bonds Name	Trustee	Issuance Date	Interest Payment Date And Repayment Method	Coupon Rate (%)	Amount			Collateral		
					Total Amount	Repayment Paid	Balance, End of Year			
5-year unsecured bonds	Taipei Fubon Commercial Bank Co., Ltd	2020.03-2025.03	Repayable in March 2025; interest payable annually	0.78	\$2,000,000	\$ -	\$2,000,000	( \$ 2,128)	\$1,997,872	None
	Taipei Fubon Commercial Bank Co., Ltd	2020.09-2025.09	Repayable in September 2025; interest payable annually	0.65	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>	( <u>1,698</u> )	<u>998,302</u>	None
					<u>\$3,000,000</u>	<u>\$ -</u>	<u>\$3,000,000</u>	( <u>\$ 3,826</u> )	<u>\$2,996,174</u>	

## CHUNG HUNG STEEL CORPORATION

## STATEMENT OF LONG-TERM BANK BORROWINGS

DECEMBER 31, 2021

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

Bank Name	Contract Period and Repayment Method	Interest Rates (%)	Balance, December 31, 2021			Collateral
			Current	Over 1 Year	Total	
Long-term bank borrowings Bank of Taiwan, GangShan	Due in December 2024, amortization from June 2023	0.79	\$ <u>          -</u>	\$ <u>1,200,000</u>	\$ <u>1,200,000</u>	None

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF LEASE LIABILITIES****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

---

<b>Item</b>	<b>Period</b>	<b>Discount Rates (%)</b>	<b>Amount</b>
Land	2015.03.01-2029.12.31	0.65-1.31	\$ 56,787
Transportation equipment	2019.05.01-2024.04.30	0.76	<u>7,140</u>
			<u>\$ 63,927</u>

Note 1: Refer to Note 15 for details.

Note 2: Current portion of lease liabilities has been classified as current liabilities.

## CHUNG HUNG STEEL CORPORATION

## STATEMENT OF LONG-TERM BILLS PAYABLE

DECEMBER 31, 2021

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

Financial Institution	Guarantee Institution	Credit Line	Period	Interest Rates (%)	Amount			Collateral
					Issuance Amount	Uuamortized Amount	Carrying Amount	
Commercial papers payable China Bills Finance Corporation	Non-guarantee	<u>\$ 300,000</u>	2021.03.31-2023.03.30	0.62	<u>\$ 240,000</u>	<u>\$ 208</u>	<u>\$ 239,792</u>	None

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF OPERATING REVENUES  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

---

<b>Item</b>	<b>Quantities (Metric Tons)</b>	<b>Amount</b>
Sale of Goods		
Hot rolled coiled steel	1,726,341	\$ 41,674,879
Cold rolled coiled steel	260,718	7,405,276
Steel pipe	41,447	1,305,262
Galvanized coiled steel	91,049	<u>2,633,639</u>
		53,019,056
Service revenue		624,450
Other operating revenue		<u>89,708</u>
		<u>\$ 53,733,214</u>

**CHUNG HUNG STEEL CORPORATION****STATEMENT OF OPERATING COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

<b>Item</b>	<b>Amount</b>
Cost of goods sold for in-house products	
Raw materials used	
Raw materials, beginning of year	\$ 1,627,421
Raw material purchased	48,275,371
Raw materials, end of year	<u>(6,229,585)</u>
	43,673,207
Direct labor	597,857
Manufacturing expenses	<u>4,045,650</u>
Manufacturing cost	48,316,714
Work in progress, beginning of year	495,791
Work in progress, end of year	<u>(735,249)</u>
	48,077,256
Finished goods, beginning of year	1,799,848
Finished goods, end of year	(4,285,975)
Income from off-grades	(1,037,574)
Others	<u>223,833</u>
Total costs of goods sold	44,777,388
Service costs	492,742
Impairment loss	646,025
Purchase contract loss	206,850
Other operating costs	<u>74,605</u>
Total operating costs	<u>\$ 46,197,610</u>

## CHUNG HUNG STEEL CORPORATION

**STATEMENT OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**  
(In Thousands of New Taiwan Dollars)

Item	Selling Expenses	General and Administrative Expenses	Total
Export expense	\$ 447,182	\$ -	\$ 447,182
Salaries and awards	84,308	288,714	373,022
Depreciation expense	171	7,141	7,312
Commission	20,279	-	20,279
Insurance	5,754	15,839	21,593
Employee benefits	8,777	19,735	28,512
Tax	31	9,635	9,666
Service fee	94	15,085	15,179
Travelling expense	291	2,294	2,585
Pension	2,116	4,933	7,049
Entertainment expense	419	4,268	4,687
Stockholder service fee	-	5,153	5,153
Repair and maintenance expense	2	9,036	9,038
Rent expense	201	2,397	2,598
Postage	661	3,368	4,029
Utility	-	2,538	2,538
Donation expense	10	14,103	14,113
Security expense	-	2,823	2,823
Freight expense	3,975	27	4,002
Others	<u>3,234</u>	<u>36,836</u>	<u>40,070</u>
Total	<u>\$ 577,505</u>	<u>\$ 443,925</u>	<u>\$ 1,021,430</u>

## CHUNG HUNG STEEL CORPORATION

STATEMENT OF EMPLOYEE BENEFITS AND DEPRECIATION  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020  
(In Thousands of New Taiwan Dollars)

	Year Ended December 31,2021				Year Ended December 31,2020			
	Classified as Operating Costs	Classified as Operating Expenses	Classified as Others	Total	Classified as Operating Costs	Classified as Operating Expenses	Classified as Others	Total
Employee benefits								
Salaries	\$ 1,477,581	\$ 303,062	\$ -	\$ 1,780,643	\$ 873,417	\$ 180,092	\$ -	\$ 1,053,509
Labor and health insurance	83,415	14,660	-	98,075	73,716	12,527	-	86,243
Pension	39,223	7,049	-	46,272	41,163	7,379	-	48,542
Employment benefits	182,902	28,512	-	211,414	102,572	15,847	-	118,419
Remuneration of directors	-	69,960	-	69,960	-	12,293	-	12,293
Others	<u>2,825</u>	<u>755</u>	<u>-</u>	<u>3,580</u>	<u>2,542</u>	<u>2,271</u>	<u>-</u>	<u>4,813</u>
	<u>\$ 1,785,946</u>	<u>\$ 423,998</u>	<u>\$ -</u>	<u>\$ 2,209,944</u>	<u>\$ 1,093,410</u>	<u>\$ 230,409</u>	<u>\$ -</u>	<u>\$ 1,323,819</u>
Depreciation	<u>\$ 745,529</u>	<u>\$ 7,312</u>	<u>\$ 888</u>	<u>\$ 753,729</u>	<u>\$ 1,089,347</u>	<u>\$ 72,011</u>	<u>\$ 888</u>	<u>\$ 1,162,246</u>

Note 1: As of December 31, 2021 and 2020, the Corporation had 1,183 and 1,214 employees, respectively. Among them 6 directors did not serve concurrently as employees in 2021 and 2020, respectively.

Note 2: Additional disclosures are as follows:

1) Average employee benefits for the year ended December 31, 2021 and 2020 were NT\$ 1,818 thousand and NT\$ 1,086 thousand, respectively.

2) Average salaries for the year ended December 31, 2021 and 2020 were NT\$ 1,513 thousand and NT\$ 872 thousand, respectively.

3) Changes of adjustments of average salaries was 73.51 %.

4) The Corporation did not have supervisors for the years ended December 31, 2021 and 2020.

5) The Corporation's remuneration policies are as follows:

a) Remuneration policy for directors

- i The Corporation pays a fixed compensation, NT\$50 thousand per month, to the independent directors, who shall not receive the remuneration for directors according to Article 28 of the Corporation's Articles of Incorporation.
- ii The independent directors shall attend the Board of Directors which the Corporation will pay travel allowance.
- iii The Corporation pays an attendance fee to independent directors for attending meetings held by the functional committees under the Corporation's Board of Directors.

b) Remuneration policy for the managements

The pay level and salary adjustment for the Corporation's Chairman or managements shall be submitted to the Board of Directors for approval after the Remuneration Committee discussion.

c) Compensation policy for employees

The Corporation pays employee compensation by referring to the benchmark salary of the industry, and the supply and demand of market manpower, considering the financial situation of operation, formulating the Salary Management Measures, developing the salary standard for new employees, and providing the basic salary higher than the statutory basic salary standard, regardless of gender. The salaries of male and female employees of the same position and grade shall be the same, i.e. the ratio shall be 1:1.

## **V. 2021 Consolidated Financial Report for parent and subsidiary companies**

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

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, 2021, 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 of affiliates is included in the consolidated financial statements of parent and subsidiary companies. Consequently, Chung Hung Steel Corporation and its subsidiaries do not prepare a separate set of combined financial statements of affiliates.

Very truly yours,

Chung Hung Steel Corporation

By

---

Min-Hsiung Liu  
Chairman

February 24, 2022

## **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, 2021 and 2020, 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 (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, 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, 2021. 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, 2021 are stated as follows:

#### **The Existence of Revenue from Sale of Goods on Specific Customers**

The domestic sales revenue among the Group's top ten customers for the year ended December 31, 2021 was NT\$19,952,276 thousand, which represented 38% of the sales revenue. Because the sales revenue from the above-mentioned specific customers has grown significantly compared to the sales revenue from the previous year, we considered the existence of sales revenue from the above-mentioned specific customers as a key audit matter. Refer to Notes 4, 24 and 35 to consolidated financial statements for the related accounting policies and disclosures on sales revenue.

The audit procedures we performed included the following:

1. We obtained an understanding of the design and implementation of the internal controls and tested the operating effectiveness of controls related to the existence of sales revenue.
2. We tested the sales details of specific customers by selecting samples, including sales orders, shipping documents and cash collections, and we confirmed that the collections of counterparties were consistent with the record of transactions and the accuracy of revenue recognized.
3. We obtained subsequent details of sales returns and allowances of the specific customers and tested whether there is any unusual sales returns and allowances by selecting samples and confirmed that sales revenue existed before the balance sheet date.

#### **Other Matter**

We have also audited the standalone financial statements of the Corporation as of and for the years ended December 31, 2021 and 2020 on which we have issued an unmodified opinion.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2021 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 Yu-Hsiang Liu and Jia-Ling, Jiang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 24, 2022

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, 2021		December 31, 2020	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 508,123	1	\$ 287,373	1
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	-	-	242,410	1
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	1,170,412	3	819,454	3
Accounts receivable (Notes 4, 9 and 24)	930,578	2	830,087	3
Accounts receivable from related parties (Notes 4, 9, 24 and 30)	47,355	-	117,238	-
Other receivables (Note 9)	9,051	-	19,321	-
Other receivables from related parties (Notes 9 and 30)	221,461	1	26,672	-
Current tax assets (Note 26)	-	-	514	-
Inventories (Notes 4, 5 and 10)	12,717,439	34	4,236,420	16
Prepayments (Note 11)	443,128	1	150,961	1
Other financial assets - current (Notes 12 and 31)	1,002,800	3	301,700	1
Other current assets	<u>2,597</u>	-	<u>3,961</u>	-
Total current assets	<u>17,052,944</u>	<u>45</u>	<u>7,036,111</u>	<u>26</u>
<b>NONCURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - noncurrent (Notes 4 and 8)	97,530	-	68,193	-
Investments accounted for using equity method (Notes 4 and 13)	4,042,778	11	2,669,716	10
Property, plant and equipment (Notes 4, 14, 30 and 32)	10,164,924	28	11,162,643	41
Right-of-use assets (Notes 4 and 15)	62,920	-	78,330	-
Investment properties (Notes 4 and 16)	5,982,297	16	5,983,185	22
Prepayments for equipment (Note 32)	70,290	-	95,659	1
Refundable deposits	<u>5,651</u>	-	<u>6,220</u>	-
Total noncurrent assets	<u>20,426,390</u>	<u>55</u>	<u>20,063,946</u>	<u>74</u>
<b>TOTAL</b>	<u>\$ 37,479,334</u>	<u>100</u>	<u>\$ 27,100,057</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 17 and 31)	\$ 4,562,252	12	\$ 404,630	2
Short-term bills payable (Note 17)	999,641	3	3,599,577	13
Contract liabilities - current (Note 24)	95,155	-	57,283	-
Accounts payable (Note 19)	1,360,732	3	27,500	-
Accounts payable to related parties (Notes 19 and 30)	469,577	1	313,224	1
Other payables (Notes 20 and 30)	1,175,704	3	580,264	2
Current tax liabilities (Notes 4 and 26)	654,769	2	5	-
Provisions - current (Notes 4 and 21)	206,850	1	-	-
Lease liabilities - current (Notes 4 and 15)	15,408	-	15,230	-
Refund liabilities	265,047	1	153,756	1
Other current liabilities	<u>23,317</u>	-	<u>15,764</u>	-
Total current liabilities	<u>9,828,452</u>	<u>26</u>	<u>5,167,233</u>	<u>19</u>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable (Note 18)	2,996,174	8	2,995,039	11
Long-term bank borrowings (Note 17)	1,200,000	3	2,000,000	8
Long-term bills payable (Note 17)	239,792	1	1,109,674	4
Deferred tax liabilities (Notes 4 and 26)	182,222	1	182,222	1
Lease liabilities - noncurrent (Notes 4 and 15)	48,519	-	63,898	-
Net defined benefit liabilities (Notes 4, 5 and 22)	387,777	1	313,717	1
Guarantee deposits received (Note 16)	<u>35,000</u>	-	<u>35,000</u>	-
Total noncurrent liabilities	<u>5,089,484</u>	<u>14</u>	<u>6,699,550</u>	<u>25</u>
Total liabilities	<u>14,917,936</u>	<u>40</u>	<u>11,866,783</u>	<u>44</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)</b>				
Ordinary shares	<u>14,355,444</u>	<u>38</u>	<u>14,355,444</u>	<u>53</u>
Capital surplus	<u>903</u>	-	<u>903</u>	-
Retained earnings				
Legal reserve	144,632	-	90,568	-
Special reserve	425,839	1	549,578	2
Unappropriated earnings	<u>6,503,369</u>	<u>18</u>	<u>662,620</u>	<u>3</u>
Total retained earnings	<u>7,073,840</u>	<u>19</u>	<u>1,302,766</u>	<u>5</u>
Other equity	<u>1,131,211</u>	<u>3</u>	<u>(425,839)</u>	<u>(2)</u>
Total equity	<u>22,561,398</u>	<u>60</u>	<u>15,233,274</u>	<u>56</u>
<b>TOTAL</b>	<u>\$ 37,479,334</u>	<u>100</u>	<u>\$ 27,100,057</u>	<u>100</u>

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			
	2021		2020	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 24 and 30)				
Sales	\$ 53,019,056	99	\$ 36,406,042	99
Investment revenue	301	-	502	-
Service revenue	634,947	1	324,754	1
Other operating revenue	<u>89,708</u>	-	<u>58,856</u>	-
Total operating revenue	53,744,012	100	36,790,154	100
OPERATING COSTS (Notes 10, 14, 25 and 30)	<u>46,197,610</u>	<u>86</u>	<u>35,335,654</u>	<u>96</u>
GROSS PROFIT	<u>7,546,402</u>	<u>14</u>	<u>1,454,500</u>	<u>4</u>
OPERATING EXPENSES (Note 25)				
Selling and marketing expenses	577,505	1	794,236	2
General and administrative expenses	<u>445,247</u>	<u>1</u>	<u>322,052</u>	<u>1</u>
Total operating expenses	<u>1,022,752</u>	<u>2</u>	<u>1,116,288</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>6,523,650</u>	<u>12</u>	<u>338,212</u>	<u>1</u>
NON-OPERATING INCOME AND EXPENSES (Notes 13, 16, 25 and 30)				
Interest income	825	-	966	-
Other income	131,343	-	224,631	1
Other gains and losses	370,938	1	1,488	-
Finance costs	(45,715)	-	(86,219)	-
Share of profit of associates	<u>32,035</u>	-	<u>49,187</u>	-
Total non-operating income and expenses	<u>489,426</u>	<u>1</u>	<u>190,053</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	7,013,076	13	528,265	2
INCOME TAX (Notes 4, 5 and 26)	<u>662,665</u>	<u>1</u>	<u>5</u>	-
NET PROFIT FOR THE YEAR	<u>6,350,411</u>	<u>12</u>	<u>528,260</u>	<u>2</u>

(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			
	2021		2020	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 22 and 23)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (157,217)	-	\$ 12,378	-
Unrealized gains and losses on investments in equity instruments at fair value through other comprehensive income	380,295	1	29,432	-
Share of the other comprehensive income of associates	1,185,440	2	94,307	-
Items that may be reclassified subsequently to profit or loss:				
Share of the other comprehensive loss of associates	<u>(142)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>1,408,376</u>	<u>3</u>	<u>136,117</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 7,758,787</u>	<u>15</u>	<u>\$ 664,377</u>	<u>2</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 6,350,411</u>	<u>12</u>	<u>\$ 528,260</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	<u>\$ 7,758,787</u>	<u>15</u>	<u>\$ 664,377</u>	<u>2</u>
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 4.42</u>		<u>\$ 0.37</u>	
Diluted	<u>\$ 4.40</u>		<u>\$ 0.37</u>	

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			Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2020	\$ 14,355,444	\$ 903	\$ 90,450	\$ 497,607	\$ 174,071	\$ -	\$ (549,578)	\$ 14,568,897
Appropriation of 2019 earning (Note 23)								
Legal reserve	-	-	118	-	(118)	-	-	-
Special reserve	-	-	-	51,971	(51,971)	-	-	-
Net profit for the year ended December 31, 2020	-	-	-	-	528,260	-	-	528,260
Other comprehensive income for the year ended December 31, 2020, net of income tax	-	-	-	-	12,378	-	123,739	136,117
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	540,638	-	123,739	664,377
BALANCE AT DECEMBER 31, 2020	14,355,444	903	90,568	549,578	662,620	-	(425,839)	15,233,274
Appropriation of 2020 earning (Note 23)								
Legal reserve	-	-	54,064	-	(54,064)	-	-	-
Cash dividends	-	-	-	-	(430,663)	-	-	(430,663)
Reversal of special reserve	-	-	-	(123,739)	123,739	-	-	-
Net profit for the year ended December 31, 2021	-	-	-	-	6,350,411	-	-	6,350,411
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	(157,217)	(142)	1,565,735	1,408,376
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	6,193,194	(142)	1,565,735	7,758,787
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	8,543	-	(8,543)	-
BALANCE AT DECEMBER 31, 2021	\$ 14,355,444	\$ 903	\$ 144,632	\$ 425,839	\$ 6,503,369	\$ (142)	\$ 1,131,353	\$ 22,561,398

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)

	For the Year Ended December 31	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 7,013,076	\$ 528,265
Adjustments for:		
Depreciation expense	753,729	1,162,246
Net gain on financial assets at fair value through profit or loss	(318,331)	(78,903)
Finance costs	45,715	86,219
Interest income	(825)	(966)
Dividend income	(10,684)	(32,323)
Share of profit of associates	(32,035)	(49,187)
Loss on disposal of property, plant and equipment	-	9,371
Recognition of impairment loss	646,025	576,317
Write-downs (reversal) of inventories	4,859	(304,435)
Recognition of provisions	206,850	-
Others	1,097	692
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	560,741	17,844
Accounts receivable	(100,491)	(364,070)
Accounts receivable from related parties	69,883	(71,505)
Other receivables	10,297	(13,290)
Other receivables from related parties	(194,789)	514,742
Inventories	(8,485,878)	2,645,652
Prepayments	(292,167)	77,570
Other current assets	1,364	(2,271)
Contract liabilities	37,872	(227,769)
Accounts payable	1,333,232	(2,172)
Accounts payable to related parties	156,353	247,627
Other payables	589,808	70,144
Other current liabilities	7,553	(670)
Net defined benefit liabilities	(83,157)	(47,765)
Refund liabilities	111,291	144
Cash generated from operations	2,031,388	4,741,507
Income taxes refund (paid)	(7,387)	147
Net cash generated from operating activities	<u>2,024,001</u>	<u>4,741,654</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	-	1,934
Acquisition of investments accounted for using the equity method	(200,000)	-
Acquisition of property, plant and equipment	(353,847)	(397,582)
Decrease (increase) in refundable deposits	569	(588)
Increase in other financial assets	(701,100)	-

(Continued)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2021	2020
Interest received	\$ 798	\$ 966
Dividends received from others	<u>54,955</u>	<u>32,323</u>
Net cash used in investing activities	<u>(1,198,625)</u>	<u>(362,947)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	117,158,161	99,915,564
Repayments of short-term borrowings	(113,000,539)	(104,665,801)
Increase in short-term bills payable	8,200,064	10,900,027
Decrease in short-term bills payable	(10,800,000)	(9,100,000)
Proceeds from issuance of bonds	-	2,994,328
Proceeds from long-term borrowings	300,000	3,150,000
Repayments of long-term borrowings	(1,100,000)	(5,760,000)
Proceeds from long-term bills payable	240,118	200,536
Repayments of long-term bills payable	(1,110,000)	(1,700,000)
Repayments of principal of lease liabilities	(15,232)	(15,074)
Dividends paid to owner of the Corporation	(430,663)	-
Interest paid	<u>(46,535)</u>	<u>(77,942)</u>
Net cash used in financing activities	<u>(604,626)</u>	<u>(4,158,362)</u>
NET INCREASE IN CASH	220,750	220,345
CASH AT THE BEGINNING OF THE YEAR	<u>287,373</u>	<u>67,028</u>
CASH AT THE END OF THE YEAR	<u>\$ 508,123</u>	<u>\$ 287,373</u>

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

(Concluded)

# CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

---

### 1. GENERAL INFORMATION

Chung Hung Steel Corporation (the Corporation) was incorporated in September 1983 and started operations in September 1985. It mainly manufactures and sells steel products, such as cold and hot rolled coils.

The Corporation's shares have been listed on the Taiwan Stock Exchange since February 1992.

As of December 31, 2021, and 2020, China Steel Corporation (CSC), the Corporation's parent and major shareholder (40.58%), controls the Corporation's management and operations.

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors and authorized for issue on February 24, 2022.

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

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

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

- b. The IFRSs endorsed by the FSC for application starting from 2022

New IFRSs	Effective Date Announced by IASB
"Annual Improvements to IFRS Standards 2018-2020"	January 1, 2022 (Note 1)
Amendments to IFRS 3 "Reference to the Conceptual Framework"	January 1, 2022 (Note 2)
Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"	January 1, 2022 (Note 3)
Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"	January 1, 2022 (Note 4)

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

Note 2: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 3: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the consolidated financial statements were authorized for issue, the Group has assessed that the application of other standards and interpretations will not have a material impact on the Group's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS17 and IFRS 19 – Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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

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

##### **Statement of Compliance**

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

##### **Basis of Preparation**

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

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

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

##### **Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the balance sheet date; and
- c. Cash unless the asset is restricted from being used for an exchange or used to settle a liability for more than least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities expected to be settled within 12 months after the reporting period; and
- c. Liabilities without an unconditional right to defer settlement for at least twelve months after the reporting period.

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

##### **Basis of Consolidation**

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

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

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)	
			December 31, 2021	December 31, 2020
Chung Hung Steel Corporation Ltd.	Hung Kao Investment Corporation	General investment	100	100

### Foreign Currencies

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

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

### Inventories

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

### Investment in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The operating results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the share of equity of associates.

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

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

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Group transacts with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### **Property, Plant, and Equipment**

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Freehold land is not depreciated.

Except for depreciation of the rollers (spare parts) that belong to the cold rolling department, the hot rolling department and pickling & galvanizing mill department is calculated based on their level of wear and other depreciation is recognized so as to write off the cost of assets less their residual value over their estimated useful lives, using the straight-line method; each major part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

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

### **Investment Properties**

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

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

For a transfer from property, plant and equipment classification to investment properties, the deemed cost of property for subsequent accounting is its carrying amount at the end of owner-occupation.

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

### **Impairment of Property, Plant and Equipment, Right-of-use Asset and Investment Properties**

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

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

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

## **Financial Instruments**

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

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

### **a. Financial assets**

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

#### **1) Measurement category**

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

##### **a) Financial asset at FVTPL**

Financial asset is classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL.

Financial assets mandatorily classified as at FVTPL were investments in equity instruments which are not designed as at FVTPL. Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 29.

##### **b) Financial assets at amortized cost**

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

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

Financial assets at amortized cost, including cash, accounts receivable at amortized cost, other receivables, other financial assets and refundable deposits, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

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

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

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

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

## 2) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for accounts receivable. For other financial assets, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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

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

### 3) Derecognition of financial assets

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

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

#### b. Equity instruments

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

#### c. Financial liabilities

##### 1) Subsequent measurement

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

##### 2) Derecognition of financial liabilities

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

### **Provisions**

Provisions are measured at the best estimate including risks and uncertainties of the expenditure required to settle the obligation on the balance sheet date.

When the Group expects that the unavoidable costs of the performance of contractual obligations to exceed the expected economic benefits that may be gained from the contract, the Group recognizes provisions for the performance of its obligations in the onerous contract.

### **Revenue Recognition**

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

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

#### a. Sale of goods

Revenue is recognized when the control of products is transferred to customers. The customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. Domestic sales are recognized when products are delivered to and accepted by the customers, and export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms. Transaction price received is recognized as a contract liability until performance obligations are satisfied.

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

b. Providing of services

Service revenue is recognized when services are provided by reference to the stage of completion of services provided.

**Leases**

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

a. The Group as lessor

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

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Group as lessee

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

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

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

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

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

## **Government Grants**

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they are received.

## **Borrowing Costs**

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

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

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

## **Employee Benefits**

### **a. Short-term employee benefits**

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

### **b. Retirement benefits**

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

## **Taxation**

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

### Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

## Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

## Current and deferred taxes for the year

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

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

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

The Group considers the possible impact of the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates on cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### **Measurement of Inventories**

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimate to determine the net realizable value of inventory at the balance sheet date. Since the net realizable value of

inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

### Realizability of Deferred Tax Assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Considering climate change in the steel industry and unpredictability of future profit, deferred tax assets were not recognized.

### Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the pension cost of defined benefit plan under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of expenses and liabilities.

## 6. CASH

	<u>December 31</u>	
	2021	2020
Cash on hand	\$ 640	\$ 640
Checking accounts and demand deposits	<u>507,483</u>	<u>286,733</u>
	<u>\$ 508,123</u>	<u>\$ 287,373</u>

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	<u>December 31</u>	
	2021	2020
<u>Financial assets mandatorily at FVTPL</u>		
Emerging market shares	<u>\$ -</u>	<u>\$ 242,410</u>

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

	<u>December 31</u>	
	2021	2020
<u>Current</u>		
Domestic listed shares	<u>\$ 1,170,412</u>	<u>\$ 819,454</u>
<u>Non-current</u>		
Domestic listed shares	\$ 35,490	\$ 24,848
Domestic unlisted shares	<u>62,040</u>	<u>43,345</u>
	<u>\$ 97,530</u>	<u>\$ 68,193</u>

RiselinK Venture Capital Corp. conducted capital reduction and refunded NT\$1,934 thousand in September 2020.

## 9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	<u>December 31</u>	
	2021	2020
<u>Accounts receivable</u>		
Accounts receivable - non-related parties	\$ <u>930,578</u>	\$ <u>830,087</u>
Accounts receivable - related parties	\$ <u>47,355</u>	\$ <u>117,238</u>
<u>Other receivables (including related parties)</u>		
Receivables from price settlement	\$ 170,204	\$ 886
Receivables from disposal of scrap	49,662	32,961
Others	<u>10,646</u>	<u>12,146</u>
	\$ <u>230,512</u>	\$ <u>45,993</u>

### a. Accounts receivable

The Group allows an average credit period of 30 days (the aging of receivables from sales of goods is based upon the date of examination and acceptance of the goods settlement is monthly or 60 days after shipment date). Refer to Note 29 (d) for credit risk management policies.

The expected credit losses on accounts receivable are estimated using a provision matrix approach considering the past default experience of the debtor and an analysis of the debtor's current financial position. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status rather than distinguishing each different customer group.

The following table details the loss allowance of accounts receivable based on the Group's provision matrix.

#### 2021

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 977,933	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 977,933
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 977,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977,933</u>

#### 2020

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	-	-	100	
Gross carrying amount	\$ 947,325	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 947,325
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 947,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 947,325</u>

The amounts of accounts receivable from single customer that exceed 10% of total accounts receivable were as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
A company	\$ 244,817	\$ -
B company	169,772	88,499
C company	121,226	8,707
D company	108,898	95,493
E company	44,206	186,520
F company	<u>-</u>	<u>147,430</u>
	<u>\$ 688,919</u>	<u>\$ 526,649</u>

The Corporation entered into accounts receivable factoring contract (without recourse). Under the contract, the Corporation is authorized to sell accounts receivable to Bank upon the delivery of products to customers and is required to complete related formalities on the next banking day. Under this contract, the Corporation does not bear the risk of the uncollectability of the accounts receivable.

Receivables sold for the years ended December 31, 2021 and 2020 were as follows:

<b>Buyer of Accounts Receivable</b>	<b>Advances Received at Year - Beginning</b>	<b>Receivables Sold</b>	<b>Amounts Collected</b>	<b>Advances Received at Year-end</b>	<b>Interest Rates on Advances Received (%)</b>	<b>Credit Line</b>
<u>For the year ended December 31, 2021</u>						
Mega Bank	\$ 601,245	\$ 1,614,825	\$ 1,762,534	\$ 453,536	1.03	NT\$841.2 million
Bank of Taiwan	67,274	183,448	204,706	46,016	1.03	NT\$200 million
Bank of Taiwan	14,577	60,977	53,075	22,479	1.44	USD\$20 million
	<u>\$ 683,096</u>	<u>\$ 1,859,250</u>	<u>\$ 2,020,315</u>	<u>\$ 522,031</u>		
<u>For the year ended December 31, 2020</u>						
Mega Bank	\$ 926,731	\$ 2,243,387	\$ 2,568,873	\$ 601,245	1.09	NT\$855 million
Bank of Taiwan	-	193,763	126,489	67,274	1.09	NT\$200 million
Bank of Taiwan	124,214	195,829	305,466	14,577	2.06	USD\$20 million
	<u>\$ 1,050,945</u>	<u>\$ 2,632,979</u>	<u>\$ 3,000,828</u>	<u>\$ 683,096</u>		

The above credit lines are revolving.

b. Other receivables

The expected credit losses on other receivables are estimated using expected credit loss rate based on the other receivables overdue days. As of December 31, 2021 and 2020, there was no allowance for doubtful accounts.

## 10. INVENTORIES

	December 31	
	2021	2020
Raw materials	\$ 6,207,596	\$ 1,608,738
Supplies	309,073	368,565
Work in progress	730,616	488,875
Finished goods	4,262,064	1,764,310
Others	6,418	3,872
Raw materials and supplies in transit	<u>1,201,672</u>	<u>2,060</u>
	<u>\$ 12,717,439</u>	<u>\$ 4,236,420</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2021 and 2020 was NT\$45,058,843 thousand and NT\$34,475,079 thousand, respectively, including write-down of inventory of NT\$4,859 thousand and reversal of inventory write-down of NT\$304,435 thousand, respectively.

## 11. PREPAYMENTS

	December 31	
	2021	2020
Input tax	\$ 312,282	\$ 104,098
Tax overpaid retained for offsetting future tax payable	102,533	-
Prepayments for purchases	24,036	41,340
Others	<u>4,277</u>	<u>5,523</u>
	<u>\$ 443,128</u>	<u>\$ 150,961</u>

## 12. OTHER FINANCIAL ASSETS

	December 31	
	2021	2020
Current		
Pledged time deposits (Note 31)	\$ 700,000	\$ 300,000
Pledged demand deposits (Note 31)	300,000	-
One-year time deposits	<u>2,800</u>	<u>1,700</u>
	<u>\$ 1,002,800</u>	<u>\$ 301,700</u>

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2021	2020
Material associate		
Transglory Investment Corp. (TIC)	\$ 3,829,875	\$ 2,669,716
Associates that are not individually material	<u>212,903</u>	<u>-</u>
	<u>\$ 4,042,778</u>	<u>\$ 2,669,716</u>

a. Material associate

Name of Associate	Nature of Activities	Principal Place of Business	Proportion of Ownership and Voting Rights (%)	
			December 31 2021	December 31 2020
TIC	General investment	Taiwan	40.91	40.91

The investments accounted for by the equity method and the share of profit or loss and other comprehensive loss of those investments for the years ended December 31, 2021 and 2020 was based on the audited financial statements for the same years.

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

TIC

	December 31	
	2021	2020
Current assets	\$ 1,052	\$ 2,470
Non-current assets	9,470,285	6,598,420
Current liabilities	<u>(110,059)</u>	<u>(75,063)</u>
Equity	<u>\$ 9,361,278</u>	<u>\$ 6,525,827</u>
Proportion of the Group's ownership (%)	40.91	40.91
Equity attributable to the Group	<u>\$ 3,829,875</u>	<u>\$ 2,669,716</u>
Carrying amount	<u>\$ 3,829,875</u>	<u>\$ 2,669,716</u>
	For the Year Ended December 31	
	2021	2020
Operating revenue	<u>\$ 79,856</u>	<u>\$ 134,062</u>
Net profit for the year	\$ 69,510	\$ 120,233
Other comprehensive income	<u>2,874,151</u>	<u>230,522</u>
Total comprehensive income for the year	<u>\$ 2,943,661</u>	<u>\$ 350,755</u>
Comprehensive income attributable to the Group	<u>\$ 1,204,430</u>	<u>\$ 143,494</u>

b. Information about associates that are not individually material was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
The Group's subsidiaries' share of		
Net profit for the year	\$ 3,448	\$ -
Other comprehensive income	<u>9,455</u>	<u>-</u>
Total comprehensive income	<u>\$ 12,903</u>	<u>\$ -</u>

The Group held more than 20% of the shares with its parent company CSC and fellow subsidiaries and accounted for using the equity method.

Refer to Table 5 "Information on Investees" for the nature of main business, principal place of business and countries of incorporation of associates that are not individually material.

#### 14. PROPERTY, PLANT AND EQUIPMENT

##### For the year ended December 31, 2021

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2021	\$ 3,988,983	\$ 5,001,703	\$ 22,862,804	\$ 4,483,434	\$ 1,291,199	\$ 125,357	\$ 37,753,480
Additions	-	10,378	210,281	57,033	166,262	(58,286)	385,668
Disposals	-	-	(6,257)	(9,908)	(126,691)	-	(142,856)
Balance at December 31, 2021	<u>\$ 3,988,983</u>	<u>\$ 5,012,081</u>	<u>\$ 23,066,828</u>	<u>\$ 4,530,559</u>	<u>\$ 1,330,770</u>	<u>\$ 67,071</u>	<u>\$ 37,996,292</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2021	\$ -	\$ 2,008,941	\$ 19,637,206	\$ 4,050,064	\$ 894,626	\$ -	\$ 26,590,837
Depreciation expense	-	132,758	346,556	98,414	159,634	-	737,362
Disposals	-	-	(6,257)	(9,908)	(126,691)	-	(142,856)
Impairment loss	-	-	646,025	-	-	-	646,025
Balance at December 31, 2021	<u>\$ -</u>	<u>\$ 2,141,699</u>	<u>\$ 20,623,530</u>	<u>\$ 4,138,570</u>	<u>\$ 927,569</u>	<u>\$ -</u>	<u>\$ 27,831,368</u>
Carrying amount at December 31, 2021	<u>\$ 3,988,983</u>	<u>\$ 2,870,382</u>	<u>\$ 2,443,298</u>	<u>\$ 391,989</u>	<u>\$ 403,201</u>	<u>\$ 67,071</u>	<u>\$ 10,164,924</u>

##### For the year ended December 31, 2020

	Land	Buildings	Machinery and Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 3,988,983	\$ 4,993,389	\$ 22,734,037	\$ 4,419,879	\$ 1,428,295	\$ 116,329	\$ 37,680,912
Additions	-	8,314	139,625	76,676	108,284	9,028	341,927
Disposals	-	-	(10,858)	(13,121)	(245,380)	-	(269,359)
Balance at December 31, 2020	<u>\$ 3,988,983</u>	<u>\$ 5,001,703</u>	<u>\$ 22,862,804</u>	<u>\$ 4,483,434</u>	<u>\$ 1,291,199</u>	<u>\$ 125,357</u>	<u>\$ 37,753,480</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2020	\$ -	\$ 1,877,331	\$ 18,539,349	\$ 3,938,749	\$ 773,196	\$ -	\$ 25,128,625
Depreciation expense	-	131,610	676,183	124,436	213,654	-	1,145,883
Disposals	-	-	(1,487)	(13,121)	(245,380)	-	(259,988)
Impairment loss	-	-	423,161	-	153,156	-	576,317
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 2,008,941</u>	<u>\$ 19,637,206</u>	<u>\$ 4,050,064</u>	<u>\$ 894,626</u>	<u>\$ -</u>	<u>\$ 26,590,837</u>
Carrying amount at December 31, 2020	<u>\$ 3,988,983</u>	<u>\$ 2,992,762</u>	<u>\$ 3,225,598</u>	<u>\$ 433,370</u>	<u>\$ 396,573</u>	<u>\$ 125,357</u>	<u>\$ 11,162,643</u>



	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Depreciation charge for right-of-use assets		
Land	\$ 12,450	\$ 12,446
Transportation equipment	<u>3,029</u>	<u>3,029</u>
	<u>\$ 15,479</u>	<u>\$ 15,475</u>
		(Concluded)

Except for the addition and recognition of depreciation expenses listed above, the Group's right-of-use assets did not undergo significant sub-lease and impairment for the years ended December 31, 2021 and 2020.

b. Lease liabilities

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<u>Carrying amount</u>		
Current	<u>\$ 15,408</u>	<u>\$ 15,230</u>
Non-current	<u>\$ 48,519</u>	<u>\$ 63,898</u>

Range of discount rates for lease liabilities was as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Land (%)	0.65-1.31	0.85-1.31
Transportation equipment (%)	0.76	0.76

c. Material lease activities and terms

The Corporation leases several pieces of land to store steel products, with the lease terms of 3 to 10 years. The Corporation does not have bargain purchase options to acquire the leasehold land at the end of the lease terms.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties are set out in Note 16.

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Expenses relating to short-term leases	<u>\$ 12,728</u>	<u>\$ 21,525</u>
Expenses relating to low-value asset leases	<u>\$ 1,353</u>	<u>\$ 1,890</u>
Total cash outflow for leases	<u>\$ (30,167)</u>	<u>\$ (39,533)</u>

For transportation equipment which qualified as short-term leases and several other equipment which qualified as low-value asset leases, the Group has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 16. INVESTMENT PROPERTIES

For the year ended December 31, 2021

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2021 and December 31, 2021	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2021	\$ -	\$ 16,956	\$ 16,956
Depreciation expense	<u>-</u>	<u>888</u>	<u>888</u>
Balance at December 31, 2021	<u>\$ -</u>	<u>\$ 17,844</u>	<u>\$ 17,844</u>
Carrying amount at December 31, 2021	<u>\$ 5,959,074</u>	<u>\$ 23,223</u>	<u>\$ 5,982,297</u>

For the year ended December 31, 2020

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2020 and December 31, 2020	<u>\$ 5,959,074</u>	<u>\$ 41,067</u>	<u>\$ 6,000,141</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2020	\$ -	\$ 16,068	\$ 16,068
Depreciation expense	<u>-</u>	<u>888</u>	<u>888</u>
Balance at December 31, 2020	<u>\$ -</u>	<u>\$ 16,956</u>	<u>\$ 16,956</u>
Carrying amount at December 31, 2020	<u>\$ 5,959,074</u>	<u>\$ 24,111</u>	<u>\$ 5,983,185</u>

The Corporation as lessor leased land in Longdong section in Kaohsiung on June 30, 2010 for 20 years under an operating lease agreement; the Corporation collects rental monthly. The amounts of rental revenue for the years ended December 31, 2021 and 2020 were NT\$83,446 thousand and NT\$81,889 thousand, respectively, and were included in other income. As of December 31, 2021 and 2020, the Corporation received the same margin of NT\$35,000 thousand based on the lease contract.

As of December 31, 2021 and 2020, notes receivable and advance rental were as follows:

	<u>December 31</u>	
	<b>2021</b>	<b>2020</b>
Notes receivable	\$ 51,598	\$ 50,587
Less: Advance rental	<u>51,598</u>	<u>50,587</u>
	<u>\$ -</u>	<u>\$ -</u>

The future rentals to be received under operating leases for the leasing out of investment properties are as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
1st year	\$ 94,793	\$ 87,569
2nd year	86,618	84,956
3rd year	88,232	86,618
4th year	89,996	88,232
5th year	91,796	89,996
Later than 5 years	<u>453,028</u>	<u>544,824</u>
	<u>\$ 904,463</u>	<u>\$ 982,195</u>

The above buildings of investment properties are depreciated on a straight-line basis over 31-55 years useful lives.

The fair value of the investment properties was arrived at on the basis of valuations carried out in November 2019 and December 2021 by real estate appraiser and on the basis of information at the Ministry of the Interior's real estate transaction database website. Appraised lands and buildings were evaluated using Level 3 inputs under market approach, cost approach, income approach, and land development analysis approach. The important assumptions and fair value were as follows:

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Fair value	<u>\$ 13,667,266</u>	<u>\$ 9,996,358</u>
Expense rate (%)	27.52	25.14
Depreciation rate (%)	1.90-2.57	1.90-2.57

All investment properties are owned by the Group and had not been pledged to secure borrowings.

## 17. BORROWINGS

### a. Short-term borrowings and bank overdrafts

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Unsecured loans	\$ 2,700,000	\$ 200,000
Bank overdrafts (Note 31)	666,391	154,630
Letters of credit	<u>1,195,861</u>	<u>50,000</u>
	<u>\$ 4,562,252</u>	<u>\$ 404,630</u>
Interest rate (%)	0.21-0.75	0.32-0.75

b. Short-term bills payable

	<u>December 31</u>	
	2021	2020
Short-term bills payable	\$ 1,000,000	\$ 3,600,000
	<u>359</u>	<u>423</u>
Less: Unamortized discounts	<u>\$ 999,641</u>	<u>\$ 3,599,577</u>
Interest rate (%)	0.56	0.35-0.36

As of December 31, 2021 and 2020, all short-term bills payable were non-guarantee commercial paper.

c. Long-term borrowings

	<u>December 31</u>	
	2021	2020
Credit bank loans		
Due on various dates through December 2024	<u>\$ 1,200,000</u>	<u>\$ 2,000,000</u>
Interest rate (%)	0.79	0.75-0.92

d. Long-term bills payable

	<u>December 31</u>	
	2021	2020
Long-term bills payable	\$ 240,000	\$ 1,110,000
Less: Unamortized discount	<u>208</u>	<u>326</u>
	<u>\$ 239,792</u>	<u>\$ 1,109,674</u>
Interest rate (%)	0.62	0.73-0.91

Long-term bills payables have revolving credit lines within the payment terms according to the contracts, and need to be utilized to some extent. As of December 31, 2021 and 2020, all long-term bills payables were non-guarantee commercial paper.

## 18. BONDS PAYABLE

	<u>December 31</u>	
	2021	2020
Unsecured domestic bonds	\$ 3,000,000	\$ 3,000,000
Less: Issuance cost of bonds payable	<u>3,826</u>	<u>4,961</u>
	<u>\$ 2,996,174</u>	<u>\$ 2,995,039</u>

The major terms of unsecured domestic bonds are as follow:

<b>Issuer</b>	<b>Issuance Period</b>	<b>Total Amount</b>	<b>Coupon Rate (%)</b>	<b>Repayment and Interest Payment</b>
The Corporation	5 years; expired in March 2025	\$ 2,000,000	0.78	Repayable in March 2025; interest payable annually
The Corporation	5 years; expired in September 2025	1,000,000	0.65	Repayable in September 2025; interest payable annually.

## 19. ACCOUNTS PAYABLE

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<u>Accounts payable</u>		
Operating - non-related parties	<u>\$ 1,360,732</u>	<u>\$ 27,500</u>
Operating - related parties	<u>\$ 469,577</u>	<u>\$ 313,224</u>

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## 20. OTHER PAYABLES

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Salaries and incentive bonus	\$ 487,058	\$ 289,532
Compensation of employees and remuneration and transportation allowances of directors	372,347	36,469
Export fees	57,829	26,007
Utilities	55,505	59,229
Outsourced repair and construction	32,317	34,572
Freight	31,401	27,497
Processing fee	8,935	23,367
Others	<u>130,312</u>	<u>83,591</u>
	<u>\$ 1,175,704</u>	<u>\$ 580,264</u>

## 21. PROVISIONS - CURRENT

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Onerous contracts	<u>\$ 206,850</u>	<u>\$ -</u>

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of the year	\$ -	\$ -
Recognized	<u>206,850</u>	<u>-</u>
Balance at end of the year	<u>\$ 206,850</u>	<u>\$ -</u>

The provision for onerous contracts represents the present value of the future payments that the Group was presently obligated to make under non-cancellable onerous purchase contracts, less revenue expected to be earned on the contracts.

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

### b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Act, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation makes contributions, equal to a portion of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Corporation has no right to influence the investment policy and strategy.

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Present value of defined benefit obligation	\$ 1,601,663	\$ 1,475,529
Fair value of plan assets	<u>(1,213,886)</u>	<u>(1,161,812)</u>
Net defined benefit liabilities	<u>\$ 387,777</u>	<u>\$ 313,717</u>

Movements of net defined benefit liabilities were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2021	<u>\$ 1,475,529</u>	<u>\$ (1,161,812)</u>	<u>\$ 313,717</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Service cost			
Current service cost	\$ 18,626	\$ -	\$ 18,626
Interest expense (income)	<u>7,372</u>	<u>(6,001)</u>	<u>1,371</u>
Recognized in profit or loss	<u>25,998</u>	<u>(6,001)</u>	<u>19,997</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(14,600)	(14,600)
Actuarial loss - changes in demographic assumptions	33,010	-	33,010
Actuarial loss - changes in financial assumptions	52,523	-	52,523
Actuarial loss - experience adjustments	<u>86,284</u>	<u>-</u>	<u>86,284</u>
Recognized in other comprehensive income	<u>171,817</u>	<u>(14,600)</u>	<u>157,217</u>
Contributions from the employer	<u>-</u>	<u>(95,550)</u>	<u>(95,550)</u>
Benefits paid	<u>(71,681)</u>	<u>64,077</u>	<u>(7,604)</u>
Balance at December 31, 2021	<u>\$ 1,601,663</u>	<u>\$ (1,213,886)</u>	<u>\$ 387,777</u>
Balance at January 1, 2020	<u>\$ 1,475,725</u>	<u>\$ (1,101,865)</u>	<u>\$ 373,860</u>
Service cost			
Current service cost	20,114	-	20,114
Interest expense (income)	<u>10,971</u>	<u>(8,473)</u>	<u>2,498</u>
Recognized in profit or loss	<u>31,085</u>	<u>(8,473)</u>	<u>22,612</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(35,652)	(35,652)
Actuarial loss - changes in demographic assumptions	2,834	-	2,834
Actuarial loss - changes in financial assumptions	34,948	-	34,948
Actuarial gain - experience adjustments	<u>(14,508)</u>	<u>-</u>	<u>(14,508)</u>
Recognized in other comprehensive income	<u>23,274</u>	<u>(35,652)</u>	<u>(12,378)</u>
Contributions from the employer	<u>-</u>	<u>(67,584)</u>	<u>(67,584)</u>
Benefits paid	<u>(54,555)</u>	<u>51,762</u>	<u>(2,793)</u>
Balance at December 31, 2020	<u>\$ 1,475,529</u>	<u>\$ (1,161,812)</u>	<u>\$ 313,717</u>

(Concluded)

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

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Operating costs	\$ 16,845	\$ 19,066
Operating expenses	<u>3,152</u>	<u>3,546</u>
	<u>\$ 19,997</u>	<u>\$ 22,612</u>

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

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Discount rate (%)	0.5	0.5
Expected rate of salary increase (%)	2.5	2.125
Turnover rate (%)	0-4.5	0-4.5

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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Discount rate		
0.25% increase	<u>\$ (36,735)</u>	<u>\$ (34,960)</u>
0.25% decrease	<u>\$ 37,995</u>	<u>\$ 36,197</u>

(Continued)

	<u>December 31</u>	
	2021	2020
Expected rate of salary increase		
0.25% increase	<u>\$ 36,597</u>	<u>\$ 34,984</u>
0.25% decrease	<u>\$ (35,578)</u>	<u>\$ (33,972)</u>
		(Concluded)

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

	<u>December 31</u>	
	2021	2020
The expected contributions to the plan for the next year	<u>\$ 139,466</u>	<u>\$ 79,110</u>
The average duration of the defined benefit obligation	9.4 years	9.7 years

## 23. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	2021	2020
Numbers of shares authorized (in thousands)	<u>2,043,160</u>	<u>2,043,160</u>
Shares authorized	<u>\$ 20,431,600</u>	<u>\$ 20,431,600</u>
Numbers of shares issued and fully paid (in thousands)	<u>1,435,544</u>	<u>1,435,544</u>
Shares issued	<u>\$ 14,355,444</u>	<u>\$ 14,355,444</u>

In June 2009, the Corporation revised the number of its authorized shares to 3,000,000 thousand shares upon obtaining the approval in the shareholders' meeting. The number of authorized shares approved by the Department of Commerce, Ministry of Economic Affairs is 2,043,160 thousand shares.

Fully paid ordinary shares, which have a par value NT\$10, carry one vote per share and the right to dividends.

### b. Capital surplus

	<u>December 31</u>	
	2021	2020
Additional paid-in capital	<u>\$ 903</u>	<u>\$ 903</u>

In 2009, CSC had transferred its treasury shares to its employees and subsidiaries. The Corporation recognized a compensation cost and capital surplus of NT\$743 thousand. In July 2011, CSC issued ordinary shares for cash capital. Under the Company Law, CSC should reserve 10% of the shares for its employees and subsidiaries. The Corporation recognized NT\$160 thousand of compensation cost and capital surplus.

Such capital surplus may be used only to offset deficit.

### c. Retained earnings and dividend policy

The Corporation's Articles of Incorporation provide that 10% of the annual net income less any deficit

should be appropriated as a legal reserve; a certain percentage should be appropriated as special reserve; the remainder may be declared as dividends or retained as proposed by the Corporation's board of directors and approved in the shareholders' meetings.

In June 2020, the shareholders in the shareholders' meeting resolved and approved to allocate no less than 30% of the distributable surplus every year to distribute dividends. However, if the cumulative distributable surplus is less than 3% of the paid-in capital, it may not be distributed.

The Corporation is in a mature steel industry. Thus, dividends will be appropriated in cash or in shares at an appropriate ratio, with cash dividends to be at least 50% of total dividends.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the Corporation's paid-in capital. Legal reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2020 and 2019 were approved by the shareholders in the shareholders' meeting in August 2021 and June 2020, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share (NT\$)</u>	
	2020	2019	2020	2019
Legal reserve	\$ 54,064	\$ 118		
Special reserve (reversal)	(123,739)	51,971		
Cash dividends	430,663	-	\$ 0.3	\$ -

The appropriations of earnings for 2021 were proposed by the Corporation's board of directors on February, 2022 as follows:

	<u>Appropriations of Earnings</u>	<u>Dividend Per Share (NT\$)</u>
Legal reserve	\$ 620,174	
Reversal of special reserve	(425,839)	
Cash dividends	4,019,524	\$ 2.8

The appropriations of earnings for 2021 are subject to the resolution of the shareholders' meeting to be held in June 2022.

Information about the appropriation of earnings and offsetting deficit, proposed by the shareholders' meetings and the Corporation's board of directors, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Exchange differences on translating foreign operations

	<u>For the Year Ended December 31</u>	
	2021	2020
Balance at beginning of the year	\$ -	\$ -
Recognized during the year		
Share from associates accounted for using the equity method	(142)	-
Balance at end of the year	<u>\$ (142)</u>	<u>\$ -</u>

e. Unrealized gains and losses on financial assets at fair value through other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Balance at beginning of the year	\$ (425,839)	\$ (549,578)
Recognized during the period		
Unrealized gains and losses - equity instruments	380,295	29,432
Share from associates accounted for using the equity method	<u>1,185,440</u>	<u>94,307</u>
Other comprehensive income recognized in the year	<u>1,565,735</u>	<u>123,739</u>
Cumulative unrealized gain or loss of equity instruments transferred to retained earnings due to disposal	<u>(8,543)</u>	<u>-</u>
Balance at end of the year	<u>\$ 1,131,353</u>	<u>\$ (425,839)</u>

## 24. OPERATING REVENUE

a. Contract balances

	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>January 1, 2020</b>
Accounts receivable	<u>\$ 977,933</u>	<u>\$ 947,325</u>	<u>\$ 511,750</u>
Contract liabilities - current			
Sale of goods	<u>\$ 95,155</u>	<u>\$ 57,283</u>	<u>\$ 285,052</u>

b. Disaggregation of revenue

For the year ended December 31, 2021

Type of goods or services	<b>Reportable Segments</b>		
	<b>Chung Hung</b>	<b>Others</b>	<b>Total</b>
Sale of goods	\$ 53,019,056	\$ -	\$ 53,019,056
Rendering of services	624,450	10,497	634,947
Others	<u>89,708</u>	<u>301</u>	<u>90,009</u>
	<u>\$ 53,733,214</u>	<u>\$ 10,798</u>	<u>\$ 53,744,012</u>

For the year ended December 31, 2020

Type of goods or services	<b>Reportable Segments</b>		
	<b>Chung Hung</b>	<b>Others</b>	<b>Total</b>
Sale of goods	\$ 36,406,042	\$ -	\$ 36,406,042
Rendering of services	324,620	134	324,754
Others	<u>58,856</u>	<u>502</u>	<u>59,358</u>
	<u>\$ 36,789,518</u>	<u>\$ 636</u>	<u>\$ 36,790,154</u>

## 25. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Rental income	\$ 86,876	\$ 85,229
Grant income	24,207	94,705
Dividend income	10,383	31,821
Indemnity income	-	4,108
Others	<u>9,877</u>	<u>8,768</u>
	<u>\$ 131,343</u>	<u>\$ 224,631</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Gain on financial assets at fair value through profit or loss	\$ 318,331	\$ 78,903
Net foreign exchange gain (loss)	64,415	(51,578)
Service charge	(7,554)	(11,796)
Loss on disposal of property, plant and equipment	-	(9,371)
Other losses	<u>(4,254)</u>	<u>(4,670)</u>
	<u>\$ 370,938</u>	<u>\$ 1,488</u>

The components of net foreign exchange gain (loss) were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Foreign exchange gain	\$ 128,405	\$ 42,675
Foreign exchange loss	<u>(63,990)</u>	<u>(94,253)</u>
Net exchange gain (loss)	<u>\$ 64,415</u>	<u>\$ (51,578)</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Interest on bank overdrafts and loans	\$ 45,534	\$ 73,637
Interest on loans from related parties (Note 30)	-	12,990
Interest on lease liabilities	<u>854</u>	<u>1,044</u>
Total interest expense financial liabilities measured at amortized cost	46,388	87,671
Less: Amounts included in the cost of qualifying assets	<u>673</u>	<u>1,452</u>
	<u>\$ 45,715</u>	<u>\$ 86,219</u>

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Capitalized amounts	\$ 673	\$ 1,452
Capitalized annual rates (%)	0.56-0.72	0.62-0.83
d. Depreciation		
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Property, plant and equipment	\$ 737,362	\$ 1,145,883
Investment properties	888	888
Right-of-use assets	<u>15,479</u>	<u>15,475</u>
	<u>\$ 753,729</u>	<u>\$ 1,162,246</u>
Analysis of depreciation by function		
Operating costs	\$ 745,529	\$ 1,089,347
Operating expenses	7,312	72,011
Deduction of other income	<u>888</u>	<u>888</u>
	<u>\$ 753,729</u>	<u>\$ 1,162,246</u>
e. Operating expenses directly related to investment properties		
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Direct operating expenses of investment properties that generated rental income	\$ 11,401	\$ 11,387
Direct operating expenses of investment properties that did not generate rental income	<u>7,265</u>	<u>7,265</u>
	<u>\$ 18,666</u>	<u>\$ 18,652</u>
f. Employee benefits		
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Short-term employee benefits		
Salaries	\$ 1,850,603	\$ 1,065,802
Labor and health insurance	98,075	86,243
Others	<u>214,994</u>	<u>123,232</u>
	<u>2,163,672</u>	<u>1,275,277</u>
Post-employment benefits		
Defined contribution plans	26,275	25,930
Defined benefit plans (Note 22)	<u>19,997</u>	<u>22,612</u>
	<u>46,272</u>	<u>48,542</u>
	<u>\$ 2,209,944</u>	<u>\$ 1,323,819</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Analysis of employee benefits expense by function		
Operating costs	\$ 1,785,946	\$ 1,093,410
Operating expenses	<u>423,998</u>	<u>230,409</u>
	<u>\$ 2,209,944</u>	<u>\$ 1,323,819</u>

(Concluded)

g. Compensation of employees and remuneration of directors

In accordance with the Corporation's Articles of Incorporation, the Corporation distributes compensation of employees and remuneration of directors at rates of no less than 1‰ and no higher than 1%, respectively, of net profit before income tax less any deficit, compensation of employees, and remuneration of directors.

The compensation of employees and remuneration of directors for the years ended December 31, 2021 and 2020, which were approved by the Corporation's board of directors in February 2022 and February 2021, respectively, were as follows:

Amount

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Compensation of employees	\$ 307,804	\$ 29,897
Remuneration of directors	61,561	5,638

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Compensation of employees (%)	4.17	5.30
Remuneration of directors (%)	0.83	1.00

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the difference is recorded as a change in accounting estimate and recognized in the next year.

There was no difference between the actual amounts of compensation of employees and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2020 and 2019.

Information on compensation of employees and remuneration of directors resolved by the Corporation's board of directors are available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 26. INCOME TAX

### a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Current tax		
In respect of the current year	\$ 658,128	\$ 5
In respect of the prior years	<u>4,537</u>	<u>-</u>
	<u>\$ 662,665</u>	<u>\$ 5</u>

The reconciliation of accounting profit and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Profit before income tax	<u>\$ 7,013,076</u>	<u>\$ 528,265</u>
Income tax expense at the statutory rate	\$ 1,402,615	\$ 105,653
Permanent differences		
Profit on investments under equity method	(6,407)	(9,837)
Others	(64,575)	(34,427)
Unrecognized deductible temporary differences	121,919	31,128
Loss carryforwards	(795,424)	(92,389)
Investment deduction	-	(123)
In respect of the prior years	<u>4,537</u>	<u>-</u>
	<u>\$ 662,665</u>	<u>\$ 5</u>

### b. No income tax was recognized in other comprehensive loss.

### c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Current tax assets		
Tax refund receivable	<u>\$ -</u>	<u>\$ 514</u>
Current tax liabilities		
Income tax payable	<u>\$ 654,769</u>	<u>\$ 5</u>

d. Deferred tax liabilities

For the year ended December 31, 2021

	<b>Balance at Beginning of the Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance at End of the Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	\$ (182,222)	\$ -	\$ (182,222)

For the year ended December 31, 2020

	<b>Balance at Beginning of the Year</b>	<b>Recognized in Profit or Loss</b>	<b>Balance at End of the Year</b>
<u>Deferred Tax Liabilities</u>			
Temporary differences			
Land value increment tax	\$ (182,222)	\$ -	\$ (182,222)

e. Items for which no deferred tax assets have been recognized

	<u>December 31</u>	
	<b>2021</b>	<b>2020</b>
Loss carryforwards		
2022 maturity	\$ -	\$ 995,450
2023 maturity	-	187,880
2025 maturity	-	2,655,245
2029 maturity	-	106,994
	<u>\$ -</u>	<u>\$ 3,945,569</u>
Investment credits (tax)		
Investment cost	\$ -	\$ 93
Deductible temporary differences		
Impairment loss on assets	\$ 1,024,967	\$ 563,483
Net defined benefit liabilities	387,777	313,717
Amortization of deferred credits	344,401	399,479
Purchase contract loss	206,850	-
Sales discount payable	200,042	144,862
Provision for inventory loss	128,663	123,804
Others	122,891	103,533
	<u>\$ 2,415,591</u>	<u>\$ 1,648,878</u>

f. Income tax assessments

The Group's income tax returns through 2019 have been assessed by the tax authorities.

## 27. EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Basic earnings per share	<u>\$ 4.42</u>	<u>\$ 0.37</u>
Diluted earnings per share	<u>\$ 4.40</u>	<u>\$ 0.37</u>

The net profit and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

### Net profit for the year

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Attributable to owners of the Corporation	<u>\$ 6,350,411</u>	<u>\$ 528,260</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Weighted average number of ordinary shares in computation of basic earnings per share	1,435,544	1,435,544
Effect of dilutive potential ordinary shares:		
Compensation of employees	<u>7,737</u>	<u>1,898</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>1,443,281</u>	<u>1,437,442</u>

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

## 28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue their operations while maximizing the return to shareholders through the optimization of the debt and equity balance.

## 29. FINANCIAL INSTRUMENTS

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

Management of the Group considers the carrying amount of financial assets and liabilities not carried at fair value approximates fair value.

b. Fair value of financial instruments that are measured at fair value on a recurring basis.

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2021</u>				
Financial assets at FVTOCI				
Domestic listed shares	\$ 1,205,902	\$ -	\$ -	\$ 1,205,902
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>62,040</u>	<u>62,040</u>
	<u>\$ 1,205,902</u>	<u>\$ -</u>	<u>\$ 62,040</u>	<u>\$ 1,267,942</u>
<u>December 31, 2020</u>				
Financial assets at FVTPL				
Emerging market shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,410</u>	<u>\$ 242,410</u>
Financial assets at FVTOCI				
Domestic listed shares	\$ 844,302	\$ -	\$ -	\$ 844,302
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>43,345</u>	<u>43,345</u>
	<u>\$ 844,302</u>	<u>\$ -</u>	<u>\$ 43,345</u>	<u>\$ 887,647</u>

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2021 and 2020.

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

	Financial Assets at FVTPL - Equity Instruments	Financial Assets at FVTOCI - Equity Instruments	Total
<u>For the year ended December 31, 2021</u>			
Balance at beginning of the year	\$ 242,410	\$ 43,345	\$ 285,755
Total profit or loss			
Recognized in profit or loss	318,331	-	318,331
Recognized in other comprehensive income	-	18,695	18,695
Disposal	<u>(560,741)</u>	<u>-</u>	<u>(560,741)</u>
Balance at end of the year	<u>\$ -</u>	<u>\$ 62,040</u>	<u>\$ 62,040</u>
<u>For the year ended December 31, 2020</u>			
Balance at beginning of the year	\$ 181,351	\$ 44,843	\$ 226,194
Total profit or loss			
Recognized in profit or loss	78,903	-	78,903
Recognized in other comprehensive income	-	436	436

(Continued)

	<b>Financial Assets at FVTPL - Equity Instruments</b>	<b>Financial Assets at FVTOCI - Equity Instruments</b>	<b>Total</b>
Disposal	\$ (17,844)	\$ -	\$ (17,844)
Capital reduction refunded	<u>-</u>	<u>(1,934)</u>	<u>(1,934)</u>
Balance at end of the year	<u>\$ 242,410</u>	<u>\$ 43,345</u>	<u>\$ 285,755</u>
Unrealized gains and losses recognized in other profit or loss	<u>\$ 75,482</u>	<u>\$ -</u>	<u>\$ 75,482</u> (Concluded)

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

- a) The fair value of emerging shares was based on the closing price adjusted for liquidity risk premium.
- b) The fair value of unlisted shares was based on the current net value.

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<u>Financial assets</u>		
Fair value through profit or loss		
Mandatorily at fair value through profit or loss	\$ -	\$ 242,410
Measured at amortized cost (see 1 below)	2,725,019	1,588,611
Financial assets at fair value through other comprehensive income		
Equity instruments	1,267,942	887,647
<u>Financial liabilities</u>		
Measured at amortized cost (see 2 below)	13,303,919	11,218,664

- 1) The balances included financial assets measured at amortized cost, which comprise cash, accounts receivable (including related parties), other receivables (including related parties and excluding tax refund receivable), other financial assets and refundable deposits.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables, refund liability, bonds payable, long-term borrowings, long-term bills payable, and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include accounts receivable, investments accounted for using equity method, other financial assets, accounts payable, short-term borrowings, short-term bills payable, bonds payable, long-term borrowings, long-term bills payable and lease liabilities. The Group's financial department coordinates domestic and international financial operations, prepares and analyzes internal

risk reports to monitor and manage financial risks related to the operation of the Group. These risks include market risk (including exchange rate risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

#### 1) Market risk

The main financial risks arising from operating activities are to the risk of change in foreign exchange rates (see (a) below), the risk of changes in interest rates (see (b) below) and the risk of other price (see (c) below).

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

##### a) Foreign currency risk

The Group was exposed to foreign currency risk due to sales and purchases, denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing the same currency for accounts receivable and payable to alleviate foreign currency risk and risk to manage futures.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities and of the derivatives exposed foreign currency risk at the end of the reporting period are set out in Note 33.

##### Sensitivity analysis

The Group was mainly exposed to the fluctuation of USD. The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollars (the functional currency) against the relevant foreign currencies. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis included only the outstanding foreign currency denominated monetary items, refer to Note 33. The following table shows the impact on profit of 1% decrease in NTD against USD.

	<b>USD Impact (Note)</b>	
	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Profit before income tax	\$ (11,834)	\$ 5,290

Note: This was mainly attributable to the exposure of outstanding USD cash, accounts receivable, short-term borrowings, accounts payable and other payables, which were not hedged at the balance sheet date.

b) Interest rate risk

The Group was exposed to interest rate risk because the Group borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Group's financial assets and liabilities with exposure to interest rates at the balance sheet date were as follows:

	<u>December 31</u>	
	2021	2020
Fair value interest rate risk		
Financial liabilities	\$ 3,060,101	\$ 3,074,167
Cash flow interest rate risk		
Financial assets	1,431,290	567,017
Financial liabilities	1,439,792	3,109,674

Sensitivity analysis

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2021 and 2020 would have been lower/higher by NT\$21 thousand and NT\$6,357 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risk through their investments in domestic listed shares. The equity price of the Group was evaluated by the closing price of the equity securities on a monthly basis.

Sensitivity analysis

If equity price of fair value through other comprehensive income financial assets had been lower by one dollar, the pre-tax-other comprehensive income, for the years ended December 31, 2021 and 2020 would both have been lower by NT\$34,113 thousand.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the balance sheet date, the Group's maximum exposure to credit risk is the carrying amount of the financial assets on the consolidated balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Group.

The Group made transactions only with the parties with good credit. The goods were delivered after the cash or L/C was received, and the Group did not provide financial guarantee to any company. Accounts receivable were due to time differences of L/C negotiation and there were no bad debt in the recent years; therefore, the credit risk is very low.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As of December 31, 2021, the unutilized credit facility of the Group was NT\$445 billion; therefore, there is no liquidity risk or incapacity of financing capital to meet contractual obligations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Less Than 1 Year	1-5 Years	Over 5 Years	Total
<u>December 31, 2021</u>				
Short-term borrowings	\$ 4,584,062	\$ -	\$ -	\$ 4,584,062
Short-term bills payable	1,000,000	-	-	1,000,000
Accounts payable (including related parties)	1,830,309	-	-	1,830,309
Other payables	1,175,704	-	-	1,175,704
Refund liabilities	265,047	-	-	265,047
Lease liabilities	16,086	35,783	14,364	66,233
Bonds payable	22,100	3,066,300	-	3,088,400
Long-term bank borrowings	9,480	1,215,258	-	1,224,738
Long-term bills payable	-	240,000	-	240,000
Guarantee deposits received	-	-	<u>35,000</u>	<u>35,000</u>
	<u>\$ 8,902,788</u>	<u>\$ 4,557,341</u>	<u>\$ 49,364</u>	<u>\$ 13,509,493</u>
<u>December 31, 2020</u>				
Short-term borrowings	\$ 406,794	\$ -	\$ -	\$ 406,794
Short-term bills payable	3,600,000	-	-	3,600,000
Accounts payable (including related parties)	340,724	-	-	340,724
Other payables	580,264	-	-	580,264
Refund liabilities	153,756	-	-	153,756
Lease liabilities	16,086	45,564	20,646	82,296
Bonds payable	22,100	3,088,400	-	3,110,500
Long-term bank borrowings	16,500	2,034,430	-	2,050,930
Long-term bills payable	-	1,110,000	-	1,110,000
Guarantee deposits received	-	-	<u>35,000</u>	<u>35,000</u>
	<u>\$ 5,136,224</u>	<u>\$ 6,278,394</u>	<u>\$ 55,646</u>	<u>\$ 11,470,264</u>

### 30. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

- a. The name of the company and its relationship with the Group

<u>Company</u>	<u>Relationship</u>
China Steel Corporation	Parent entity
Dragon Steel Corporation (DSC)	Fellow subsidiary
CHC Resources Corporation (CHC)	Fellow subsidiary
Info Champ Systems Corporation (ICSC)	Fellow subsidiary
CSC Steel Sdn. Bhd. (CSSB)	Fellow subsidiary
China Steel Global Trading Corporation (CSGT)	Fellow subsidiary
Himag Magnetic Corporation (HMC)	Fellow subsidiary
China Steel Machinery Corporation	Fellow subsidiary
China Ecotek Corporation	Fellow subsidiary

(Continued)

Company	Relationship
China Steel Security Corporation	Fellow subsidiary
Steel Castle Technology Corporation	Fellow subsidiary
China Steel Express Corporation	Fellow subsidiary
China Steel Structure Co., Ltd	Fellow subsidiary
Universal Exchange Inc.	Fellow subsidiary
China Steel Management Consulting Corp.	Fellow subsidiary
China Steel Chemical Corporation	Fellow subsidiary
Yu Cheng Lime Corporation	Fellow subsidiary
Wabo Global Trading Corporation	Fellow subsidiary
CSC Solar Corporation	Fellow subsidiary
Kaohsiung Rapid Transit Corporation	Fellow subsidiary
Sing Da Marine Structure	Fellow subsidiary
CSGT Japan Co., Ltd.	Fellow subsidiary
China Steel Precision Metals Kunshan Co., Ltd.	Fellow subsidiary
CSE Transport Corporation	Fellow subsidiary
CSGT Metals Vietnam Joint Stock Company	Fellow subsidiary
Pacific Harbour Stevedoring Corporation	Other related party

(Concluded)

b.Sale of goods

Account Items	Related Party Type /Name	For the Year Ended December 31	
		2021	2020
Sales	Fellow subsidiaries related to others	\$ 2,289,212	\$ 1,392,519
	Parent entity	<u>1,399</u>	<u>7,918</u>
		<u>\$ 2,290,611</u>	<u>\$ 1,400,437</u>
Service Revenue	Parent entity	\$ 575,034	\$ 319,145
	Fellow subsidiaries related to others	38,137	18
		<u>\$ 613,171</u>	<u>\$ 319,163</u>

The payment terms and prices of other related parties were no different from those of unrelated parties.

The abovementioned service revenue is from the agreements that the Corporation entered into with parent entity and fellow subsidiaries related to others in which the Corporation has to do certain processing work and charged based on the formula stated in the agreements. The Corporation bills the parent entity within one month after approval of delivery.

The Corporation entered into an agreement with fellow subsidiaries related to others under which the Corporation sells waste acid and the price is charged based on the formula stated in the agreement. The Corporation bills the fellow subsidiaries related to others within a month after acceptance by T/T based on the monthly amount of processing.

Account Items	Related Party Type /Name	For the Year Ended December 31	
		2021	2020
Other operating revenue	Fellow subsidiaries related to others		
	DSC	\$ 62,930	\$ 44,103
	HMC	14,448	9,179
	Others	<u>103</u>	<u>-</u>
		<u>\$ 77,481</u>	<u>\$ 53,282</u>

There is no significant profit or loss from the sale of the materials and oxidized iron powder of the Corporation to fellow subsidiaries.

c. Purchase of goods

Related Party Type/Name	For the Year Ended December 31	
	2021	2020
Parent entity	<u>\$ 8,085,884</u>	<u>\$ 17,341,242</u>
Fellow subsidiaries related to others		
DSC	16,347,526	9,479,326
CSGT	6,402,704	510,299
Others	<u>70,111</u>	<u>69,056</u>
	<u>22,820,341</u>	<u>10,058,681</u>
	<u>\$ 30,906,225</u>	<u>\$ 27,399,923</u>

The purchases were mainly slabs and hot rolling coils. Purchase from related parties were made under normal term in 2021. The purchase price and payment terms were incomparable in 2020 because the Corporation were not purchased from non-related parties

d. Accounts receivable from related parties

Account Items	Related Party Type /Name	December 31	
		2021	2020
Accounts receivable from related parties	Parent entity	<u>\$ 33,745</u>	<u>\$ 52,905</u>
	Fellow subsidiaries related to others		
	CSSB	-	53,331
	Others	<u>13,610</u>	<u>11,002</u>
		<u>13,610</u>	<u>64,333</u>
		<u>\$ 47,355</u>	<u>\$ 117,238</u>
Other receivable from related parties	Parent entity	<u>\$ 180,658</u>	<u>\$ 1,035</u>

(Continued)

Account Items	Related Party Type /Name	December 31	
		2021	2020
	Fellow subsidiaries related to others		
	CHC	\$ 40,803	\$ 25,389
	Others	<u>-</u>	<u>248</u>
		<u>40,803</u>	<u>25,637</u>
		<u>\$ 221,461</u>	<u>\$ 26,672</u>
			(Concluded)

No guarantees have been received for accounts receivable and other receivable from related parties. No expenses have been recognized for the years ended December 31, 2021 and 2020 for allowance for impairment of accounts receivable in respect of the amounts owed by related parties.

e. Accounts payable to related parties (excluding loans from related parties)

Account Items	Related Party Type /Name	December 31	
		2021	2020
Accounts payable	Parent entity	\$ 463,370	\$ 267,429
	Fellow subsidiaries related to others	1,554	41,816
	Other related parties	<u>4,653</u>	<u>3,979</u>
		<u>\$ 469,577</u>	<u>\$ 313,224</u>
Other payable	Parent entity	\$ 64,317	\$ 7,459
	Fellow subsidiaries related to others	16,737	9,187
	Other related parties	<u>3,807</u>	<u>3,023</u>
		<u>\$ 84,861</u>	<u>\$ 19,669</u>

The outstanding accounts payable to related parties and other payable to related parties were unsecured.

f. Loans from related parties

The Corporation borrowed from the parent company because of the need for short-term financing. The interest rate of the loan was based on average daily short-term interest the parent entity financed for the same currency from financial institutions in the last 30 days and adjusted monthly. The amount has been fully paid as of December 31, 2020.

Related interest expense was NT\$12,990 thousand for the year ended December 31, 2020.

g. Other transactions with related parties

1) Authorization fees

In May 2003, the parent company, Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel Corporation in April 2019) and Sumitomo Corporation entered into a joint venture agreement and established the joint venture company East Asia United Steel Corporation (EAUS) in July 2003. The parent company thus has a stable supply of high quality slab through this joint venture. The parent company then signed a contract with the Corporation, transferring to the Corporation the right to buy

slab from EAUS. The Corporation should pay authorization fees to the parent company under the contract. These fees (included in the purchase cost of materials) were NT\$67,640 thousand and NT\$86,665 thousand in 2021 and 2020, respectively. As of December 31, 2021 and 2020, authorization fees payable (included in payables to related parties) were NT\$13,104 thousand and NT\$15,697 thousand, respectively. The calculation of slab purchase prices was based on the formula stated in the agreement.

2) Leases

- a) The Corporation entered into a contract with fellow subsidiaries related to others on the lease of the Corporation's part of the land, roof and warehouse. The rental revenue for the years ended December 31, 2021 and 2020 were NT\$3,995 thousand and NT\$4,011 thousand, respectively.
- b) The Corporation entered into a contract with parent entity on the lease of the Corporation's part of the land and warehouse. The rental revenue for the years ended December 31, 2021 and 2020 were both NT\$5,310 thousand.

3) Construction in progress and other expenditures

Other expenditures include import and export transportation fees, export agency fees, rent expenses, remuneration and transportation allowances of directors.

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
a) Other expenditures		
Parent entity	\$ 190,696	\$ 77,248
Fellow subsidiaries related to others	162,401	78,467
Other related parties	<u>136,611</u>	<u>133,514</u>
	<u>\$ 489,708</u>	<u>\$ 289,229</u>
b) Capital expenditure		
Parent entity	<u>\$ -</u>	<u>\$ 7,600</u>
Fellow subsidiaries related to others		
ICSC	38,021	103,487
Others	<u>-</u>	<u>1,383</u>
	<u>38,021</u>	<u>104,870</u>
	<u>\$ 38,021</u>	<u>\$ 112,470</u>

4) Income from selling supplies and scrap (included in deductions of cost of goods sold)

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Fellow subsidiaries related to others		
CHC	\$ 479,895	\$ 269,902
Others	<u>3,018</u>	<u>16,094</u>
	<u>\$ 482,913</u>	<u>\$ 285,996</u>

h. Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Short-term employee benefits	\$ 108,073	\$ 43,149
Post-employment benefits	<u>1,410</u>	<u>2,179</u>
	<u>\$ 109,483</u>	<u>\$ 45,328</u>

**31. ASSETS PLEDGED AS COLLATERAL OR SECURITY**

The Group's assets mortgaged or pledged as collateral for Bank overdrafts were as follows (listed based on their carrying amounts):

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
Time deposits (included in other financial assets - current)	\$ 700,000	\$ 300,000
Demand deposits (included in other financial assets - current)	<u>300,000</u>	<u>-</u>
	<u>\$ 1,000,000</u>	<u>\$ 300,000</u>

**32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2021 were as follows:

- a. Unused letters of credit for purchases of raw materials and machinery and equipment amounted to about NT\$5,147,158 thousand.
- b. The Group had signed agreements to buy equipment for NT\$320,067 thousand, of which NT\$133,850 thousand had been paid (included in construction-in-progress and prepayments for equipment).
- c. The Group provided letters of credits for NT\$144,129 thousand guaranteed by financial institutions for several constructions, purchase agreements and import and export goods. Guarantee notes for NT\$33,074,575 thousand were provided to bank for credit line and purchases of raw material from CSC.

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

The following information was aggregated by the foreign currencies other than functional currencies of the Group and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currency (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2021</u>				
Monetary financial assets				
USD	\$ 27,573	27.68	(USD:NTD)	\$ 763,213
Monetary financial liabilities				
USD	70,327	27.68	(USD:NTD)	1,946,640
<u>December 31, 2020</u>				
Monetary financial assets				
USD	19,476	28.48	(USD:NTD)	554,666
Monetary financial liabilities				
USD	901	28.48	(USD:NTD)	25,659

For the years ended December 31, 2021 and 2020, realized and unrealized net foreign exchange gain or loss were gain of NT\$64,415 thousand and loss of NT\$51,578 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions.

### 34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (None)
- 3) Marketable securities held (excluding investments in subsidiaries and associates) (Table 1)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (Table 2)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 4)
- 9) Trading in derivative instruments (None)
- 10) Intercompany relationships and significant intercompany transactions (None)

11) Information on investees (Table 5)

c. Information on investments in mainland China (None)

d. Major shareholder information (Table 6)

### 35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Reportable segments of the Group were as follows:

- The Corporation - manufacture, process and sell steel products.
- Other corporations - Hung Kao Investment Corporation engaged in general investment.

a. Segment revenue and operating results

The following is an analysis of the Group's revenue and results of operations by reportable segment.

	<b>The Corporation</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
For the year ended December 31, 2021				
Revenue from external customers	\$ 53,733,214	\$ 10,798	\$ -	\$ 53,744,012
Segment profit	\$ 6,514,174	\$ 9,356	\$ 120	\$ 6,523,650
Interest revenue	803	22	-	825
Other income	131,463	-	(120)	131,343
Other gains and losses	370,938	-	-	370,938
Finance costs	(45,715)	-	-	(45,715)
Share of profit of associates	<u>39,589</u>	<u>-</u>	<u>(7,554)</u>	<u>32,035</u>
Profit before income tax	7,011,252	9,378	(7,554)	7,013,076
Income tax	<u>660,841</u>	<u>1,824</u>	<u>-</u>	<u>662,665</u>
Net profit for the year	<u>\$ 6,350,411</u>	<u>\$ 7,554</u>	<u>\$ (7,554)</u>	<u>\$ 6,350,411</u>
Identifiable assets	\$ 33,387,142	\$ 49,414	\$ -	\$ 33,436,556
Investments accounted for using equity method	<u>4,089,098</u>	<u>-</u>	<u>(46,320)</u>	<u>4,042,778</u>
Total assets	<u>\$ 37,476,240</u>	<u>\$ 49,414</u>	<u>\$ (46,320)</u>	<u>\$ 37,479,334</u>
Total liabilities	<u>\$ 14,914,842</u>	<u>\$ 3,094</u>	<u>\$ -</u>	<u>\$ 14,917,936</u>

(Continued)

	<b>The Corporation</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
For the year ended December 31, 2020				
Revenue from external customers	<u>\$ 36,789,518</u>	<u>\$ 636</u>	<u>\$ -</u>	<u>\$ 36,790,154</u>
Segment profit	\$ 337,801	\$ 291	\$ 120	\$ 338,212
Interest revenue	950	16	-	966
Other income	224,750	1	(120)	224,631
Other gains and losses	1,488	-	-	1,488
Finance costs	(86,219)	-	-	(86,219)
Share of profit of associates	<u>49,490</u>	<u>-</u>	<u>(303)</u>	<u>49,187</u>
Profit before income tax	528,260	308	(303)	528,265
Income tax	<u>-</u>	<u>5</u>	<u>-</u>	<u>5</u>
Net profit for the year	<u>\$ 528,260</u>	<u>\$ 303</u>	<u>\$ (303)</u>	<u>\$ 528,260</u>
Identifiable assets	\$ 24,401,858	\$ 28,483	\$ -	\$ 24,430,341
Investments accounted for using equity method	<u>2,698,045</u>	<u>-</u>	<u>(28,329)</u>	<u>2,669,716</u>
Total assets	<u>\$ 27,099,903</u>	<u>\$ 28,483</u>	<u>\$ (28,329)</u>	<u>\$ 27,100,057</u>
Total liabilities	<u>\$ 11,866,629</u>	<u>\$ 154</u>	<u>\$ -</u>	<u>\$ 11,866,783</u>

(Concluded)

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, finance costs and income tax expense (benefit). This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Revenue from major products and services

Revenue from major products and services of the Group were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Sales		
Hot Rolled Steel	\$ 41,674,879	\$ 27,872,766
Cold Rolled Steel	7,405,276	4,973,327
Galvanized Steel	2,633,639	2,306,539
Steel Pipe	1,305,262	1,253,410
Service revenue	634,947	324,754
Investments revenue	301	502
Other operating revenue	<u>89,708</u>	<u>58,856</u>
	<u>\$ 53,744,012</u>	<u>\$ 36,790,154</u>

c. Geographical information

The Group operates in Taiwan.

The Group's revenue from external customers and information about its non-current assets by geographical location were detailed below.

	<b>Revenue from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Taiwan	\$ 40,014,883	\$ 23,178,212	\$ 16,280,431	\$ 17,319,817
Asia	9,217,278	11,890,832	-	-
America	901,657	828,813	-	-
Europe	2,684,624	289,214	-	-
Others	<u>925,570</u>	<u>603,083</u>	<u>-</u>	<u>-</u>
	<u>\$ 53,744,012</u>	<u>\$ 36,790,154</u>	<u>\$ 16,280,431</u>	<u>\$ 17,319,817</u>

Non-current assets excluded those classified as financial instruments, investments accounted for using equity method and refundable deposits.

d. Information about major customers

	<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Sales revenue		
A Company	\$ 7,752,757	\$ 3,474,689
B Company	6,807,648	4,005,402
C Company	<u>6,635,545</u>	<u>4,765,887</u>
	<u>\$ 21,195,950</u>	<u>\$ 12,245,978</u>

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**MARKETABLE SECURITIES HELD**

**DECEMBER 31, 2021**

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

Held Company Name	Type and Name of Marketable Securities	Relationship with The Company	Financial Statement Account	DECEMBER 31, 2021				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
Chung Hung Steel Corporation	Ordinary Shares Shouh Hwang Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current	730,000	\$ -	15	\$ -	Note 1
	Ordinary Shares China Steel Corporation	Parent company	Financial assets at fair value through other comprehensive income - current	33,109,239	\$ 1,170,412	-	\$ 1,170,412	
	Ordinary Shares Taiwan Ves-Power Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	958,333	\$ 55,114	2	\$ 55,114	2021.11.30 net value
	Riselinke Venture Capital Corp.	-	Financial assets at fair value through other comprehensive income - non-current	3,948	391	3	391	2021.11.30 net value
	Pacific Harbour Stevedoring Corp.	The company as its supervisor	Financial assets at fair value through other comprehensive income - non-current	250,000	6,535	5	6,535	2021.10.31 net value
					\$ 62,040		\$ 62,040	
Hung Kao Investment Corporation	Ordinary Shares China Steel Corporation	The ultimate parent of the Company	Financial assets at fair value through other comprehensive income - non-current	1,003,980	\$ 35,490	-	\$ 35,490	

Note 1: The impairment loss has been recognized that resulted in zero carrying amount, and the entity was dissolved on January 3, 2022.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company	Type of Marketable Securities	Name of Marketable Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
						Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain on Disposal	Shares/Units	Amount
Chung Hung Steel Corporation	Ordinary shares	Yieh United Steel Corp.	Financial assets at fair value through profit of loss - current	-	-	36,728,800	\$ 242,410	-	\$ -	36,728,800	\$ 560,741	\$ 242,410	\$ 318,331	-	\$ -

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2021**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer (Seller)	Related Party	Relationship	Relationship				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Chung Hung Steel Corporation	China Steel Corporation	Parent company	Purchase of goods	\$ 8,085,884	17	Letter of credit at sight/Payment after final acceptance	\$ -	NO SIGNIFICANT DIFFERENCE	\$ (463,370)	(25)	
	Dragon Steel Corporation	Fellow subsidiary	Purchase of goods	16,347,526	34	Letter of credit at sight	-	NO SIGNIFICANT DIFFERENCE	-	-	
	China Steel Global Trading Corporation	Fellow subsidiary	Purchase of goods	6,402,704	13	Letter of credit at sight/T/T within 7 business days after lading date (not included)	-	NO SIGNIFICANT DIFFERENCE	-	-	
	CSC Steel Sdn. Bhd.	Fellow subsidiary	Revenue from sale of goods	(2,211,117)	(4)	T/T within 7 business days after lading date (not included)	-	NO SIGNIFICANT DIFFERENCE	-	-	
	China Steel Corporation	Parent company	Service revenue	(564,537)	(1)	T/T as the end of the month of after final acceptance	-	NO THIRD-PARTY COULD BE COMPARED	33,745	3	

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2021  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note 2)	Allowance for Impairment Loss
					Amount	Actions Taken		
Chung Hung Steel Corporation	China Steel Corporation	Parent company	\$ 170,204	(Note 1)	\$ -	-	\$ -	\$ -

Note 1: Receivables from price settlement (included in other receivables to related parties) which is not applicable to turnover rate.

Note 2: The amount has received at the report date.

**CHUNG HUNG STEEL CORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Number of Shares	%	Carrying Amount	Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2021	December 31, 2020						
Chung Hung Steel Corporation	Hung Kao Investment Corporation	Taiwan	General investment	\$ 26,000	\$ 26,000	2,600,000	100.00	\$ 46,320	\$ 7,554	\$ 7,554	Subsidiaries (Note)
Chung Hung Steel Corporation	Transglory Investment Corporation	Taiwan	General investment	2,001,152	2,001,152	306,824,279	40.91	3,829,875	69,510	28,587	Associates
Chung Hung Steel Corporation	Pro-Ascentek Investment Corporation	Taiwan	General investment	200,000	-	20,000,000	16.67	212,903	20,687	3,448	Associates

Note: Amount was eliminated in the consolidated financial statements.

**TABLE 6****CHUNG HUNG STEEL CORPORATION****MAJOR SHAREHOLDER INFORMATION  
DECEMBER 31, 2021**

Major shareholders	Shares	
	Number of shares held	Shareholding (%)
China Steel Corporation	582,673,153	40.58

Note 1: The main shareholder information in this table is based on the last business day at the end of the quarter, and the shareholders hold more than 5% of the company's ordinary shares that have completed unregistered delivery. The share capital recorded in the company's consolidated financial report and the actual number of shares delivered without physical registration may be different due to different calculation bases.

Note 2: In the case of the above information, if the shareholder delivers the shares to the trust, it is disclosed in the individual accounts of the trustee who opened the trust account by the trustee. As for the shareholder's declaration of insider's equity holding more than 10% of the shares in accordance with the Securities and Exchange Act, his shareholding includes his own shareholding and the shares delivered to the trust which has the decision rights over trust property, etc. Please refer to the public information for information on Market Observation Post System website of the Taiwan Stock Exchange.

**VI. Effects of financial difficulties experienced by the company and its affiliated companies on the Company's financial status:None.**

**G. Review, Analysis, and Risks of Financial Conditions and Performance**

**I. Financial conditions**

**1. Comparative analysis of financial status - International Financial Reporting Standards (consolidated)**

Unit: NTS1000

Item \ Year	2021	2020	Difference	
			Amount	%
Current assets	17,052,944	7,036,111	10,016,833	142.36
Property, plant and equipment	10,164,924	11,162,643	(997,719)	(8.94)
Other assets	10,261,466	8,901,303	1,360,163	15.28
Total assets	37,479,334	27,100,057	10,379,277	38.30
Current liabilities	9,828,452	5,167,233	4,661,219	90.21
Long-term liabilities	5,089,484	6,699,550	(1,610,066)	(24.03)
Total liabilities	14,917,936	11,866,783	3,051,153	25.71
Capital stock	14,355,444	14,355,444	-	-
Capital surplus	903	903	-	-
Retained earnings	7,073,840	1,302,766	5,771,074	442.99
Other equity	1,131,211	(425,839)	1,557,050	365.64
Net shareholder equity	22,561,398	15,233,274	7,328,124	48.11

Explanation: (changes of over 20%)

1. Current assets and total assets increased from the previous year mainly due to the an increase in inventory.
2. Current liabilities and total liabilities increased from the previous year mainly due to the increase in short-term borrowings and accounts payable.
3. Long-term liabilities fell from the previous year mainly due to the decrease in long-term loans and long-term bills payable.
4. The retained earnings and shareholders' equity rose from the previous year mainly due to an increase in net profit this year.
5. Other equity increased from the previous year mainly due to an increase in the share of other comprehensive losses on equity-accounted affiliates.

## 2. Comparative analysis of financial status - International Financial Reporting Standards (individual)

Unit: NT\$1000

Item	Year	2021	2020	Difference	
				Amount	%
Current assets		17,039,020	7,032,476	10,006,544	142.29
Property, plant and equipment		10,164,924	11,162,643	(997,719)	(8.94)
Other assets		10,272,296	8,904,784	1,367,512	15.36
Total assets		37,476,240	27,099,903	10,376,337	38.29
Current liabilities		9,825,358	5,167,079	4,658,279	90.15
Long-term liabilities		5,089,484	6,699,550	(1,610,066)	(24.03)
Total liabilities		14,914,842	11,866,629	3,048,213	25.69
Capital stock		14,355,444	14,355,444	-	-
Capital surplus		903	903	-	-
Retained earnings		7,073,840	1,302,766	5,771,074	442.99
Other equity		1,131,211	(425,839)	1,557,050	365.64
Net shareholder equity		22,561,398	15,233,274	7,328,124	48.11

Explanation: (changes of over 20%)

1. Current assets and total assets increased from the previous year mainly due to the an increase in inventory.
2. Current liabilities and total liabilities increased from the previous year mainly due to the increase in short-term borrowings and accounts payable.
3. Long-term liabilities fell from the previous year mainly due to the decrease in long-term loans and long-term bills payable.
4. The retained earnings and shareholders' equity rose from the previous year mainly due to an increase in net profit this year.
5. Other equity increased from the previous year mainly due to an increase in the share of other comprehensive losses on equity-accounted affiliates.

## II. Financial performance

### (I) Comparative Analysis of Operational Performance

#### 1. Comparative analysis of financial performance - International Financial Reporting Standards (consolidated)

Unit: NT\$1000

Item \ Year	2021	2020	Increase (decrease) amount	Percentage of change (%)
Net operating revenue	53,744,012	36,790,154	16,953,858	46.08
Operating costs	46,197,610	35,335,654	10,861,956	30.74
Gross profit	7,546,402	1,454,500	6,091,902	418.83
Operating expenses	1,022,752	1,116,288	(93,536)	(8.38)
Operating profit (loss)	6,523,650	338,212	6,185,438	1828.86
Non-operating income (expenses)	489,426	190,053	299,373	157.52
Profit before income tax	7,013,076	528,265	6,484,811	1227.57
Income tax	662,665	5	662,660	13253200.00
Net profit for the year	6,350,411	528,260	5,822,151	1102.14
Other comprehensive income	1,408,376	136,117	1,272,259	934.68
Total comprehensive income	7,758,787	664,377	7,094,410	1067.83

Analysis description for items with increase and decrease ratio: (changes of over 20%)

1. The operating revenue increased from the previous year mainly due to the increase in average unit price this year.
2. The operating costs increased from the previous year mainly due to the increase in average unit cost this year.
3. The operating profits, profit before tax, and net income for the year increased from the previous year mainly because the increase in average unit sales price was greater than the increase in average unit cost in this year.
4. Non-operating income (expenses) increased from the previous year mainly due to the increase in net gains in financial assets measured at fair value through profit and loss and foreign exchange gains.
5. Income tax expenses increased compared to the previous year mainly due to the start of the estimation of income tax expenses after the deductible losses of the current year are used up.
6. Other comprehensive income increased from the previous year mainly due to an increase in the share of other comprehensive losses on equity-accounted affiliates this year.

2. Comparative analysis of financial performance - International Financial Reporting Standards (individual)

Unit: NT\$1000

Item \ Year	2021	2020	Increase (decrease) amount	Percentage of change (%)
Net operating revenue	53,733,214	36,789,518	16,943,696	46.06
Operating costs	46,197,610	35,335,654	10,861,956	30.74
Gross profit	7,535,604	1,453,864	6,081,740	418.32
Operating expenses	1,021,430	1,116,063	(94,633)	(8.48)
Operating profit (loss)	6,514,174	337,801	6,176,373	1828.41
Non-operating income (expenses)	497,078	190,459	306,619	160.99
Profit before income tax	7,011,252	528,260	6,482,992	1227.24
Income tax	660,841	0	660,841	-
Net profit for the year	6,350,411	528,260	5,822,151	1102.14
Other comprehensive income	1,408,376	136,117	1,272,259	934.68
Total comprehensive income	7,758,787	664,377	7,094,410	1067.83

Analysis description for items with increase and decrease ratio: (changes of over 20%)

1. The operating revenue increased from the previous year mainly due to the increase in average unit price this year.
2. The operating costs increased from the previous year mainly due to the increase in average unit cost this year.
3. The operating profits, profit before tax, and net income for the year increased from the previous year mainly because the increase in average unit sales price was greater than the increase in average unit cost in this year.
4. Non-operating income (expenses) increased from the previous year mainly due to the increase in net gains in financial assets measured at fair value through profit and loss and foreign exchange gains.
5. Income tax expenses increased compared to the previous year mainly due to the start of the estimation of income tax expenses after the deductible losses of the current year are used up.
6. Other comprehensive income increased from the previous year mainly due to an increase in the share of other comprehensive losses on equity-accounted affiliates this year.

(II) The expected sales and its basis, and the possible impact on the company's future financial operations and response plans are detailed in page 3 of the Annual Report.

### III. Cash flow

1. Analysis on the cash flow changes of the current year - International Financial Reporting Standards (consolidated):

Cash and cash equivalents increased by NT\$220,750 thousand in 2021 and cash flows changed as follows:

- (1) Operating activities: The net cash inflow of NT\$2,024,001 thousand was mainly due to the profit before income tax of NT\$7,013,076 thousand plus depreciation of NT\$753,729 thousand, decrease in accounts payable of NT\$1,489,585 thousand, decrease in other payables of NT\$589,808 thousand, increase in impairment loss of NT\$646,025 thousand, and increase in inventory of NT\$8,485,878 thousand.
- (2) Investing activities: Net cash outflow of NT\$1,198,625 thousand was mainly due to the increase in other financial assets of NT\$701,100 thousand and fixed asset purchases of NT\$353,847 thousand.
- (3) Financing activities: The net cash outflow amounted to NT\$604,626 thousand mainly due to the distribution of cash dividends of NT\$430,663 thousand.

Cash flow analysis for the following year:

Unit: NT\$1000

Cash balance at beginning of the period	Estimated annual net cash flow from operating activities	Expected annual cash outflow	Estimated cash surplus (shortage) amount	Estimated remedial measures for cash deficit	
				Investment plan	Financial plan
508,123	3,561,863	3,413,577	656,409	N/A	N/A
1. Analysis of estimated annual cash flow changes in the 2022 fiscal year Net cash flows from operating activities: Net cash inflow is mainly caused by changes in operating activities, accounts receivable, and inventory. Cash outflow: Cash outflow is mainly caused by the procurement of fixed assets in investing activities, changes in long-term and short-term loans in financing activities, and distribution of cash dividends. 2. Expected cash deficit remedies and liquidity analysis: Not applicable.					

2. Analysis on the cash flow changes of the current year - International Financial Reporting Standards (individual):

Cash and cash equivalents increased by NT\$221,566 thousand in 2021 and cash flows changed as follows:

- (1) Operating activities: The net cash inflow of NT\$2,023,835 thousand was mainly due to the profit before income tax of NT\$7,011,252 thousand plus depreciation of NT\$753,729 thousand, decrease in accounts payable of NT\$1,489,585 thousand, decrease in other payables of NT\$588,691 thousand, increase in impairment loss of NT\$646,025 thousand, and increase in inventory of NT\$8,485,878 thousand.
- (2) Investing activities: Net cash outflow of NT\$1,197,643 thousand was mainly due to the increase in other financial assets of NT\$700,000 thousand and fixed asset purchases of NT\$353,847 thousand.

(3) Financing activities: The net cash outflow amounted to NT\$604,626 thousand mainly due to the distribution of cash dividends of NT\$430,663 thousand and other factors.

Cash flow analysis for the following year:

Unit: NT\$1000

Cash balance at beginning of the period	Estimated annual net cash flow from operating activities	Expected annual cash outflow	Estimated cash surplus (shortage) amount	Estimated remedial measures for cash deficit	
				Investment plan	Financial plan
507,465	3,561,863	3,413,577	655,751	N/A	N/A
<p>1. Analysis of estimated annual cash flow changes in the 2022 fiscal year            *Net cash flows from operating activities: Net cash inflow is mainly caused by changes in operating activities, accounts receivable, and inventory.            *Cash outflow: Cash outflow is mainly caused by the procurement of fixed assets in investing activities, changes in long-term and short-term loans in financing activities, and distribution of cash dividends.            2. Expected cash deficit remedies and liquidity analysis: Not applicable.</p>					

**IV. Effect of major capital expenditure on financial position and business operation in the most recent year:**

**V. Investment policy in the past year, profit/loss analysis, improvement plan, and investment plan for the coming year:**

Name of investee	March 31, 2022 Investment amount	Policy	Main reasons for profit or loss	Improvement plan	Other investment plan in the future
Hung Kao Investment Co., Ltd.	NT\$26 million	Investment	The main source of income in 2021 was remuneration for Directors and Supervisors of China Steel and income from cash dividends for investment in China Steel.	None	None
Transglory Investment Corporation	NT\$ 2.001 billion	Investment	Recognized as profits from dividends from China Steel from investments.	None	None
Pro-Ascentek Investment Corporation	NT\$200 million	Investment	Recognized as profits from investments	None	None

## VI. Risk issues and analysis evaluation

(I) Impacts of interest rates, exchange rate fluctuation and inflation situation on the company's profit and loss, and the future countermeasures:

### 1. Impact on the Company's income:

#### (1) Interest rate change

The Group's main financial instruments include accounts receivable, equity investment, other financial assets, accounts payable, short-term borrowings, short-term notes and bills payable, corporate bonds payable, long-term borrowing, long-term notes and bills payable, and lease liabilities. The Finance Department of the Group coordinates operations in the domestic and overseas financial markets. It establishes diverse financing channels and obtains favorable loan interest rates. It also adjusts the loan structure based on trends in interest rates. The financial assets and financial liabilities with cash flow interest rate risks as of the end of 2021 were NT\$1,431,290 thousand and NT\$1,439,792 thousand. If the interest rate increases/decreases by 0.25% while all other variables remain unchanged, the Group's net profit before tax in 2021 will decrease/increase by NT\$21 thousand.

#### (2) Exchange rate variation

The Group conducts sales and purchases in foreign currencies and therefore the Group is exposed to risks in exchange rate variation. The management of the Company's exchange rate risk exposure involves the use of accounts receivable and payable of the same currency to alleviate exchange rate risks. When the NTD decreases 1% in value against the USD, it generates a NT\$11,834 thousand loss for the Company.

#### (3) Inflation

According to the statistics of the Directorate-General of Budget, Accounting, and Statistics of the Executive Yuan, the annual growth rate of the Consumer Price Index (CPI) in Taiwan as of December 2021 increased by 2.62% and the annual average increase was 1.96%. Therefore, inflation will cause an increase in the Company's expenses.

### 2. Future response measures:

(1) Short-term funds are controlled and managed by overdraft accounts and the Company borrows funds or repays loans based on funding conditions to lower the cost of loans as a priority. Demand for capital expenditures and long-term investment are mostly met with medium to long-term funding.

(2) In response to changes in interest rate and exchange rate, as the Company has adopted natural hedging to offset foreign-currency positions derived from import/export businesses, the gaps in funding and exchange rate risks have been lowered. Capital

expenditures of more than US\$2 million in a single transaction shall be hedged upon the signing of the contract to adopt pre-purchase or hedging methods during interest rate fluctuations to avoid risks of exchange rate fluctuations.

- (3) With regard to the impact of inflation, the Company pays close attention to changes in related economic environments and changes in market conditions. The Company also upholds the spirit of financial prudence and continues to implement plans to lower costs in response.

(II) Policies of engaging in high-risk, high-leverage investments, lending to others, providing endorsement and guarantee, and derivatives transactions, profit/loss analysis, and future response measures:

1. The Company has not conducted any high-risk or high-leverage investments.
2. The Company's loans to others are processed in accordance with the "Operating Procedures for Fund Lending".
3. The Company's endorsements and guarantees are processed in accordance with the "Procedures for Making Endorsements and Guarantees".
4. The Company's policies for transactions of derivative products are processed in accordance with the "Asset Acquisition or Disposal Procedures".

(III) Future R&D projects and estimated expenditures for equipment improvement:

1. Annual R&D and equipment improvement expenses in the most recent years:

Unit: NT\$1000

Item	Year	2019	2020	2021
	R&D and equipment improvement expenses		214,429	146,414

2. The R&D and equipment improvement projects in 2022 are as follows:
  - (1) Hot rolling - replacement of the coil box and the side guiding panel mechanism and control system of the hot rolling production line.
  - (2) Hot rolling - replacement of the automatic surface inspection system (ASIS) of the hot rolling production line.
  - (3) Hot rolling - replacement of the electrical control system of the skin pass line.
  - (4) Cold rolling - installation of variable frequency controllers for the #4 cooling fan of the dehumidifier and cooling area.
  - (5) Cold rolling - replacement of the cooling fan of the main motor of the first rolling production line with an high-efficiency motor.
  - (6) Pickling and galvanizing - addition of the FOMOS online smart surveillance and diagnosis system to the pickling production line.

- (7) Pickling and galvanizing - replacement of center position control (CPC) system of the pickling production line.
- (8) Pickling and galvanizing - replacement of the heavy electrical system protection relay.
- (9) Pickling and galvanizing - replacement of the width meter of the pickling line.
- (10) Steel pipes - addition of semi-automatic measurement equipment at the #4 pipe production line.
- (11) Steel pipes - refurbishment of automatic label spraying equipment at the #4 pipe production line.
- (12) Steel pipes - addition of the UV coating air dryer at the #4 pipe production line.
- (13) Steel pipes – addition of the monitoring system of sawing machine at the #4 pipe production line.

In response to the rise of steel mills in China and other competition, Chung Hung shall remain committed to improving product quality and refining manufacturing control technologies. It shall face the challenge of developing niche high-grade products to improve added value of products and separate the market. To strengthen overall competitiveness, the Company shall continue to accelerate the update and improvement of production equipment and it shall also actively work with the parent company (China Steel) to establish production, equipment, project improvement, and other technical assistance channels to strengthen the technical roots of the Company and enhance the Company's overall competitiveness.

3. Expected expenditures for R&D and equipment improvement plans in 2022: The total is approximately NT\$281,520 thousand.
4. Current progress of uncompleted R&D and equipment improvement projects in 2021: The uncompleted projects are as follows. The average progress is approximately 73% and they shall be continued in 2022.
  - (1) Hot-rolling - No.3 grinder revamping project.
  - (2) Hot rolling - rough roll terminal universal joint spare parts procurement.
  - (3) Hot rolling - replacement of the down coiler width meter.
  - (4) Hot rolling - replacement of the roughing-down entry width meter.
  - (5) Hot rolling - data acquisition system (ODG) equipment replacement.
  - (6) Hot rolling - replacement of the F3 main motor.
  - (7) Hot rolling - replacement of upper and lower sliding tracks of the cutting machinery in coil box area.
  - (8) Hot rolling - replacement of old chock bearing cleaning equipment.
  - (9) Steel pipes - addition of the inner bead cutter (IBC) smart monitoring and diagnosis

system at the #4 pipe production line.

5. Expected R&D and equipment improvement expenses for R&D projects not completed in 2021: The total is approximately NT\$108,174 thousand.

6. Major factors that influence the success of R&D in the future:

They include conditions of cooperation onsite, project control, and coordination and support.

(IV) Major changes in government policies and laws at home and broad and the impact on Company finance and business and response measures:

The Company follows the implementation schedule of the "Corporate Governance 3.0 - Sustainable Development Roadmap" published by the Financial Supervisory Commission. Starting from 2023, all listed companies with a paid-in capital of more than NT\$10 billion and those in finance and insurance businesses must have Independent Directors who account for no less than one third of all Directors. In addition, no more than half of the Independent Directors of listed companies may serve more than 3 terms. The Company organized the election of Directors in 2021. The number of Independent Directors is not less than one third and not Independent Director has served more than 3 terms. The Company has complied with the regulations ahead of schedule.

The Company follows the amendment of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" which requires listed companies with a paid-in capital of more than NT\$10 billion to, before the end of 2022, assign personnel to take charge of promoting information security policies and resource allocation and serve concurrently as the chief information security officer. Companies must also set up dedicated information security units which must have a dedicated supervisor and at least two full-time personnel to take charge of information security work and duties. The Company plans to set up the information security unit and appoint personnel before the end of 2022.

(V) The impacts of technology changes (including cyber security risks) and industry changes on the Company's finance and business, and the countermeasures:

1. Chung Hung has established comprehensive network and computer information security protective measures to manage and maintain the Company's production, operation, and accounting systems and protect computers with such important corporate functions from any third-party cyberattacks from paralyzing the system. It protects the Company from impact on its operations and damage to the Company's business reputation.

Management measures: Chung Hung continuously reviews and evaluates its information security regulations and procedures to ensure their appropriateness and effectiveness.

2. The Company ensures the security of trade secrets and other confidential information, including proprietary information of customers or other stakeholders and the personal data

of Chung Hung employees. We block attempts of malicious hackers who seek to implant computer viruses, destructive software, or ransomware into Chung Hung's network system, and thereby affect the Company's operations, defraud or extort payments from Chung Hung, gain control of the computer system, or view confidential information.

Management measures: Chung Hung implements and continues to update related improvement measures to prevent and reduce the potential damage caused by attacks due to the purchase and installation of equipment with malicious software. For instance, we established mechanisms for scanning for viruses when equipment is set up in the plant to prevent machinery that contain malicious software from entering the plant. We strengthen the network firewall and network management to prevent computer viruses from infecting other equipment and spreading to different plant areas. We set anti-virus measures for terminals based on the computer categories. We introduce advanced solutions to detect and process malicious software. We introduce new technologies to strengthen data protection. We enhanced detection of phishing emails. We established an integrated automatic information security maintenance and operation platform and regularly test employees' awareness. We also appoint external experts to conduct information security evaluations.

3. Chung Hung needs to share highly sensitive and classified information with certain third-party contractors it hires to provide services to the Company so that they can provide the relevant services. The internal network systems and external cloud-based computing networks (e.g., servers) maintained by the aforementioned service providers and/or their contractors may also incur network attack risks.

Management measures: Chung Hung or its service providers promptly must resolve the technical issues caused by the network attacks to ensure the integrity and availability of the data of Chung Hung (and data of the Company's customers or other third parties). They must also maintain control over the computer system of the Company or its service providers to reduce the impact on the Company's operations, financial conditions, prospects, and reputation.

(VI) Impact of corporate image change on crisis management and response measures: As a member of the China Steel Corporation Group, Chung Hung upholds one of the four major business philosophies of the Group "Promote social welfare". In addition to diligent business operations to achieve earnings, the Company also actively gives back to society. Since 2004, the Company has continuously sponsored the municipal government's Poverty Eradication Programs and it has sponsored the "Greater Kaohsiung Lifeline Association" Suicide Prevention Program for 18 years. Chung Hung spares no effort in fulfilling corporate social

responsibilities. The Company shall continue to make improvements in all areas and make contributions to the creation of a better society.

- (VII) The expected benefits and possible risks to engage in mergers and acquisitions (M&A) and the countermeasures: No such occurrences as of the publication date of the Annual Report.
- (VIII) Expected benefits and potential risks of capacity expansion and response measures: The Company's capacity expansion has been subjected to comprehensive, careful, and professional assessments. Major investment projects must be reported to the Audit Committee and Board of Directors and the Company has fully considered the benefits of investment and potential risks.
- (IX) Risks associated with over-concentration in purchase or sale and response measures: The Company slabs are sourced from CSC Group and Nippon Steel. The Company signed a long-term slab supply agreement with Nippon Steel Corporation through China Steel Corporation in May 2003 which greatly assists the Company's acquisition of materials with stable quantity and quality at reasonable prices. In addition, the Company maintains long-term stable cooperation with customers and provides high-quality products and optimal technical services to establish close interactions and relations and increase customers' dependency on the Company.
- (X) Impacts and risks arising from major exchange or transfer of shares by directors or shareholders with over 10 percent of stake in the company and the countermeasures: No such occurrences as of the publication date of the Annual Report.
- (XI) Impact, risk, and response measures related to any change in the administrative authority towards the Company's operations: No such occurrences as of the publication date of the Annual Report.
- (XII) In terms of litigation or non-litigation matters, the company and the company's directors, supervisors, president, actual responsible person, shareholders holding more than 10% of the company shares, and a subsidiary company who is involved in a major lawsuit that has either been decided or is still pending whereby the results of the case may have a significant impact to shareholder interests or securities prices, must be specified. The status of the disputed facts, bid amount, litigation commencement date, and the primary parties involved in such litigations up to the publication date of this annual report shall be disclosed: No such occurrences as of the publication date of the Annual Report.
- (XIII) Risk management framework: The main scope of risk management includes system and incident risks, market risks, credit risks, market fluidity risks, and capital liquidity risks. The Company's various risk management are tasked to each business unit or task-based organizations for management. For instance, business units are responsible for market risks and evaluation and management of customers' credit risks; finance units are responsible for

the evaluation and management of fund liquidity risks; the exchange rate evaluation team is responsible for risk assessments of foreign-currency assets and liabilities exchange rate variations. The units implement professional and objective risk monitoring duties and bridge communications between the senior management with decision-making powers and each business unit to achieve optimal profitability after implementing risk adjustments. Please refer to page 19 of the Annual Report for the structure of business units of the Company.

(XIV) Other significant risks and response measures: None.

**VII. Other critical matters: None**

## **H. Special Notes**

### **I. Profile on affiliates**

- (I) 2021 Consolidated Business Report of Affiliates: Refer to Attachment 1.
- (II) 2021 Affiliation Report: Refer to Attachment 2.
- (III) 2021 Consolidated Financial Statement of Affiliates: Please refer to pages 234 to 298.
- (IV) Endorsement and guarantee with regard to affiliated enterprises: None.
- (V) Loans related to affiliated enterprises: None.
- (VI) Affiliated enterprises that conduct transactions in derivative products: None.

### **II. Status of private solicitation for marketable securities handling for the recent year up to the publication date of this annual report: None.**

### **III. Holding or disposal of stocks of the Company by subsidiaries for the recent year up to the publication date of this annual report: None.**

### **IV. Other necessary supplemental information: None.**

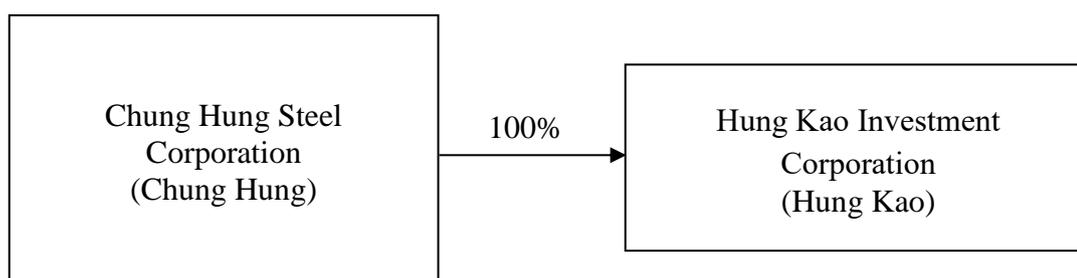
### **I. Any Event which Significantly Affects Shareholders' Equity or Share Price Pursuant to Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act for the recent year up to the publication date of this annual report: None.**

## Attachment 1

### Chung Hung Steel Corporation Consolidated business reports of affiliated enterprises 2021

#### I. Profiles and status of affiliated enterprises:

(I) Organization chart for the affiliated enterprises



(II) Basic information of the affiliated enterprises

Unit: NT\$1000

Company name	Date of establishment	Address	Paid-in capital	Main Business or Product
Chung Hung	1983.9.29	No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City	14,355,444	Manufacturing and sales of hot-rolled steel coils, cold-rolled steel coils, steel pipes, etc.
Hung Kao	2006.9.26	28F, No. 88, Chenggong 2nd Rd., Qianzhen Dist., Kaohsiung City	26,000	General investment

(III) Companies presumed as having control and subordinate relationships in accordance with Article 369-3 of the Company Act: None.

(IV) Businesses included in the affiliated enterprises' overall operations are as follows:

Company name	Industry
Chung Hung	Steel and Iron Industry
Hung Kao	Investment

## (V) Information on directors, independent directors, and presidents of affiliated enterprises

Unit: shares; %

Company name	Title	Name Representative	Shareholding		Remarks
			Number of Shares	Shareholding %	
Chung Hung	Chairman of the Board	Min-Hsiung Liu	582,673,153	40.59	Representative of China Steel Corporation
	Director	Chao-Tung Wong	582,673,153	40.59	Representative of China Steel Corporation
	Director	Kuei-Sung Tseng	582,673,153	40.59	Representative of China Steel Corporation
	Director	Wen-Chou Li	582,673,153	40.59	Representative of China Steel Corporation
	Independent Director	Juh-Shan Chiou	0	0	
	Independent Director	Hsien-Tang Tsai	0	0	
	Independent Director	Lin-Lin Lee	0	0	
	President	Kuei-Sung Tseng	0	0	
Hung Kao	Chairman of the Board	Chia-Wen Luo	2,600,000	100.00	Representative of Chung Hung Steel Corporation

Note 1: The shareholding information is from the end of 2021 and it does not include retained decision-making trust shares.

Note 2: The status of representatives was as of March 31, 2022.

**II. Status of operations of affiliated enterprises**

(Except for the EPS which is in NTD)

Unit: NT\$1000

Company name	Paid-in capital	Total Assets	Total liabilities	Net value	Operating revenue	Net operating profit	Net income for the year (after tax)	Basic earnings per share (after tax)
Chung Hung	14,355,444	37,476,240	14,914,842	22,561,398	53,733,214	6,514,174	6,350,411	4.42
Hung Kao	26,000	49,414	3,094	46,320	10,798	9,378	7,554	2.91

## **Affiliation Report Statement**

The Company's 2021 Affiliation Report was prepared based on the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises," and there are no major discrepancies between the information disclosed and the related information disclosed in the notes of the financial report for the aforementioned period.

It is hereby declared

Chung Hung Steel Corporation

Legal representative: Min-Hsiung Liu

March 31, 2022

Attachment 2

**Chung Hung Steel Corporation  
Affiliation Report  
2021**

I. Relationship status between the controlling and subsidiary companies

Unit: shares; %

Name of controlling company	Reason for control	Status of the controlling company's share ownership and pledge			Status of director, supervisor, or manager designation by the controlling company (Note 2)	
		Total number of shares held	Total shareholding percentage %	Number of shares pledged	Title	Name
China Steel Corporation (China Steel)	Note 1	582,673,153	40.59	0	Chairman of the Board	Min-Hsiung Liu (Representative of China Steel Corporation)
					Director	Chao-Tung Wong (Representative of China Steel Corporation)
					Director	Kuei-Sung Tseng (Representative of China Steel Corporation)
					Director	Wen-Chou Li (Representative of China Steel Corporation)

Note 1: China Steel Corporation holds 40.59% of shares of the Company and retains management control over the Company.

Note 2: The status of representatives was as of March 31, 2021.

II. Transaction status:

(I) Procurement and sales status

Unit: NT\$1000; %

Transaction status with controlling company				Transaction conditions with controlling company		Regular transaction terms		Cause of variation
Purchase (sales)	Amount	Ratio of total procurement (sales)	Sales margin	Unit price (NT\$1,000 /ton)	Credit period	Unit price (NT\$1,000 /ton)	Credit period	
Sales	1,399	-	-	-	Payment after inspection and acceptance	-	Cash advance received, L/C	None
Procurement	8,085,884	17	-	-	Issuance of sight L/C	-	L/C, Payment by 7 days after shipping	None

Unit: NT\$1000; %

Accounts receivable (payable) and notes		Overdue accounts receivable			Remarks
Balance	Ratio of total accounts receivable (payable) and notes	Amount	Processing method	Allowance for bad debts	
33,745	3	0	0	0	Note 1
(463,370)	(25)	0	0	0	Note 2

Note 1: Derived mainly from accounts receivable from income from labor (OEM contracts).

Note 2: Purchases from China Steel Corporation in 2021 consisted mainly of hot-rolled steel coils, slabs, and materials.

(II) Property transactions: None.

(III) Status of fund accommodation: None.

(IV) Status of asset leasing: The Company leased certain land to the parent company and the lease shall expire in December 2021. The income from lease is NT\$5,310 thousand.

(V) Other significant transactions: None

III. Endorsements and guarantees: None.

IV. Other matters with material impact on finance and business: China Steel Corporation signed a joint venture agreement with Sumitomo Metal Industries (renamed Nippon Steel Corporation in April 2019) and Sumitomo Corporation in May 2003 and established East Asia United Steel in July of the same year. East Asia United Steel then invested in Wakayama Iron Works, Ltd. (a company spun off from Sumitomo Metal Industries). China Steel Corporation has thus obtained high quality and stable supplies of slabs through this joint venture. China Steel subsequently signed a slab licensing agreement with the Company to assign part of the purchasing rights of the slabs obtained from the aforementioned joint venture agreement to the Company. The Company pays royalties to China Steel in accordance with the agreement. The expenditures on royalties in 2021 totaled approximately NT\$67,640 thousand. The payable royalties as of the end of December 2021 totaled NT\$13,104 thousand. The procurement price of the aforementioned slabs is calculated based on the formula specified in the agreement.

Chung Hung Steel Corporation

Chairman      Min-Hsiung Liu



# CHUNG HUNG STEEL

## **Head Office/Cold Rolling Department**

No. 317, Yuliao Road, Ciaotou Dist., Kaohsiung City

## **Hot Rolling Department**

No. 576, Xinglong St., 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., Lukang Township, Changhua County