

Stock Code: 2008

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The Company's Website: <http://www.khc.com.tw>



Kao Hsing Chang Iron & Steel Corp.

2021 **Annual Report**

Published May 23, 2022

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

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

- Spokesperson

Name: Hsu Pang-Feng
 Title: Manager, Steel Pipe Department
 Department
 Telephone: (07)555-6111
 Email: purc02@khc.com.tw

- Deputy Spokesperson

Name: Kuo Chien-Hung
 Title: Deputy Manager, Logistics
 Telephone: (07)555-6111
 Email: sale01@khc.com.tw

- Handling of stock transfer agency

Name: Kao Hsing Chang Iron & Steel Corp. Stock Affairs Division
 Address: No. 62, Liangzhou St., Taipei City
 Telephone: (02)25536052· 25536053
 Website:<http://bit.ly/2W3hvVg>

- CPAs for the most recent annual financial reports

Names: Chen Kuo-Tsung, Hsu Chen-Lung
 Name: KPMG Taiwan
 Address: 12F-6, No. 211, Zhongzheng 4th Road, Qianjin District, Kaohsiung City
 Telephone: (07)213-0888

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

- The name of any exchanges where the Company's securities are traded offshore and the method by which to access information on said offshore securities: None.
- Company Website: <http://www.khc.com.tw>

Contents

| | | |
|-------|--|-----|
| One | Letter to Shareholders | 1 |
| Two | Company Profile | 7 |
| | I. Date Established | |
| | II. Company history | |
| Three | Corporate Governance Report | 9 |
| | I. Organization system | |
| | II. Information on directors, managers, etc. | |
| | III. Remuneration Paid to Directors, General Manager, and Deputy General Manager(s) in the Most Recent Year | |
| | IV. Corporate Governance Status | |
| | E. Information about CPA professional fees | |
| | VI. Changes in Accountant Information | |
| | VII. The Company's Chairman, General Manager, or the manager responsible for financing or accounting affairs, who has worked for the accounting firm to which CPAs belong or the affiliated enterprises in the past year | |
| | VIII. Directors, managers, and major shareholders' equity changes | |
| | IX. Information about the relationship of the ten largest shareholders | |
| | X. Comprehensive shareholding ratio in identical reinvested business | |
| Four | Status of Fundraising | 91 |
| | I. Capital and Shares | |
| | II. Handling of corporate bonds | |
| | III. Implementation status of fund utilization plan | |
| Five | Overview of Operations | 102 |
| | I. Business content | |
| | II. Market and production and sales overview | |
| | III. Information of employees in the latest two years and as of the publication date of the Annual Report | |

- IV. Environmental expenditure information
- V. Labor Relations
- VI. Important contracts

Six

Financial Overview

125

-
- I. Concise balance sheet and consolidated profit and loss statement information for the most recent five years
 - II. Financial analysis for the last five years
 - III. Audit Committee audit report for the most recent year
 - IV. The most recent annual financial reports
 - V. In the most recent year and as of the publication date of the Annual Report, if any financial difficulties occur among the Company and its affiliated companies, their effect on the Company's financial status should be stated

Seven

Financial status and financial performance review analysis and risk issues

218

-
- I. Comparative analysis of financial status
 - II. Analysis of financial performance
 - III. Cash flow analysis
 - IV. The impact of major capital expenditures in recent years on financial operations
 - V. Reinvestment policy in the most recent year, main reasons for its profit or loss, improvement plan and investment plan for the next year
 - VI. Risk analysis
 - VII. Other important matters

Eight

Special Disclosures

231

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

publication of the Annual Report

IV. Other necessary supplementary explanations

Nine

Any of the situations listed in subparagraph 2, paragraph 2, Article 36 of the Securities and Exchange Act, which might materially affect shareholder equity or the price of the Company's securities, which has occurred during the most recent year or during the current year up to the date of publication of the annual report: None.

One. Letter to Shareholders

I. Chairman's Remarks:

Dear Shareholders, ladies and gentlemen:

Welcome, everyone, in attending our General Meeting of Shareholders. Here are the reports on our business overview of 2021 and the business plan for this year:

Thanks to increased domestic vaccination rates and stabilizing pandemic conditions in 2021, and as steel prices continued to rise, expansion projects among electronics factories saw continued rollouts and steel demand increased. In respect to steel pipe sales, the market saw even more growth in 2021 as compared with 2020. A significant increase in the number of oil wells was seen in the second half as oil prices continued to rise; in the fourth quarter, export orders of oil well pipes increased and associated orders have exceeded 6,000 metric tons since November 2021. Continued fervor for such export orders is expected for the future. In the domestic market, orders connected to electronics factory expansion were rolled out thanks to government infrastructure construction and repatriation of Taiwan businesses to set up manufacturing here, and this in turn drove galvanized steel pipes, the main product, up 16% from the prior year.

Looking ahead to 2022, we can anticipate successive launches of several major projects to drive still increasing demand for galvanized steel pipe. Such projects include TSMC's Kaohsiung plant in Nanzih District, the Special Trade III/Special Trade VI and Fourth Business District area construction in Kaohsiung's Asia New Bay Area, and construction and development of the New Taipei City Circular Line. Regarding exports, international oil prices have soared due to the impact of the Russia-Ukraine war. Export orders for API 5CT tubing have increased significantly, and orders for steel pipes have continued to grow.

In addition, the Company has teamed up with Kuo Cheng Construction to obtain the “Special Trade III South Southside Base” urban renewal case from the Kaohsiung City Government in the hope of expanding our operations and our opportunities through investment in diversified operations. All in all, we take a cautiously optimistic attitude toward our operations this year. I hope that all shareholders will continue to provide support and encouragement.

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

Chairman  

II. 2021 Business Results

Implementation status of business plan:

Production volume in 2021 was 33,691 tons, an increase of 9% from the 2020 production volume of 30,840 tons. Sales volume in 2021 was 43,779 tons, which was a 30% increase from the 2020 sales volume of 33,609 tons.

Operating income for 2021 was NTD 1,550,624 thousand, an increase of 61% compared to 2020 operating income of NTD 962,510 thousand. After-tax net profit was NTD 42,117 thousand, and earnings per share came to NTD 0.21.

III. Analysis of revenues, expenses, and profitability:

Revenues and expenses:

1. Comprehensive income statement for the last two years: Unit: NTD Thousand

| Item | 2021 | % | 2020 | % |
|------------------------------------|-----------|-----|----------|-----|
| Operating revenue | 1,550,624 | 100 | 962,510 | 100 |
| Operating costs | 1,356,051 | 87 | 940,489 | 98 |
| Gross operating loss | 194,573 | 12 | 22,021 | 2 |
| Marketing fees | 33,868 | 2 | 25,679 | 3 |
| Management expenses | 63,743 | 4 | 64,964 | 7 |
| Net operating loss | 96,962 | 6 | (68,622) | (8) |
| Non-operating revenue and expenses | (34,393) | (2) | 37,537 | 5 |
| Profit (loss) before tax | 62,569 | 4 | (31,085) | (3) |
| Income tax expense | 20,452 | | 1,709 | — |
| Net profit (loss) for the period | 42,117 | 4 | (32,794) | (3) |

2. The increase in operating margin in 2021 was mainly due to increases in domestic and foreign steel prices.

3. Non-operating income and expenses: Mainly due to

(1) The subsidy granted under the government bailout policy of NTD 20,906 thousand in 2020.

(2) Dividend income for 2021 was NTD 30,934 thousand, a decrease of NTD 25,735 thousand compared with 2020's NTD 56,669 thousand.

(3) Financial costs for 2021 came to NTD 56,353 thousand, an increase of NTD 15,163 thousand compared with 2020's NTD 41,190 thousand.

4. After tax profit for 2021 was NTD 42,117 thousand and the earnings per share came to NTD 0.21.

Profitability analysis:

| Analysis item | | 2021 | |
|---------------|----------------------------------|-------------------------|------|
| Profitability | Return on assets (%) | 1.24 | |
| | Shareholder return on equity (%) | 1.46 | |
| | Ratio to paid-in capital (%) | Operating profit (loss) | 4.82 |
| | | Pre-tax profit (loss) | 3.11 |
| | Net profit rate (%) | 4.37 | |
| | Earnings per share (NTD) | 0.21 | |

IV. Research and development status:

The Company is constantly committed to the renewal of steel pipe equipment, focusing on improving production efficiency, saving energy, preventing pollution, and strengthening work safety to improve product quality. In 2021 we undertook replacement of galvanizing furnace equipment and smoke tube boilers as well as refurbishment of pipe-making vehicle and overhead crane track.

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

1. The new Omicron strain is still spreading rapidly and confronting the world with a new wave of pandemic challenges. As a result, labor shortages, unstable supply chains, and rising inflationary pressures continue to weigh on the global economic performance. The number of severe infections and deaths has dropped sharply, however, given improved virus testing and vaccine coverage. Therefore, strict pandemic prevention measures will not be easily forthcoming among major countries and the global economy is still expected to maintain its recovery pace.

2. In March 2021, China responded to green energy concerns by setting new targets for peak carbon by 2030 and carbon neutrality by 2060. (China has been the biggest influencer of global steel prices in the past.) These targets should significantly reduce steel production capacity, bringing about tighter global steel supply. Past market disruptions from China's low-priced steel should no longer be seen.
3. Starting from July 1, 2021, the European Union has extended for three years the defensive measures that have been placed on 26 imported steel products currently. In addition, mainland China will strictly implement production cutback controls in order to ensure achievement of output reductions and environmental protection targets. Global steel supply is tight as countries advance a series of production restrictions and trade protection measures, and the steel market's long-term pattern can be expected to continue.
4. Oil prices continue to rise amid supply shortages as the lingering COVID-19 pandemic and the sharp rise in natural gas prices make crude oil a relatively cheap feedstock for power generation, thereby increasing its demand. Although there is competition from South Korea at low prices for API oil pipelines exporting shale oil to the United States, export orders have continued to be hot due to the continuous rise in oil prices.
5. In terms of future uncertainty, and looking ahead to 2022, the global economy will confront a new wave of challenges in the post-pandemic period following its rapid rebound in 2021. Such issues include the resurgence of a new virus strain, soaring international inflationary pressures, the normalization of monetary policy among major central banks, the downward pressure facing China's economy, and the impact of the Russia–Ukraine war. Moreover, these challenges will also affect the global economy through channels such as trade and finance.

VI. Summary of 2022 Business Plan:

The sales volume of steel pipes in 2022 is estimated to be 48,459 tons, an increase of approximately 37% from 35,418 tons in 2021. The sales volume of circulating products is estimated to be 3,600 tons, a decrease of 54% from 7,914 tons in 2021. (This is the 2022 annual budget approved by the Board of Directors on November 11, 2021.)

The International Monetary Fund (IMF) revised its forecast for global economic growth in April 2022 to 3.6% from the previous 4.4%. Global economic growth for 2023

has been revised to 3.6%. Looking ahead to Taiwan's economy in 2022, semiconductor manufacturers continue to invest in advanced processes. In addition, domestic demand is being driven by accelerated investment by Taiwan businesses that have been impacted by US–China trade issues and by manufacturers investing in Taiwan. The Directorate General of Budget, Accounting and Statistics of the Executive Yuan forecasts annual economic growth to attain 4.42%.

In respect to steel, the World Steel Association forecasts demand growth of 2.7% to attain 1.9 billion tons in 2022. At this stage in export markets, the steel industry still faces high “Section 232” tariff barriers in the US as well as Europe's defensive measures in the form of total volume controls and low-priced South Korean competitors; and these factors in turn are generating fierce competition in the steel market. In exports of steel pipe API pipelines, there are a large number of incoming inquiries for API oil pipelines in the US given that oil prices are above US\$80 and this is favorable for shale oil exploration and the export market is very robust. Meanwhile, domestic sales of steel pipes are benefiting from the government's promotion of a “Forward-Looking Infrastructure Development Program.” The timely launch of public construction projects comes in conjunction with the continued expansion of efficient repatriation of Taiwan businesses impacted by the trade war. Together, these trends should drive up demand for civil construction fire protection and A53B pressure piping, thereby increasing sales of key galvanized steel pipe products.

Looking ahead to 2022, we can anticipate successive launches of several major projects to drive still increasing demand for galvanized steel pipe. Such projects include TSMC's Kaohsiung plant in Nanzih District, the Special Trade III/Special Trade VI and Fourth Business District area construction in Kaohsiung's Asia New Bay Area, and construction and development of the New Taipei City Circular Line. Regarding exports, foreign orders are more robust than before as international oil prices continue to rise steadily. Export orders received in the first half of 2022 have met the production capacity of our factories; and the situation is optimistic for the second half of the year and growth is expected.

All in all, as steel prices keep rising and steel pipe orders continue to grow, we take a cautiously optimistic attitude toward our operations this year.

Two. Company Profile

I. Date Established

Established on January 15, 1966.

II. Company history

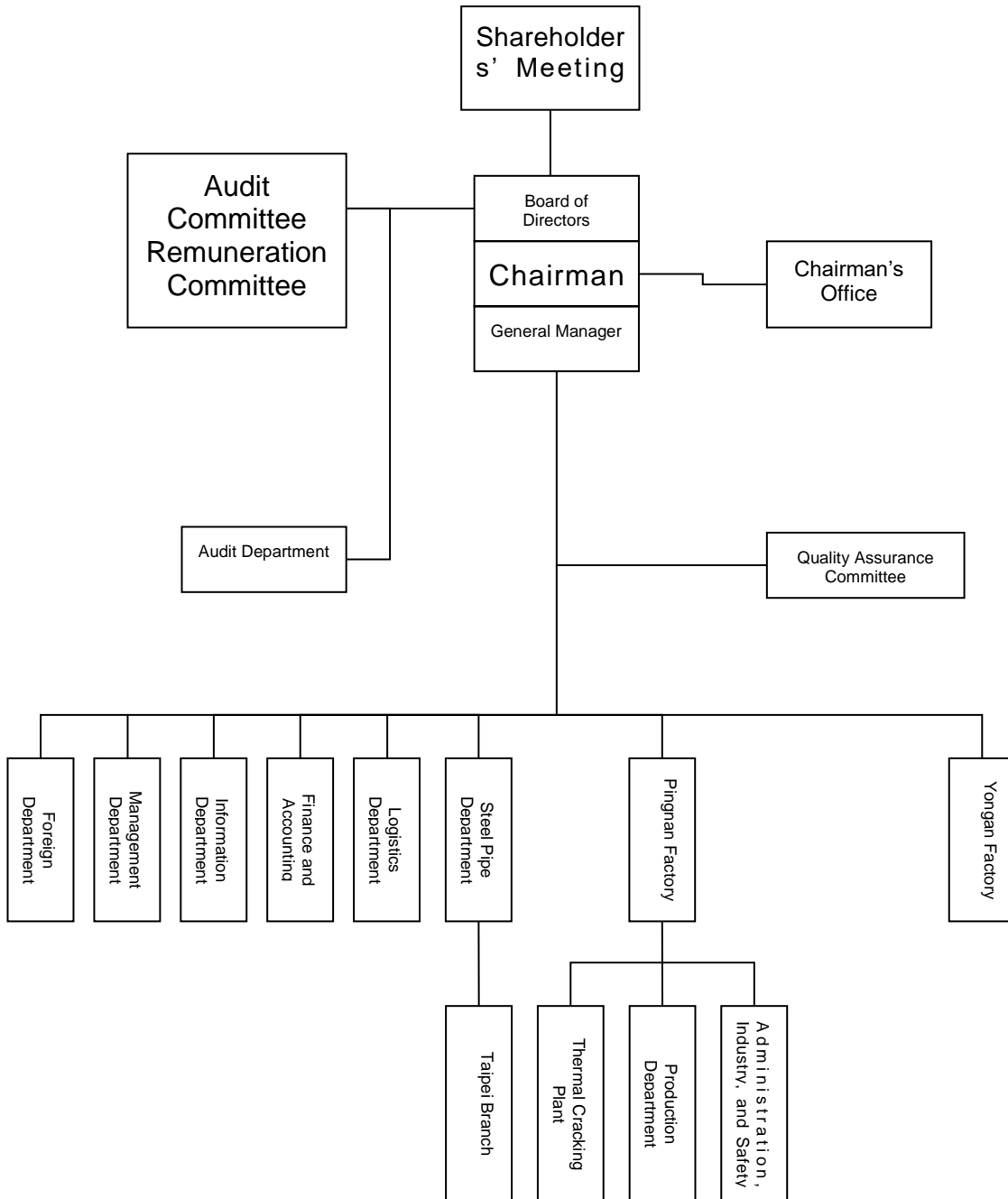
- January 1966 The Company was founded in Kaohsiung City with capital of NTD 800,000. It mainly produced steel pipes, steel plates and tinplate. Mr. Lu Te-Hsing was elected Chairman at this time.
- June 1968: Won CNS mark for galvanized pipe steel from the Central Bureau of Standards of the Ministry of Economic Affairs.
- February 1975: Merged with Kao Hsing Iron & Steel Company with capital of NTD 200 million.
- June 1975: The trial run of the Zhonghua Cold Pressing Factory was completed and cold rolled steel coil was officially produced.
- September 1975: Re-elected directors and supervisors unanimously esteemed Mr. Lu Tse-Shang as Chairman.
- June 1977: Added API 6"- 16" pipe making production line.
- October 1981 Won the authorization of the American Petroleum Institute (API) to use 5L high-pressure oil pipeline manufacturing.
- May 1983: The Yongan Factory trial run was completed and officially joined the cold-rolled steel coil production.
- July 1985: SAW submerged arc welding equipment was added to produce 18"-60" steel pipes.
- January 1988: Yongan Factory purchased 6HI cold rolling and quenching and tempering equipment.
- December 1988 The Company's stock was officially listed with a capital of NTD 1.6 billion.
- July 1993: Purchased 32.228 hectares of land in Pingnan Industrial Park for the relocation of the Zhonghua Factory.
- January 1996 The steel pipe factory was accredited by the international standard quality assurance system ISO 9001.

- May 1996 The cold rolled products of the Yongan Factory were accredited by the international standard quality assurance system ISO 9001.
- May 1999: The Yongan Factory passed ISO 14001 certification.
- June 2002: Re-elected directors and supervisors unanimously elected Mr. Lu Tai Rong as Chairman.
- April 2007: The trial run of the cold rolling tension leveler at the Yongan Factory was completed.
- May 2007: The Pingnan Factory applied for American Petroleum Institute API-5CT oil well pipe authorization approval.
- April 2008: Cold-rolled products of the Yongan Factory obtained ISO 9001, ISO 14001, and OHSAS 18001 certifications.
- June 2012 The Yongan Factory suspended production.
- December 2013: Cash capital reduction of 35%, bringing paid-in capital after the capital reduction to NTD 2,754,872,930.
- January 2015: The steel pipe factory's products obtained JIS, CNS 15506, and OHSAS 18001 certifications.
- June 2015: Re-elected directors and supervisors unanimously elected Mr. Lu Tai Rong as Chairman.
- March 2018: Treasury share capital reduction of NTD 223,000 thousand, bringing paid-in capital after the capital reduction to NTD 2,008,522,930.
- August 2018: Disposed of all machinery and electrical equipment in the Yongan Factory.

Three. Corporate Governance Report

I. Organization system

Organization Chart



Business of each major department

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

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

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

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

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

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

Logistics Department: Handle steel product sales, after-sales service credit

investigation, and market investigation and analysis.

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

Pingnan Factory: The management of manufacturing, processing, machinery and other equipment of steel pipes and thermal cracking products, R&D design, industrial safety, quality control and quality assurance, etc.

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

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

Director

1. Directors' information, April 25, 2022

| Job Title (Note 1) | Nationality or place of registration | Name | Gender Age (Note 2) | Appointm ent Date | Office Term | Initial election date Appointm ent Date (Note 3) | Shares held on the day of election | | Current Number of shares held | | Spouse and minor children shares currently held | | Shares held in the name of others | | Principal Experience (Education) (Note 4) | Office(s) Concurrently Held in the Company and Other Companies | Spouse or relatives within the second degree of kinship or closer acting as other supervisors, directors, or supervisors | | | Remarks (Note 5) |
|----------------------------|---|--|----------------------------|-------------------------|----------------|--|---------------------------------------|--------------------------------|-------------------------------------|------------------------------------|--|------------------------------------|--------------------------------------|---|--|--|--|--------------------|------------------|---------------------|
| | | | | | | | Number of shares | Sharehold ing Percentage | Number of shares | Sharehold ing Percentag e | Number of shares | Sharehol ding Percentag e | Number of shares | Sharehol ding Percentag e | | | Job Title | Name | Relations hip | |
| Chairman | Taiwan | Lu Tai Rong | Male 61- 70 years old | 2021.8.26 | 3 years | 1980.6.30 | 27,551,329 | 13.7 | 27,551,329 | 13.7 | 6,053,477 | 3.01 | - | Department of Philosophy, Tunghai University | Director, Kao Hsing Industrial Co. | Director | Huang Li- Chun | Brother-in- law | | |
| Director Representative | Japan | Pro Imp'ex Company Limited Sheng Lu Rong Feng | Male 61- 70 years old | 2021.8.26 | 3 years | 1980.6.30 | 121,621 6,293,995 | 0.06 3.13 | 121,621 6,293,995 | 0.06 3.13 | - | - | - | Tokai University | 1. General Manager of the Company 2. Director, Xiechang Steel Company | | | | | |
| Director Representative | Taiwan | Huida Investment Co., Ltd. Huang Li-Chun | Male 61- 70 years old | 2021.8.26 | 3 years | 2008.6.25 | 40,999,312 22,343 | 20.41 - | 40,999,312 22,343 | 20.41 - | 5,785,926 | 2.88 | - | Mechanical Engineering, Chung Yuan Christian University | 1. Chairman, Huida Investment Co., Ltd. 2. Deputy General Manager, Kao Hsing Smelting & Chemical Fiber Co., LTD. | | | | | |
| Director Representative | Taiwan | You Chang Co., Ltd. Wu Hsien-Ming | Male 61- 70 years old | 2021.8.26 | 3 years | 100.9.27 | 380,000 38,000 | 0.19 0.02 | 380,000 38,000 | 0.19 0.02 | - | - | - | Faculty of Law, National Taiwan University | Lawyer | | | | | |
| Director Representative | Taiwan | You Chang Co., Ltd. Lin Tzu-Hui | Male 61- 70 years old | 2021.8.26 | 3 years | 101.9.24 | 380,000 4,566 | 0.19 - | 380,000 4,566 | 0.19 - | 1,544 | - | - | Department of Accounting, Feng Chia University | Consultant, Finance and Accounting Department of the Company | | | | | |
| Director Representative | Taiwan | Hong Well Company Limited Lu En-Chang | Male 71- 80 years old | 2021.8.26 | 3 years | 1980.6.30 | 138,040 199,418 | 0.07 0.10 | 138,040 152,418 | 0.07 0.07 | - | - | - | Waseda University | Former Vice Chairman of the Company | | | | | |
| Independent Director | Taiwan | Lin Hsien-Lang | Male 71- 80 years old | 2021.8.26 | 3 years | 2018.6.27 | - | - | - | - | - | - | - | National Taiwan University Department of Business | Director of Corporate Operation Association/Executive Supervisor of Taiwan Corporate Governance Association | | | | | |
| Independent Director | Taiwan | Chen Chi-Hsiung | Male 71- 80 years old | 2021.8.26 | 3 years | 104.6.23 | - | - | - | - | - | - | - | National Chung Hsing University Master's Degree, Law Institute | Served as Judge and President of the Kaohsiung Branch of the Taiwan High Court | | | | | |
| Independent Director | Taiwan | Wu Hsiao-Yen | Female 61- 70 years old | 2021.8.26 | 3 years | 104.6.23 | - | - | - | - | - | - | - | National Chung Cheng University Master's Degree, Law Institute | 1. Director, Chien Yeh Law Office, Kaohsiung Office 2. Independent Director, Shiny Chemical Industrial Co. 3. Director, Yung Chi Paint & Varnish Mfg. Co. | | | | | |

Note 1: Institutional shareholders should list the names of the institutional shareholders and their representatives separately (if they are representatives of institutional shareholders, the name of the institutional shareholders should be indicated) and fill in Table 1 below.

Note 2: Please list the actual age and express it in interval form, such as 41 to 50 years old or 51 to 60 years old.

Note 3: It shall show when did he/she/it assume position of director or supervisor for the first time. If it is discontinuous, it shall be described in the note. Lu Tai Rong: 1989.06.16-1996.09.03 discontinuous; Sheng Lu Rong Feng: 1989.06.16-1996.09.03 discontinuous.

Note 4: If work experience related to position now is in accounting firm or affiliated company in the period shown above, it shall show his/her title and function of position.

Note 5: If the Company's Chairman and General Manager or equivalent (top manager) are the same person, or spouse or relative within one degree of kinship to the other, the reason, rationality, necessity and relevant information of the corresponding measures should be explained (e.g., the number of independent directors should be increased, more than half of the directors should not be concurrent employees or managers, etc.).

2. Table 1: Major Shareholders of Institutional Shareholders

April 25, 2022

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

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

4. Disclosure of information on the professional qualifications of directors and the independence of independent directors: April 25, 2022

| Terms Name | Professional qualifications and experience (Note 1) | Status of independence (Note 2) | Number of other public companies where he/she/it concurrently serves as an independent director |
|-----------------------------------|--|---------------------------------|---|
| Lu Tai-Rong Director | Having more than 5 years of board leadership and steel industry experience and not exhibiting circumstances specified under Article 30 of the Company Act. | — | 0 |
| Sheng Lu Rong Feng Director | Having more than 5 years of experience in company management and steel industry and not exhibiting circumstances specified under Article 30 of the Company Act. | — | 0 |
| Huang Li-Chun Director | Having more than 5 years of experience in company management and steel industry and not exhibiting circumstances specified under Article 30 of the Company Act. | — | 0 |
| Wu Hsien-Ming Director | Having more than 5 years of board leadership, lawyer qualifications, and company management, and not exhibiting circumstances specified under Article 30 of the Company Act. | — | 0 |
| Lin Tzu-Hui Director | Having more than 5 years of experience in finance and accounting management and the steel industry and not exhibiting circumstances specified under Article 30 of the Company Act. | — | 0 |
| Lu En-Chang Director | Having more than 5 years of experience in company management and steel industry and not exhibiting circumstances specified under Article 30 of the Company Act. | — | 0 |

| Terms Name | Professional qualifications and experience (Note 1) | Status of independence (Note 2) | Number of other public companies where he/she/it concurrently serves as an independent director |
|--|---|--|---|
| Lin Hsien-Lang Independent Director | Having qualification as an accountant for more than 5 years and President of KPMG Taiwan, and not exhibiting circumstances specified under Article 30 of the Company Act. | <p>Meets conditions of independence and not subject to the following:</p> <ol style="list-style-type: none"> 1. Including but not limited to self, spouse, and relatives within the second degree of kinship, serving as director, supervisor, or employee of the Company or its affiliated companies. 2. Self, spouse, or relatives within the second degree of kinship (or others acting in their names) hold shares and percentages of the Company. 3. Serve in the position of director, supervisor, or employee of a company that has a specified relationship with the Company. 4. The amount of remuneration for providing business, legal, financial, accounting, and other services to the Company or its affiliates in the last two years. | 0 |

| Terms Name | Professional qualifications and experience (Note 1) | Status of independence (Note 2) | Number of other public companies where he/she/it concurrently serves as an independent director |
|---|--|--|---|
| Chen Chi-Hsiung Independent Director | Retired Judge and President of the Kaohsiung Branch of the Taiwan High Court and not exhibiting circumstances specified under Article 30 of the Company Act. | <p>Meets conditions of independence and not subject to the following:</p> <ol style="list-style-type: none"> 1. Including but not limited to self, spouse, and relatives within the second degree of kinship, serving as director, supervisor, or employee of the Company or its affiliated companies. 2. Self, spouse, or relatives within the second degree of kinship (or others acting in their names) hold shares and percentages of the Company. 3. Serve in the position of director, supervisor, or employee of a company that has a specified relationship with the Company. 4. The amount of remuneration for providing business, legal, financial, accounting, and other services to the Company or its affiliates in the last two years. | 0 |

| Terms Name | Professional qualifications and experience (Note 1) | Status of independence (Note 2) | Number of other public companies where he/she/it concurrently serves as an independent director |
|--------------------------------------|---|--|---|
| Wu Hsiao-Yen Independent Director | Having qualification as a lawyer for more than 5 years and Director of the Chien Yeh Law Offices Kaohsiung Office; not exhibiting circumstances specified under Article 30 of the Company Act | Meets conditions of independence and not subject to the following: 1. Including but not limited to self, spouse, and relatives within the second degree of kinship, serving as director, supervisor, or employee of the Company or its affiliated companies. 2. Self, spouse, or relatives within the second degree of kinship (or others acting in their names) hold shares and percentages of the Company. 3. Serve in the position of director, supervisor, or employee of a company that has a specified relationship with the Company. 4. The amount of remuneration for providing business, legal, financial, accounting, and other services to the Company or its affiliates in the last two years. | 1 |

Note 1: Professional qualifications and experience: Describe the professional qualifications and experience of individual directors and supervisors. If they are members of the Audit Committee and have accounting or finance expertise, they should state their accounting or finance background and work experience. In addition, indicate whether they do not exhibit any of the circumstances specified under Article 30 of the Company Act.

Note 2: Independent directors should state their conformity to status of independence, including but not limited to whether one's self, spouse, or relatives within the second of kinship serve as directors, supervisors or employees of the Company or its affiliated companies; the number and proportion of the Company's shares held by oneself, a spouse, or relatives within the second degree of kinship (or held under the names of others); whether one serves serve in the position of director, supervisor, or employee of a company that has a specified relationship with the Company (in reference to Article 3, Paragraph 1, Subparagraphs 5-8 of the

Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies); and the amount of remuneration received for providing business, legal, financial, accounting, and other services to the Company or its affiliates in the last two years.

5. Diversity and independence of the Board of Directors:

Board diversity:

1. In accordance with the Company's "Process for Selection of Directors," the composition of the Board of Directors shall be determined by taking diversity into consideration formulating an appropriate policy on diversity based on the company's business operations, operating dynamics, and development needs. The policy includes, without being limited to, the following two general standards:
 - (1) Basic requirements and values: Gender, age, nationality, and culture.
 - (2) Professional knowledge and skills: A professional background (e.g., law, accounting, industry, finance, marketing, technology), professional skills, and industry experience.
2. Each board member shall have the necessary knowledge, skill, and experience to perform their duties; the abilities that must be present in the Board as a whole are as follows:
 - (1) The ability to make judgments about operations.
 - (2) Accounting and financial analysis ability.
 - (3) Business management ability.
 - (4) Crisis management ability.
 - (5) Knowledge of the industry.
 - (6) An international market perspective.
 - (7) Leadership ability.
 - (8) Decision-making ability.

There are nine directors in the 21st Board of Directors of the Company, including three independent directors; there are three concurrent employees, accounting for 33.3%. There is one female independent director, to achieve the goal of gender equality.

The members of the Board of Directors are highly experienced in operations and management with relevant professional backgrounds, and possess the professional knowledge, skills, and qualities necessary to perform their duties. Among the eight core items, at least 1/3 of the members have the ability to execute relevant business.

Independence of the Board of Directors:

There are nine directors in the 21st Board of Directors of the Company, including three independent directors, accounting for 33.3% to ensure the independence of the Board of Directors. There are no circumstances present as stipulated in paragraphs 3 and 4 of Article 26-3 of the Securities and Exchange Act, and there is no spousal relationship or family relationship within the second degree of kinship among directors.

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

April 25, 2022

| Job Title (Note 1) | Nationality | Name | Gender | On-board Date | Number of shares held | | Spouse and minor children Number of shares held | | Shares held in the name of others Number of shares held | | Principal Experience (Education) (Note 2) | Office(s) Concurrently Held in Other Companies | Spouse or relatives within the second degree of kinship or closer acting as managerial officers | | | Remarks (Note 3) |
|-----------------------|-------------|-----------------------------|--------|------------------|-----------------------|----------------------------|--|----------------------------|--|----------------------------|---|--|--|------|-------------------------------------|---------------------|
| | | | | | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | | | Job Title | Name | Relationship with the Company | |
| General Manager | Japan | Sheng Lu Rong Feng | Male | 2002.6.21 | 6,293,995 | 3.13 | — | — | — | — | Department of Mechanical Engineering, Tokai University, Japan Executive Manager, Chairman's Office | Xiechang Steel Company Director | — | — | — | |

| Job Title (Note 1) | Nationality | Name | Gender | On-board Date | Number of shares held | | Spouse and minor children Number of shares held | | Shares held in the name of others Number of shares held | | Principal Experience (Education) (Note 2) | Office(s) Concurrently Held in Other Companies | Spouse or relatives within the second degree of kinship or closer acting as managerial officers | | | Remarks (Note 3) |
|-------------------------------------|-------------|-----------------------|--------|------------------|-----------------------|----------------------------|--|----------------------------|--|----------------------------|---|--|--|------|-------------------------------------|---------------------|
| | | | | | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | | | Job Title | Name | Relationship with the Company | |
| Steel Pipe Factory Foreman | Taiwan | Chang Yin- Teng | Male | 2021.8.13 | — | — | — | — | — | — | National Taipei University of Technology National Pingtung University of Science and Technology Master of Advanced Business Administration Deputy Foreman, Steel Pipe Factory | None | — | — | — | |
| Steel Pipe Department Manager | Taiwan | Hsu Pang- Feng | Male | 2018.4.1 | — | — | — | — | — | — | Department of Business Management, Feng Chia University Deputy Manager, Steel Pipe Department | None | — | — | — | |

| Job Title (Note 1) | Nationality | Name | Gender | On-board Date | Number of shares held | | Spouse and minor children Number of shares held | | Shares held in the name of others Number of shares held | | Principal Experience (Education) (Note 2) | Office(s) Concurrently Held in Other Companies | Spouse or relatives within the second degree of kinship or closer acting as managerial officers | | | Remarks (Note 3) |
|---|-------------|---------------------|--------|------------------|-----------------------|----------------------------|--|----------------------------|--|----------------------------|---|--|--|------|-------------------------------------|---------------------|
| | | | | | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | | | Job Title | Name | Relationship with the Company | |
| Finance and Accounting Department Manager | Taiwan | Chao Hui- Mei | Female | April 1, 2021 | — | — | — | — | — | — | Department of Accounting, Soochow University Assistant Manager, Finance and Accounting Department | None | — | — | — | |

Note 1: Include General Manager, deputy general managers, associate managers, and the chiefs of all the Company's divisions and branches. Regardless of position, all assignments equivalent to General Manager, deputy general manager, and associate manager shall be shown.

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

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

3. Remuneration Paid to Directors, General Manager, and Deputy General Manager(s) in the Most Recent Year as of April 25, 2022

1. Remuneration to directors (including independent directors)

Unit: NTD thousand

| Job Title | Name | Directors' compensation | | | | | | | | Total amount of A, B, C and D ratio vs. net profit (loss) after tax (%) | | Compensation from concurrently serving as employee | | | | | | Ratio of the total amount of A, B, C, D, E, F, and G vs. net profit (loss) after tax (%) | | Compensation received from investee companies outside of subsidiaries | | |
|-----------|---|-------------------------|---|------------------------|---|-----------------------------|---|---------------------------------|---|---|---|--|--|------------------------|---|---------------------------|--|--|---|---|--------|----|
| | | Remuneration (A) | | Retirement pension (B) | | Director's remuneration (C) | | Business execution expenses (D) | | | | Wages, rewards, special allowances, etc. (E) | | Retirement pension (F) | | Employee remuneration (G) | | | | | | |
| | | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company (Note 2) | All companies in the financial statements (Note 2) | The Company | All companies in the financial statements | The Company | All the companies financial statements | The Company | All companies in the financial statements | | | |
| Chairman | Lu Tai-Rong | - | - | - | - | - | - | 300 | 300 | - | - | 2,431 | 2,431 | - | - | - | - | - | - | 23.93% | 23.93% | 90 |
| Director | Pro Imp'ex Company Limited Sheng Lu Rong Feng | - | - | - | - | - | - | 300 | 300 | - | - | 2,311 | 2,311 | - | - | - | - | - | - | - | - | - |
| Director | Huida Investment Co., Ltd. Huang Li-Chun | - | - | - | - | - | - | 900 | 900 | 10.80% | 10.80% | - | - | - | - | - | - | - | - | - | - | - |
| Director | You Chang Co., Ltd. Wu Hsien-Ming | - | - | - | - | - | - | 300 | 300 | - | - | - | - | - | - | - | - | - | - | - | - | - |

| Job Title | Name | Directors' compensation | | | | | | | | Total amount of A, B, C and D ratio vs. net profit (loss) after tax (%) | | Compensation from concurrently serving as employee | | | | | | | | Ratio of the total amount of A, B, C, D, E, F, and G vs. net profit (loss) after tax (%) | | Compensation received from investee companies outside of subsidiaries | | | |
|----------------------|--|-------------------------|---|------------------------|---|-----------------------------|---|---------------------------------|---|---|---|--|--|------------------------|---|---------------------------|---|--|---|--|---|---|---|---|---|
| | | Remuneration (A) | | Retirement pension (B) | | Director's remuneration (C) | | Business execution expenses (D) | | | | Wages, rewards, special allowances, etc. (E) | | Retirement pension (F) | | Employee remuneration (G) | | | | | | | | | |
| | | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements (Note 2) | The Company | All companies in the financial statements | The Company | | All the companies financial statements | | The Company | All companies in the financial statements | | | | |
| Director | You Chang Co., Ltd. Lin Tzu-Hui | - | - | - | - | - | - | 300 | 300 | - | - | 789 | 789 | - | - | - | - | - | - | - | - | - | - | - | - |
| Director | Hong Well Company Limited Lu En-Chang | - | - | - | - | - | - | 300 | 300 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Independent Director | Lin Hsien-Lang | 328 | 328 | - | - | - | - | 420 | 420 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Independent Director | Chen Chi-Hsiung | 280 | 280 | - | - | - | - | 420 | 420 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Independent Director | Wu Hsiao-Yen | 280 | 280 | - | - | - | - | 420 | 420 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

Note 1: The Company provides automobiles for management personnel. In 2020, the undiscounted balance of such automobile equipment was NTD 1,314,826 (cost of NTD 11,270,000 minus accumulated depreciation of NTD 9,955,174). In addition, the Chairman of the Board is equipped with a driver, and salaries of drivers shall be the same as those of employees.

2: The Company's 2021 consolidated statements are not applicable; after tax profit for 2021 was NTD 42,117 thousand.

2. Remuneration Paid to General Manager and Deputy General Manager(s),

April 25, 2022

Unit: NTD Thousand

| Job Title | Name | Salary (A) | | Retirement pension (B) | | Bonuses and special expenses (C) | | Employee compensation amount (D) | | | | Ratio of the total amount of A, B, C and D vs. net profit (loss) after tax (%) | | Compensation received from investee companies outside of subsidiaries |
|------------------------------|--------------------|-------------|---|------------------------|---|----------------------------------|---|----------------------------------|-----------------------|--|-----------------------|--|---|---|
| | | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | All companies in the financial statements | The Company | | All companies in the financial reports | | The Company | All companies in the financial statements | |
| | | | | | | | | Cash dividend Amount | Stock dividend amount | Cash dividend amount | Stock dividend amount | | | |
| Director and General Manager | Sheng Lu Rong Feng | 2,281 | — | 0 | — | 30 | — | 0 | 0 | 0 | 0 | 5.49% | — | 0 |

Note 1: One car was provided in 2021, and the undiscounted balance of such automobile equipment was NTD 657,413 (cost of NTD 5,635,000 minus accumulated depreciation of NTD 4,977,587).

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

3. Remuneration of the top five top executives of the Company (individual disclosure of names and remuneration methods)

(Note 1)

| Job Title | Name | Salary (A) (Note 2) | | Retirement pension (B) | | Rewards and Special expenses etc. (C) (Note 3) | | Employee compensation amount (D) (Note 4) | | | | Ratio of the total amount of A, B, C and D vs. net profit after tax (%) (Note 6) | | Remuneration received from investee companies outside of subsidiaries or from the parent company (Note 7) |
|---|-----------------------------|------------------------|---|---------------------------|---|--|---|--|-----------------|--|-----------------|--|--|--|
| | | The Company | All companies in the financial reports (Note 5) | The Company | All companies in the financial reports (Note 5) | The Company | All companies in the financial reports (Note 5) | The Company | | All companies in the financial statements (Note 5) | | The Company | All companies in the financial reports | |
| | | | | | | | | Cash amount | Stock amount | Cash amount | Stock amount | | | |
| General Manager | Sheng Lu Rong Feng | 2,281 | 2,281 | — | — | 30 | 30 | — | — | — | — | 5.49 | 5.49 | 300 |
| Chief Corporate Governance Officer | Lin Tzu- Hui | 759 | 759 | — | — | 30 | 30 | — | — | — | — | 1.87 | 1.87 | 300 |
| Manager, Finance and Accounting Department | Chao Hui-Mei | 846 | 846 | — | — | 30 | 30 | 2 | — | 2 | — | 2.08 | 2.08 | None |

Note: In the “top five supervisors with the highest remuneration” mentioned here, “supervisor” indicates a manager of the Company, and criteria for identification of the relevant managers are handled in accordance with the scope of the application of “managers” stipulated by the former Securities and Futures Commission of the Ministry of Finance in letter Taicaizheng San Zi No. 0920001301 dated March 27, 2003. As for principles of calculation and determination of the “top five supervisors with the highest remuneration,” this refers to the total amounts of salaries, retirement pensions, bonuses, special expenses, etc., as well as employee remuneration (in other words, the total of four items A+B+C+D) that are received by the Company’s managers from all companies in the consolidated financial statements; and after this data is sorted, the top five managers with the highest remunerations will be identified. If a director concurrently serves as a former supervisor, please fill out this form and the above form (1-1).

Note 2: Fill in the salary, position bonus, and severance pay of the top five executives with the highest remuneration in the most recent year.

Note 3: For the top five executives with the highest remuneration in the most recent year, list each bonus, incentive, transportation fees, special expenses, each allowance, housing, automobiles, other in-kind provisions, and other remuneration amounts. For example, when presenting housing, automobiles and other means of transportation, or exclusive personal expenses, the nature and cost of the assets provided and the actual or fair market value of rents, fuel, and other payments should be disclosed. In addition, if there is a driver, please note the relevant remuneration paid by the Company to the driver; but this is not included in remuneration. In addition, and in accordance with IFRS 2 “Share-based Payment,” recognized salary expenses should also be included in remuneration including the obtaining of employee stock option certificates, restricted employee shares, and participation in share subscriptions for capital increases.

Note 4: Fill in this amounts of remuneration of the top five supervisors with the highest remuneration as approved by the Board of Directors in the most recent

year (including stock and cash). If an estimate cannot be made, the proposed distribution amount for this year shall be calculated according to the proportion of the actual distribution amount of the prior year, and the attached Table 1-3 should be filled out as well.

Note 5: Disclosure should be made for all companies in the consolidated statements (including the Company) in respect to the total amount of remuneration paid to top five executives with the highest remuneration of the Company.

Note 6: Net profit after tax refers to the net profit after tax for the most recent year in the parent company only or individual company financial statements.

Note 7: a. This column should clearly list remuneration of the top five executives with the highest remuneration of the Company that is received from investee companies outside of subsidiaries or the parent company. (If there is none, please fill in "None.")

b. Remuneration refers to remuneration and rewards received by the Company's top five supervisors with the highest remunerations in serving as a director, supervisor, or manager of a investee companies outside of subsidiaries, or from the parent company (including remuneration of employees, directors and supervisors) as well as remuneration related to business execution costs and so on.

* Remuneration content disclosed in this table differs from the income concepts under the Income Tax Act, and table is therefore intended for information disclosure and not for taxation purposes.

4. Names of managerial officers entitled to employee bonuses and amounts entitled:

| | Job Title | Name | Stock amount | Cash amount | Total | As percentage of income after tax (%) |
|---------|--|--------------|--------------|-------------|-------|---------------------------------------|
| Manager | Manager, Finance and Accounting Department | Chao Hui-Mei | — | 2 | 2 | 0 |

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

Units: NTD Thousand, %

| Year | Net profit or loss after tax | Directors' compensation | | Director's compensation as a percentage of after-tax profit or loss | | General Manager's compensation | | General Manager's compensation as a percentage of after-tax profit or loss | |
|------|------------------------------|-------------------------|--|---|--|--------------------------------|--|--|--|
| | | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements | The Company | All companies included in the financial statements |
| 2021 | 42,117 | 10,078 | — | 23.93% | — | 2,611 | — | 6.20% | — |
| 2020 | (32,794) | 9,913 | — | 30.23% | — | 2,309 | — | 7.04% | — |

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

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

In order to closely integrate the employees' personal work goals with the Company's business goals and shareholders' interests, and to attract outstanding talents to serve the Company, the Company's overall reward strategy

and positioning are performance-oriented, and a salary policy with market competition is designed. Based on the Company's operating results and individual performance, it is allocated reasonably to create the common interests of individuals, the Company and shareholders, and achieve a win-win situation.

(1) Manager remuneration

- a. Manager remuneration is based on the Company's overall market positioning and the results of salary surveys in related industries, and in accordance with relevant comprehensive consideration concerning managers' achievement of goals, contributions, and so on.
- b. The content of manager remuneration includes basic salary, supervisor bonuses, various allowances, rewards, year-end bonuses, and employee remuneration.
- c. A manager's personal salary and remuneration shall be handled according to wage methods of employees of the Company. The Remuneration committee will regularly evaluate the reasonableness of salary and remuneration.

(2) Director remuneration:

- a. According to provisions of the Company's Articles of Incorporation, no more than 5% of the profit of the current year may be allocated as remuneration distributed to directors for the current year. It shall be allocated according to the performance evaluation results of each director for the current year.
- b. Separately, in accordance with provisions of Article 21 of the Company's Articles of Incorporation, in respect to directors' transportation expenses, independent directors' remuneration, and directors' performance of duties for the Company, the Company may pay remuneration authorize the Board of Directors to make decisions based on a director's degree of participation and value of contribution to the operations of the Company, and to negotiate with reference to relevant peers and listed company standards.

By resolution of the 1995 General Meeting of Shareholders: in respect to the Company's resident executive business directors and supervisors, the monthly salary of each individual shall be within a limit of NTD 280,000 as granted by resolution by the Board of Directors.

Each director is to be granted monthly travel expenses of NTD 20,000, while each independent director is to be granted

monthly travel expenses of NTD 30,000; and each person shall be granted NTD 10,000 per instance for attendance at a meeting of the Board of Directors.

If directors and independent directors serve as members of each functional committee of the Company, additional fixed monthly remunerations may be paid to functional committee members; and transportation expenses will be paid on a per-instance basis according to the actual number of meetings attended.

Independent directors receive fixed remunerations on a monthly basis and do not participate in earnings distributions.

In the total remuneration amounts paid to the Company's directors and general manager in the last two years, only fixed remunerations have been paid such as travel expenses and monthly fixed remunerations; variable remunerations not connected to performance have not been issued.

IV. Corporate Governance Status

Information on the operation of the Board of Directors

1. The Board of Directors met 6 times in total in 2021 and the directors attended the meetings as follows:

| Job Title | Name | | Actual attendance (observation) Frequency | Attendance by proxy Frequency | Actual attendance (observation) Rate (%) | Remarks |
|----------------------|----------------------------|--------------------|---|-------------------------------|--|------------------------------------|
| Chairman | Lu Tai-Rong | | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Director | Pro Imp'ex Company Limited | Sheng Lu Rong Feng | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Director | Huida Investment Co., Ltd. | Huang Li-Chun | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Director | You Chang Co., Ltd. | Wu Hsien-Ming | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Director | | Lin Tzu-Hui | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Director | Hong Well Company Limited | Lu En-Chang | 4 | 2 | 67% | Re-elected 2021.8.26 Re-elected |
| Independent Director | Lin Hsien-Lang | | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Independent Director | Chen Chi-Hsiung | | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |
| Independent Director | Wu Hsiao-Yen | | 6 | — | 100% | Re-elected 2021.8.26 Re-elected |

Other matters to be recorded:

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

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

| Board of Directors date and term | Proposal content | Board resolution results | Audit Committee resolution results |
|--|--|---|---|
| March 11, 2021 The 13th session of the 20th term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2020 business report and financial statements | Approved as per the proposal by all directors present | March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 2: Preparation of the Company's 2020 loss make-up statement | Approved as per the proposal by all directors present | March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 3: Assessment of independence of CPAs of the Company | Approved by all directors present | March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 4: Planned issuance of the Company's 2020 Internal Control System Statement. | Approved by all directors present | March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 5: Amendment of the Rules of Procedure for Shareholders Meetings | Approved by all directors present | |
| | Matters for Acknowledgment and Discussion, Proposal 6: Election of 9 directors of the Company's 21st | Approved by all directors present | |

| Board of Directors date and term | Proposal content | Board resolution results | Audit Committee resolution results |
|---|--|--|--|
| | Board of Directors (including 3 independent directors). | | |
| | Matters for Acknowledgment and Discussion, Proposal 10: Preparation of the name list of candidates for directors of the Company's 21st Board of Directors. | Except the candidates for directors, who recused themselves voluntarily, the other present directors agreed to include said candidates into the name list of candidates for directors and independent directors. | |
| | Matters for Acknowledgment and Discussion Proposal 11: Appointment and dismissal of financial and accounting managers. | Approved by all directors present. | March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion Proposal 12: Appointment and dismissal of the Company's chief corporate governance officer. | Except Director Lin Tzu-Hui, who recused herself, the other present directors agreed to pass the proposal. | |
| May 7, 2021 The 14th session of the 20th term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q1 financial statements | Approved as per the proposal by all directors present | May 7, 2021 The 14th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 2: Amendments to the Company's "Stock Services Internal Control System" | Approved by all directors present | May 7, 2021 The 14th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. |
| 2021.8.6 The 15th session of the 20th term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q2 financial statements | Approved as per the proposal by all directors present | 2021.8.6 The 15th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors |

| Board of Directors date and term | Proposal content | Board resolution results | Audit Committee resolution results |
|---|---|---|--|
| 2021.8.26 The 1st session of the 21st term Board of Directors | Election matters: Election of the Chairman | Director Lu Tai-Rong was elected as Chairman of the Board by the attending directors. | |
| | Matter for discussion: Proposed appointment of members of the Remuneration Committee of the Company | With Director Lin Hsien-Lang, Director Chen Chi-Hsiung, and Director Wu Hsiao-Yen recusing, other attending directors agreed to pass. | |
| 2021.11.11 The 2nd session of the 21st term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q3 financial statements | Approved as per the proposal by all directors present | 2021.11.11 The 2nd session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 2: 2022 Internal Audit Plan of the Company | Approved by all directors present | 2021.11.11 The 2nd session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. |
| 2021.12.27 The 3rd session of the 21st term Board of Directors | Matter for discussion: After obtaining recognition as top applicant for the "Special Trade III South Southside Base" urban renewal case from the Kaohsiung City Government, the Company is to cooperate with Kuo Cheng Construction to invest in the establishment of Smartway Ark Alliance Co., Ltd. to sign the contract with the Kaohsiung City Government | Approved by all directors present | 2021.12.27 The 3rd session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. Furthermore, the company organizer was requested to provide pre-signature contract documents for review by the Audit Committee. |
| 2022.3.10 The 4th session of the 21st term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Employee remuneration and director remuneration payment methods for 2021 | Approved by all directors present | 2022.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 2: Acknowledgment of the Company's | Approved as per the proposal by all directors present | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the |

| Board of Directors date and term | Proposal content | Board resolution results | Audit Committee resolution results |
|----------------------------------|--|---|---|
| | 2021 business report and financial statements | | presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 3: Preparation of the Company's 2021 earnings distribution schedule | Approved as per the proposal by all directors present | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 4: Expiry replacement and assessment of independence of CPAs | Approved by all directors present | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 5: Planned issuance of the Company's 2021 Internal Control System Statement. | Approved by all directors present | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 6: Proposed amendment to a portion of the provisions of the Company's Procedures for Acquiring or Disposing of Assets | Approved by all directors present | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. |
| | Matters for Acknowledgment and Discussion, Proposal 7: Proposed amendment to a portion of the provisions of the Company's Operational Procedures for Endorsements and Guarantees | Approved by all directors present | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. |

(II) Further to the aforementioned matters, any adverse opinion or qualified opinion of the Independent Directors against the resolutions of the Board:
None.

2. For recusal of directors from motions due to conflicts of interest, specify the names of the Directors, the content of the motions, the reasons for recusal, and the participation in voting:

| Director name | Proposal content | Reasons for recusal | Voting status |
|---|---|--|--|
| All Board members | 2021.3.11 The 13th session of the 20th term Board of Directors Matters for Acknowledgment and Discussion, Proposal 10: Proposed the name list of candidates for directors of the Company's 21st Board of Directors. | All were included in the list of candidates for directors and independent directors. | Except the candidates for directors, who recused themselves voluntarily, the other present directors agreed to include said candidates into the name list of candidates for directors and independent directors. |
| Lin Tzu-Hui | 2021.3.11 The 13th session of the 20th term Board of Directors Matters for Acknowledgment and Discussion, Proposal 12: Proposal for appointment and dismissal of the Company's chief corporate governance officer | Constituted an interested party. | Except Director Lin Tzu-Hui, who recused herself, the other present directors agreed to pass the proposal. |
| Lin Hsien-Lang, Chen Chi-Hsiung, Wu Hsiao-Yen | 2021.8.26 The 1st session of the 21st term Board of Directors Discussion Item: Proposed appointment of members of the Remuneration Committee of the Company | Constituted an interested party. | With Director Lin Hsien-Lang, Director Chen Chi-Hsiung, and Director Wu Hsiao-Yen recusing, other attending directors agreed to pass. |

III. According to the Company's "Board Performance Evaluation Method," the Company shall conduct the Board performance evaluation for once per. In 2021, the evaluation was conducted in the form of the questionnaire completed by all directors.

The Board performance evaluation for 2021:

| Evaluation cycle | Evaluation period | Scope of evaluation | Method of evaluation | Contents of evaluation |
|------------------|---------------------------------------|---|---|--|
| Once per year | January 1, 2021– December 31, 2021 | Board Performance Evaluation | Board's Internal Self-Evaluation | A. Participation in the Company's operations B. Improvement of the Board's decision-making quality C. Composition and structure of Board D. Election and continuing education of directors E. Internal control |
| Once per year | January 1, 2021– December 31, 2021 | Individual director's performance evaluation | Board members Self-evaluation | A. Alignment with the goals and mission of the Company B. Knowledge of the directors' duties C. Participation in the Company's operations D. Management of internal relationship and communication E. Professionalism and continuing education of directors F. Internal control |
| Once per year | January 1, 2021– December 31, 2021 | Audit Committee Performance Evaluation | Audit Committee's Internal Self-Evaluation | A. Participation in the Company's operations B. Knowledge of functional committees' duties C. Improvement of the functional committees' decision-making quality D. Composition and member election of the functional committees E. Internal control |
| Once per year | January 1, 2021– December 31, 2021 | Remuneration Committee Performance Evaluation | Remuneration Committee's Internal Self-Evaluation | A. Participation in the Company's operations B. Knowledge of functional committees' duties C. Improvement of the functional committees' decision-making quality D. Composition and member election of the functional committees |

IV. Assessment of objectives (e.g. setting up an Audit Committee, enhancing the transparency of information, etc.) and implementation status in respect of strengthening the powers of the Board of Directors for the current and

immediately past years will be carried out.

1. 2018/6/27 A candidate nomination system was adopted for the election of directors at the General Meeting of Shareholders.
2. 6/27/2018 The General Meeting of Shareholders elected 3 independent directors and established an Audit Committee.
3. 5/6/2019 Established Standard Operating Procedures for Handling Director Requests.
4. November 7, 2019 Established the “Board Performance Evaluation Method,” and implemented the same since 2020; the 2021 Board performance evaluation results already reported to the 4th session of the 21st term Board of Directors on March 10, 2022.

Information on the operations of the Audit Committee:

The Company established an Audit Committee on June 27, 2018. The 1st term Audit Committee met 3 times in 2021 and the 2nd term met 3 times, and the attendance of independent directors was as follows:

| Job Title | Name | Actual attendance (observation) Frequency | Attendance by proxy Frequency | Actual attendance (observation) Rate (%) | Remarks |
|-----------|-----------------|---|-------------------------------|--|--|
| Convener | Lin Hsien-Lang | 6 | — | 100% | Independent Director Re-elected 2021.8.26 Re-elected |
| Member | Chen Chi-Hsiung | 6 | — | 100% | Independent Director Re-elected 2021.8.26 Re-elected |
| Member | Wu Hsiao-Yen | 6 | — | 100% | Independent Director Re-elected 2021.8.26 Re-elected |

Other matters to be recorded:

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

(I) Matters listed in Article 14-5 of the Securities and Exchange Act:

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

| Board of Directors date and term | Proposal content | Audit Committee resolution results | The Company's handling of the Audit Committee's opinions (resolutions of the Board of Directors) |
|---|---|--|--|
| | Matters for Acknowledgment and Discussion Proposal 11: Appointment and dismissal of financial and accounting managers. | March 11, 2021 The 13th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. | Approved by all directors present. |
| May 7, 2021 The 14th session of the 20th term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q1 financial statements | May 7, 2021 The 14th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors. | Approved as per the proposal by all directors present |
| | Matters for Acknowledgment and Discussion, Proposal 2: Amendments to the Company's "Stock Services Internal Control System" | May 7, 2021 The 14th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. | Approved by all directors present |
| 2021.8.6 The 15th session of the 20th term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q2 financial statements | 2021.8.6 The 15th session of the 1st term Audit Committee: After the presiding chair consulted all the members present, the proposal was acknowledged without objection and reported to the Board of Directors | Approved as per the proposal by all directors present |
| 2021.11.11 The 2nd session of the 21st term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 1: Acknowledgment of the Company's 2021 Q3 financial statements | 2021.11.11 The 2nd session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of | Approved as per the proposal by all directors present |

| Board of Directors date and term | Proposal content | Audit Committee resolution results | The Company's handling of the Audit Committee's opinions (resolutions of the Board of Directors) |
|---|---|--|--|
| | | Directors. | |
| | Matters for Acknowledgment and Discussion, Proposal 2: 2022 Internal Audit Plan of the Company | 2021.11.11 The 2nd session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed without objection and reported to the Board of Directors. | Approved by all directors present |
| 2021.12.27 The 3rd session of the 21st term Board of Directors | Matter for discussion: After obtaining recognition as top applicant for the "Special Trade III South Southside Base" urban renewal case from the Kaohsiung City Government, the Company is to cooperate with Kuo Cheng Construction to invest in the establishment of Smartway Ark Alliance Co., Ltd. to sign the contract with the Kaohsiung City Government | 2021.12.27 The 3rd session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. Furthermore, the company organizer was requested to provide pre-signature contract documents for review by the Audit Committee. | Approved by all directors present |
| 2022.3.10 The 4th session of the 21st term Board of Directors | Matters for Acknowledgment and Discussion, Proposal 2: Acknowledgment of the Company's 2021 business report and financial statements | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. | Approved as per the proposal by all directors present |
| | Matters for Acknowledgment and Discussion, Proposal 3: Preparation of the Company's 2021 earnings distribution schedule | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, the proposal was passed and reported to the Board of Directors. | Approved as per the proposal by all directors present |
| | Matters for Acknowledgment and Discussion, Proposal 4: Expiry replacement and assessment of independence of CPAs | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the | Approved by all directors present |

| Board of Directors date and term | Proposal content | Audit Committee resolution results | The Company's handling of the Audit Committee's opinions (resolutions of the Board of Directors) |
|----------------------------------|--|--|--|
| | | members present, was passed and reported to the Board of Directors. | |
| | Matters for Acknowledgment and Discussion, Proposal 5: Planned issuance of the Company's 2021 Internal Control System Statement. | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. | Approved by all directors present |
| | Matters for Acknowledgment and Discussion, Proposal 6: Proposed amendment to a portion of the provisions of the Company's Procedures for Acquiring or Disposing of Assets | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. | Approved by all directors present |
| | Matters for Acknowledgment and Discussion, Proposal 7: Proposed amendment to a portion of the provisions of the Company's Operational Procedures for Endorsements and Guarantees | 2023.3.10 The 4th session of the 2nd term Audit Committee: After the presiding chair consulted all the members present, was passed and reported to the Board of Directors. | Approved by all directors present |

(II) Except for the aforementioned matters, other matters that have not been approved by the Audit Committee and approved by more than two-thirds of all directors: None.

II. For recusal of independent directors from motions due to conflicts of interest, specify the names of the independent directors, the content of the motions, the reasons for recusal, and the participation in voting: None.

III. Status of communication between independent directors, internal audit supervisors, and accountants.

(I) The audit supervisor of the Company attends regular Audit Committee meetings and Board meetings as non-voting delegates to report on the

implementation of internal audit work; the audit department regularly sends audit reports and follow-up report results to independent directors for review.

(II) The Company's CPAs attend routine Audit Committee meetings and Board meetings, and ahead of these meetings they separately communicate and discuss matters related to the financial statements.

IV. Work priorities of the Audit Committee in 2021:

1. Review the appropriateness of the annual financial statements and quarterly reports.
2. Review business reports and distributions of earnings.
3. Review the independence of CPAs.
4. Deliberate on the appointment of the Chief Financial Officer.
5. Review and revise the internal control system.
6. Review the annual audit plan.
7. Evaluate the effectiveness of the internal control system.
8. Review major asset transactions and major investment cases.

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

| Evaluation item | Operational status | | | Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|---|---|--|
| | Yes | No | Summary Description | |
| I. Has the Company prepared and disclosed the Corporate Governance Best-Practice Principles in accordance with the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies? | | ✓ | The Company follows the relevant regulations of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies. | Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations. |
| II. The equity structure and shareholders' equity of the Company | | | | |
| <ul style="list-style-type: none"> ▪ Does the Company have internal operating procedures in place to deal with shareholder recommendations, doubts, disputes and litigation matters according to the procedures? ✓ ▪ Does the Company have a list of the major shareholders who actually control the Company, and the ultimate controllers of the major shareholders? ✓ ▪ Has the Company established and implemented the risk management, control and prevention mechanisms for affiliated companies? ✓ | ✓ | <p>Instructs relevant departments to deal with issues such as uncertainties, disputes, and litigation concerning shareholder recommendations.</p> <p>The stock affairs unit shall maintain an understanding of equity changes among major shareholders.</p> <p>The Board of Directors has approved the "Supervision and Management Measures for Subsidiary Companies" and implemented it.</p> | <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, Article 13, there are no major deviations.</p> <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, Article 19, there are no major deviations.</p> <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, Article 14, there are no major deviations.</p> | |

| Evaluation item | Operational status | | | Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|---|--|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> Has the Company established internal regulations that prohibit insiders from using unpublished information in the market to buy and sell securities? | ✓ | | The Board of Directors has approved “Management Procedures for Preventing Insider Trading” and implemented it. | Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations. |
| <p>III. Composition and Duties of the Board of Directors</p> <ul style="list-style-type: none"> Has the Board developed its policies in diversity relevant to the composition of the members and has it properly pursued these policies? Has the Company voluntarily set up other functional committees other than the Remuneration Committee and the Audit Committee according to law? | ✓ | ✓ | In addition to addressing overall configuration, the selection of Board members shall also consider basic conditions and value as well as professional knowledge and skills. A Remuneration Committee has been established in accordance with the regulations, and on 6/27/2018 the Shareholders’ Meeting elected 3 independent directors and established an Audit Committee. | Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations. Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations. |
| <ul style="list-style-type: none"> Has the Company formulated the Board’s performance assessment and evaluation method, conduct performance evaluation annually and regularly, and report the results of the performance evaluation | ✓ | | The Company established its Board Performance Evaluation Method on November 7, 2019. Starting from 2020, a self-evaluation questionnaire will be distributed at the end of each year for regular evaluation, and the | Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations. |

| | | | |
|--|----------|---|---|
| <p>to the Board of Directors, and apply it to individual directors' remuneration and nomination renewal?</p> <p>- Has the Company assessed the independence status of the CPAs at regular intervals?</p> | <p>✓</p> | <p>evaluation results will be reported to the Board of Directors. This shall also serve as a reference for individual directors' remuneration and nomination for renewal.</p> <ol style="list-style-type: none"> 1. We assess the independence of accountants once a year 2 The CPA has issued a statement of independence. 3. We referred to Article 47 of the Accounting Act and to evaluation items formulated under the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10, "Integrity, Objectivity and Independence" in assessing the independence of CPAs in 2021. After the evaluation report was submitted to the 13th session of the 1st term Audit Committee for discussion, it was submitted and approved by resolution of the 13th session of the 20th term Board of Directors on March 11, 2021. 4. Criteria for assessing the independence of accountants: <ol style="list-style-type: none"> (1) As of the last certification | <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations.</p> |
|--|----------|---|---|

| | | | | |
|--|--|--|---|--|
| | | | <p>application, there has been no change in seven years.</p> <p>(2) There is no material financial interest in the client.</p> <p>(3) Any inappropriate relationship with the company is avoided.</p> <p>(4) Accountants should ensure the honesty, impartiality and independence of their assistants.</p> <p>(5) The financial statements of the service organization within the two years prior to practice shall not be subject to certification review.</p> <p>(6) The accountant's name may not be used by others.</p> <p>(7) Not holding any shares in the Company or its affiliated companies.</p> <p>(8) There are no financial loans with the Company or its affiliated companies.</p> <p>(9) There are no joint investments or interest-sharing relationships with the Company or its affiliated companies.</p> | |
|--|--|--|---|--|

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|--|--|--|--|
| | | <p>(10) Not concurrently working on a regular basis and receiving a fixed salary at the Company or its affiliates.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Not involved in the management functions of the Company or its affiliated companies to make decisions. <input type="checkbox"/> Not concurrently operating other businesses that may cause a loss of independence. <input type="checkbox"/> There is no relationship with the management of the Company involving a spouse, direct blood relatives, direct relatives by marriage, or blood relatives within the second degree of kinship. <input type="checkbox"/> Not charging any business-related commissions. <input type="checkbox"/> Up to now, there have been no disciplinary measures or violations of the principle of independence. | |
|--|--|--|--|

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|--|---|--|---|--|
| | | | No violations of the above-mentioned principles of accountant independence have occurred for Accountant Chen Kuo-Tsung and Accountant Hsu Chen-Lung of KPMG Taiwan. | |
| IV. Is the TWSE / TPEX listed company equipped with qualified and appropriate number of corporate governance personnel, and appoint a corporate governance director responsible for corporate governance related matters (including but not limited to providing information needed by directors and supervisors to carry out business, assisting directors and supervisors to comply with laws and regulations, handling matters related to meetings of the Board of Directors and shareholders' meeting in accordance with the law, and producing minutes of Board meetings and shareholders' meetings)? | ✓ | | The Company has a member of the Chairman's Office handling corporate governance-related affairs part-time. For details and contact information, please refer to the Company's website, http://www.khc.com.tw 2021/3/11 The 13th session of the 20th term Board of Directors resolved to establish a Corporate Governance Manager to be responsible for corporate governance related affairs. | Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations. |

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|---|---------------------|---|---|
| <p>V. Has the Company established channels for the communications with the stakeholders (including but not limited to the shareholders, employees, customers, and suppliers), and the section for the shareholders on the official website of the Company to respond to all concerns of the stakeholders on corporate social responsibility?</p> | <p>✓</p> | <p>A special area for stakeholders has been set up on the the Company's website and the relevant departments have been instructed to handle it. The stakeholders section includes stakeholder needs and expectations (including shareholders, employees, customers, third-party manufacturers, communities, and government departments). Shareholders can communicate with the Company through the toll free shareholder hotline and through email.</p> | <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, Article 51, there are no major deviations.</p> |
| <p>VI. Has the Company appointed a professional share registration and investors service agent for handling matters pertaining to the Shareholders Meeting?</p> | <p>✓</p> | <p>Stock services self-administered.</p> | <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations.</p> |
| <p>VII. Disclosure of Information</p> <ul style="list-style-type: none"> ▪ Has the Company installed a website for the disclosure of information on financial position and operation, as well as corporate governance? ▪ Has the Company adopted other means for disclosure (such as the installation of a website in the English language, appointment of designated persons for the collection and disclosure of information on the | <p>✓ ✓</p> | <p>http://www.khc.com.tw There is a special area for investors, regularly updating financial, business, and other information for investors' reference. It has set up a spokesperson and a dedicated person to be responsible for media data collection. Externally, the spokesperson will speak on behalf of the</p> | <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, Article 56, there are no major differences. Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations.</p> |

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|--|----------|---|---|
| <p>Company, the implementation of the spokesman system, and videotaping institutional investor conferences)?</p> <ul style="list-style-type: none"> Does the Company announce and declare its annual financial report within two months after the end of the fiscal year, and announce and declare the first, second, and third quarter financial reports and the monthly operating situation as early as possible within the prescribed time limit? | | <p>Company. It also requires other employees not to disseminate information without authorization.</p> <p>✓ Currently, the deadline is announced in accordance with the law.</p> | |
| <p>VIII. Is there any other essential information that would help understand the pursuit of corporate governance (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, the continuing education of directors and supervisors, the pursuit of a risk management policy and standard of risk assessment, the pursuit of a customer policy, and professional liability insurance coverage for the directors and supervisors)?</p> | <p>✓</p> | <ol style="list-style-type: none"> 1. Set up a labor union and employee welfare committee to ensure employee rights and employee care, and strive to improve the working environment and welfare of employees. 2. Establish a dedicated unit to regularly disclose the Company's important operating information, continue to improve the transparency of the Company's information, and establish a feedback mechanism for investors to express relevant suggestions for the Company's development. 3. The Company's website has a dedicated area to respond to interested parties, who can get | <p>Compared with the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies, there are no major deviations.</p> |

into direct contact and communicate via telephone, fax, and email.

IX. Please explain corrective action taken in response to the result of the Corporate Governance Evaluation conducted by the Corporate Governance Center of Taiwan Stock Exchange Corporation, and the priority of action on issues pending for corrective action in the most recent year.

9.1 Explanation of improvements:

9.1.1 Do the Company's Articles of Incorporation require a comprehensive candidate nomination system for director elections?

Yes, on 2018/6/27 a candidate nomination system was adopted for the election of directors at the Shareholders' Meeting.

9.1.2 Has the Company set up an Audit Committee for compliance?

Yes; on 6/27/2018 the Shareholders' Meeting elected 3 independent directors and established an Audit Committee.

9.1.3 Is information reported in English?

Already prepared the financial statements, annual reports and meeting handbook in English language as required starting from 2020.

Starting from 2022, material information is to be released simultaneously in both Chinese and English in accordance with regulations.

9.2 Priority enhancements and measures for items that have not yet improved:

9.2.1 Preparation of the sustainability report is scheduled for completion in June 2023.

Status of advanced training for directors in 2021:

| Name | Date | Organizer | Course title | Hours |
|------------------------|------------|----------------------------------|---|---------|
| Chairman Lu Tai Rong | 2021/12/03 | Securities & Futures Institute | Legal liability and risk control of inaccurate financial statements from directors and supervisors: Focus on practical case studies | 3 hours |
| Chairman Lu Tai Rong | 2021/12/03 | Securities & Futures Institute | "Corporate governance and securities regulations" | 3 hours |
| Director Huang Li-Chun | 2021/09/01 | Financial Supervisory Commission | 13th Taipei Corporate Governance Forum | 3 hours |
| Director Huang Li-Chun | 2021/12/07 | Taiwan Stock Exchange | 2021 Cathay Sustainable Finance and Climate Change Summit | 3 hours |

| | | | | |
|--|------------|--|---|-----------|
| Director Wu Hsien-Ming | 2021/09/01 | Financial Supervisory Commission | 13th Taipei Corporate Governance Forum | 3 hours |
| Director Lin Tzu-Hui | 2021/07/23 | Accounting Research and Development Foundation | Practical analysis of “sustainability reports” under the Corporate Governance 3.0 policy | 3 hours |
| Director Lin Tzu-Hui | 2021/09/01 | Financial Supervisory Commission | 13th Taipei Corporate Governance Forum | 3 hours |
| Director Lin Tzu-Hui | 2021/10/13 | Securities & Futures Institute | Briefing session on legal compliance in insider equity transactions for 2021 | 3 hours |
| Director Lin Tzu-Hui | 2021/11/03 | Securities & Futures Institute | 2021 conference on prevention of insider trading | 3 hours |
| Director Lin Tzu-Hui | 2021/12/03 | Securities & Futures Institute | Legal liability and risk control of inaccurate financial statements from directors and supervisors: Focus on practical case studies | 3 hours |
| Director Lin Tzu-Hui | 2021/12/03 | Securities & Futures Institute | “Corporate governance and securities regulations” | 3 hours |
| Director Lin Tzu-Hui | 2021/12/07 | Taiwan Stock Exchange | 2021 Cathay Sustainable Finance and Climate Change Summit | 3 hours |
| Lin Hsien-Lang Independent Director | 2021/02/25 | Taiwan Corporate Governance Association, Directors and Supervisors Association | A turning point in a century-old international enterprise: learning from a century-old enterprise for sustainable development | 1 hours |
| Lin Hsien-Lang Independent Director | 2021/03/25 | Taiwan Corporate Governance Association, General Assembly | Corporate Sustainability and Responsible Investing | 1.5 hours |
| Lin Hsien-Lang Independent Director | 2021/04/28 | Taiwan Corporate Governance Association, Directors and Supervisors Association | Sharing how issuing companies can truly implement ESG from the perspective of views and voting behavior among foreign shareholders | 1 hours |

| | | | | |
|---|------------|--|--|---------|
| Lin Hsien-Lang Independent Director | 2021/08/31 | Taiwan Corporate Governance Association, Directors and Supervisors Association | Business opportunities and challenges in avoiding climate catastrophe | 1 hours |
| Lin Hsien-Lang Independent Director | 2021/12/03 | Taiwan Corporate Governance Association | Information security incident handling practices in the post-pandemic new normal | 3 hours |
| Lin Hsien-Lang Independent Director | 2021/12/22 | Taiwan Corporate Governance Association | Practicing ESG to implement governance and sustainable development | 3 hours |
| Chen Chi-Hsiung Independent Director | 2021/12/07 | Taiwan Stock Exchange | 2021 Cathay Sustainable Finance and Climate Change Summit | 6 hours |
| Wu Hsiao-Yen Independent Director | 2021/03/26 | Taiwan Corporate Governance Association | Discussion of the three major standards of ethical management, corporate governance, and corporate social responsibility | 3 hours |
| Wu Hsiao-Yen Independent Director | 2021/07/28 | Taiwan Corporate Governance Association | Corporate sustainability accelerator – CSR, ESG and SDGs | 3 hours |
| Wu Hsiao-Yen Independent Director | 2021/10/27 | Taiwan Corporate Governance Association | How to take into account the risks of intelligent security and create a win-win situation in enterprise digital transformation | 3 hours |

| Evaluation item | Operational status | | | Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|-----------------|--------------------|----|---------------------|--|
| | Yes | No | Summary Description | |
| | | | | <ul style="list-style-type: none"> ▪ The implementation of risk management policies and risk measurement standards and the implementation of customer policies: <ol style="list-style-type: none"> 1. The annual budget is sent to the Board of Directors for deliberation, and the budget and cash flow are controlled. 2. Board meetings, report business, financial and audit reports. 3. Review customer sales credit limits every year and instruct relevant departments to control them. 4. In order to reduce the credit risk of accounts receivable, most of the Company's customer's open letters of credit before shipment. ▪ The Company's purchase of insurance for directors and supervisors: The Company has purchased liability insurance for directors: <ol style="list-style-type: none"> 1. Insurance company: Shin Kong Insurance Co., Ltd. Shin Kong liability insurance for directors, supervisors and managers. 2. Insurance period: August 22, 2021 - August 22, 2022 3. Insurance amount: USD 3,000,000 (accumulated liability for compensation during the insurance period). |

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

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

Article 1 Purpose of establishment and its basis

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

Article 2 Ethical principles

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

Article 3 Covered content

(I) Preventing conflicts of interest:

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

(II) Avoiding opportunities for personal gain:

1. Company Personnel should avoid the following matters:

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

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

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

(III) Duty of confidentiality:

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

(IV) Fair trading:

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

(V) Protecting and appropriately using Company assets:

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

(VI) Following laws and regulations:

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

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

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

The Company should strengthen the promotion of ethical concepts. When Company Personnel know or

discover any behavior that may violate laws, regulations, or the Code of Ethical Conduct, they should report to the supervisor, manager, internal audit supervisor or other appropriate personnel. Any individual use whistleblowing reporting method provided that sufficient information is provided. If anyone believes that he or she has been retaliated against (threats or harassment) for the above actions, this should be reported to the direct supervisor or personnel supervisor or internal audit supervisor or other appropriate personnel, and the Company will do its best to protect the safety of the informant from retaliation.

(VIII) Disciplinary measures:

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

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

Article 4 Procedures for exemptions

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

Article 5 Methods of disclosure

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

Article 6 Implementation

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

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

1. Information of Remuneration Committee Members

April 25, 2022

| ID classification (Note 1) | Terms | Professional qualifications and experience (Note 2) | Status of independence (Note 3) | Number concurrently serving as members of the remuneration committees of other publicly issued companies |
|-------------------------------|-----------------|---|---------------------------------|--|
| | Name | | | |
| Independent Director Convener | Lin Hsien-Lang | Please refer to Table 1 on page 10 for information on directors | | 0 |
| Independent Director | Chen Chi-Hsiung | | | 0 |
| Independent Director | Wu Hsiao-Yen | | | 1 |

Note 1: In the form, please specify relevant working years, professional qualifications and experience, and independence of each member of the Remuneration Committee; in the case of an independent director, please refer to the relevant content in the information of directors and supervisors (I) in Table 1 on page 10. Please fill in as independent director or other (please note if the convener).

Note 2: Professional qualifications and experience: State the professional qualifications and experience of individual members of the Remuneration Committee.

Note 3: Conformity to status of independence: Specify the conformity to the status of independence of the members of the Remuneration Committee, including but not limited to whether one's self, spouse, or relatives within the second of kinship serve as directors, supervisors or employees of the Company or its affiliated companies; the number and proportion of the Company's shares held by oneself, a spouse, or relatives within the second degree of kinship (or held under the names of others); whether one serves serve in the position of director, supervisor, or employee of a company that has a specified relationship with the Company (in reference to Article 6, Paragraph 1, Subparagraphs 5-8 of 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); and the amount of remuneration received for providing

business, legal, financial, accounting, and other services to the Company or its affiliates in the last two years.

Note 4: For disclosure methods, please refer to the best-practice reference examples on the website of the Corporate Governance Center of the Taiwan Stock Exchange.

2. Information on the operation of the Remuneration Committee

- There are 3 members of the Remuneration Committee of the Company.
- Current (5th) term of membership: August 26, 2021 to August 25, 2024. In 2021, the Remuneration Committee met twice and the qualifications and attendance of members are as follows:

| Job Title | Name | Number of times actually attending (B) | Frequency of attendance | Actual attendance rate (%) (B/A) (Note) | Remarks |
|-----------|-----------------|--|-------------------------|---|----------------------|
| Convener | Lin Hsien-Lang | 2 | — | 100% | Re-elected 2021.8.26 |
| Member | Wu Hsiao-Yen | 2 | — | 100% | Re-elected 2021.8.26 |
| Member | Chen Chi-Hsiung | 2 | — | 100% | Re-elected 2021.8.26 |

Other matters to be recorded:

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

Note:

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

elected and the date of reelection. The actual attendance rate (%) is calculated based on the number of meetings of the Remuneration

Committee during the term of service and the actual number of attendances.

In accordance with the rules of the Company's Remuneration Committee:

1. The Committee meets twice a year.
2. Regularly review the performance evaluation standards the Company's directors and managers and annual and long-term performance goals, as well as remuneration policies, systems, standards, and structures; and disclose the content of performance evaluation standards in the annual report.

Circumstances of the remuneration committee meeting:

| Remuneration Committee date and term | Proposal content | Remuneration Committee resolution results | The Company's handling of the Remuneration Committee's opinions (resolutions of the Board of Directors) |
|---|--|--|---|
| 2021.8.26 The 1st session of the 5th term | Election matters: Mutual election of Remuneration Committee members and convener | Participating members mutually recommended member Lin Hsien-Lang as the convener | Implemented according to the resolution content |
| 2021.11.11 The 2nd session of the 5th term | Discussion item: Review the current relevant directors of the Company and the policies, systems, standards and structures of directors and managers' performance evaluation and remuneration | Approved by all members present | Implemented according to the resolution content |
| 2022.3.10 The 3rd session of the 5th term | Discussion item:: Employee remuneration and director remuneration payment methods for 2021 | Approved by all members present | Approved by all directors present |

Implementation of sustainable development promotions and the deviation from Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof:

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|--|--------------------|----|---|--|
| | Yes | No | Summary Description | |
| I. Does the Company establish a governance structure to promote sustainable development, and set up a designated full-time (or part-time) unit to promote Sustainable Development, and the Board of Directors authorizes senior management to handle this and the Board of Directors supervises the situation? | | ✓ | Preparation of a sustainability report is expected in 2023, and setup is planned for a dedicated (part-time) unit to promote sustainable development. | |
| II. Does the Company follow the principle of materiality, conduct risk assessments on environmental, social and corporate governance issues related to company operations, and formulate relevant risk management policies or strategies? | | ✓ | The Company has not formulated Corporate Social Responsibility Best-Practice Principles, but each department is in charge of corporate social responsibility work. Actively participating in or sponsoring community activities. | There are no major deviations from Article 6 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|--|--------------------|----|--|---|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> ▪ Does the Company count greenhouse gas emissions, water consumption and the volume of total waste in the past two years, and formulate policies for energy saving and carbon reduction, greenhouse gas reduction, water management or other waste management? | ✓ | | <ol style="list-style-type: none"> 1. Scope 1 and Scope 2 of the Company's greenhouse gas inventories will be completed in 2023 and completed in 2024. This has been submitted to the 5th session of the 21st term Board of Directors on May 10, 2022, and the implementation progress will be controlled on a quarterly basis. 2. Factory water is recycled after treatment in the Pingnan Industrial Park. The water consumption is calculated every six months. 3. Waste tonnage is declared on a monthly basis. | There are no major deviations from Article 17 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. |
| <p>IV. Social Issues</p> <ul style="list-style-type: none"> ▪ Has the Company established related policies and procedures in accordance with | ✓ | | Work rules and work environment safety equipment are used to protect the personal | There are no major deviations from Article 18 of the Corporate Social Responsibility |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|---|---|
| | Yes | No | Summary Description | |
| <p>applicable legal rules and the International Convention on Human Rights?</p> <p>▪ Has the Company formulated and implemented reasonable employee welfare measures (including salary, vacation and other benefits, etc.), and appropriately reflects business performance or results in employee compensation?</p> <p>▪ Has the Company provided a safe and healthy work environment for the employees, and related education on occupational safety and health for the employees at regular intervals?</p> | <p>✓</p> <p>✓</p> | | <p>safety of employees, and industrial labor unions are established to implement the protection of employees' legal rights and employment policies without discrimination.</p> <p>An employee welfare committee was established to handle employee welfare in accordance with laws and regulations. The Company has set up salary and remuneration policies and employee performance appraisal systems.</p> <p>Regular health inspections and work safety education and training are held for employees, and they have passed ISO 14001, ISO 45001 & CNS45001 and other</p> | <p>Best-Practice Principles for TWSE/TPEX Listed Companies.</p> <p>There are no major deviations from Article 21 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies.</p> <p>There are no major deviations from Article 20 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies.</p> |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|--|---|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> Has the Company provided effective training in career planning for employees? | ✓ | | <p>occupational safety management system certifications</p> <p>We organize pre-employment and on-the-job education and training for employees, select employees with development potential and cultivate reserve managers, and attach importance to the development of professional competence of employees.</p> | There are no major deviations from Article 21 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. |
| <ul style="list-style-type: none"> Regarding issues such as customer health and safety, customer privacy, and marketing and labeling of products and services, does the Company comply with relevant regulations and international standards, and formulate relevant consumer and customer protection policies and complaint procedures? | ✓ | | <p>We comply with relevant laws and regulations such as fair trade, and also collect information on major international environmental protection regulations to grasp trends and responses.</p> <p>We carry out customer satisfaction surveys and provide complaint</p> | There are no major deviations from Article 24 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|---|---|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> Has the Company formulated supplier management policies, where suppliers are required to follow relevant regulations on issues such as environmental protection, occupational safety and health or labor and their implementation? | ✓ | | <p>channels for products and services every year.</p> <p>The Company has established supplier review and evaluation procedures, and evaluates supplier products, environmental safety, ethics, and social responsibility items.</p> | There are no major deviations from Article 26 of the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies. |
| V. Does the Company refer to the internationally-prepared reporting standards or guidelines, preparation of sustainability reports and other reports that disclose the Company's non-financial information? Has the preliminary report obtained the confidence or assurance opinion of the third-party verification unit? | | ✓ | Preparation of the sustainability report is scheduled for completion in June 2023. | |

VI. If the Company has its own sustainable development code in accordance with the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, please describe the differences between its operation and the Principles:
Not yet determined.

VII. Other important information helpful to understand the implementation of the promotion of sustainable development:

1. In implementing and promoting energy saving and waste reduction, in addition to budgeting and investing in environmental protection capital expenditures, the entire Company's waste is classified and recycled, and waste and other pollutants are entrusted to a qualified cleaning company.
2. Community involvement:
Sponsored community activities in Gushan District, Yongan District, Kaohsiung City, and Fangliao Township in Pingtung County, and participated in the promotion of softball activities, and gave priority to employing local villagers.
3. The Company has set up parking lots on a portion of land in Kaohsiung City to help alleviate public parking difficulties.

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

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|--|--|
| | Yes | No | Summary Description | |
| <p>I. Formulation of ethical management policy and plans</p> <ul style="list-style-type: none"> ▪ Has the Company specified its policy and method for the implementation of ethical corporate management in its internal rules and regulations and external documents, and have the Board and the management of the Company promised to pursue the policy of ethical corporate management? | | ✓ | Formulated the Code of Ethical Conduct for directors, managers, and all employees of the Company. Clearly indicate the Company's policy of ethical operations, such that Board members and management should actively implement the commitments of this operating policy when performing business. | None. |
| <ul style="list-style-type: none"> ▪ Has the Company established an assessment mechanism for the risk of dishonesty, regularly analyzing and evaluating business activities with a high risk of dishonesty in the business scope, and | ✓ | | Company Personnel shall not directly or indirectly offer, promise to offer, request or accept any improper benefits, nor commit unethical acts including breach of ethics, illegal acts, or | None. |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|--|--------------------|----|---|--|
| | Yes | No | Summary Description | |
| <p>formulated a plan to prevent dishonesty, and cover at a minimum the preventive measures for various acts under Article 7, Paragraph 2 of “Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies?”</p> <p>▪ Does the Company specify the operating procedures, behavior guidelines, disciplinary penalties and grievance system in the plan to prevent dishonesty, and implement it, and regularly review and revise the pre-disclosure plan?</p> | ✓ | | <p>breach of fiduciary duty for purposes of acquiring or maintaining benefits.</p> <p>Prevention of conflicts of interest: Company Personnel shall handle official duties in an objective and efficient manner, and shall not allow themselves, their spouses, parents, children, or their relatives within the second degree to obtain improper benefits while holding their positions. The Company and affiliated companies to which the aforementioned</p> | None. |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|---|--|
| | Yes | No | Summary Description | |
| | | | personnel belong, or provide them with guarantees, major asset transactions, or purchase (sales) of goods. Company Personnel should take the initiative to explain whether they have a potential conflict of interest with the Company. | |
| II. Implementation of Ethical Corporate Management <ul style="list-style-type: none"> ▪ Does the Company assess a trading counterpart's ethical management record and expressly state the ethical management clause in the contract to be signed with the trading counterpart? | ✓ | | Avoiding opportunities for personal gain: Should not obtain or give rebates or other improper benefits from customers, suppliers, or groups related to the Company. The Company regularly evaluates and audits its customers and manufacturers. | None. |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|--|--|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> ▪ Has the Company set up a dedicated unit under the Board of Directors to promote corporate ethical management, and regularly reports (at least once a year) to the Board of Directors on its ethical management policies, plans for preventing dishonest behavior, and supervision and implementation? | ✓ | | <p>Ethics and integrity are the most important core value of the Company's culture. Under the supervision of the Board of Directors, the Company managers shall be responsible for the completeness, accuracy, and timeliness of all information disclosed by the Company.</p> | None. |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|--|--------------------|----|---|--|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> Has the Company developed a policy to prevent conflicts of interest, provided a proper presentation channel, and put such policy in place? | ✓ | | <p>Encouraging the reporting of any illegal or unethical conduct: The Company should strengthen the promotion of ethical concepts. When Company Personnel know or discover any behavior that may violate laws, regulations, or the Code of Ethical Conduct, they should report to the manager, internal audit supervisor or other appropriate personnel. Any individual use whistleblowing reporting method provided that sufficient information is provided. The personnel unit has a complaint mechanism and the Company website has a complaint channel.</p> | None. |

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

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|---|--------------------|----|---|--|
| | Yes | No | Summary Description | |
| <ul style="list-style-type: none"> ▪ Has the Company established standard operating procedures for accepting complaints, follow-up measures to be taken after the investigation is completed, and relevant confidentiality mechanisms? ▪ Has the Company taken measures to protect whistle-blowers from retaliation due to reporting? | ✓ | ✓ | <p>To be established</p> <p>If anyone believes that he or she has reported any illegal or ethical conduct that is subject to retaliation (threats or harassment), this should be reported to the direct supervisor or personnel supervisor or internal audit supervisor or other appropriate personnel, and the Company will do its best to protect the safety of the informant from retaliation.</p> | <p>None.</p> <p>None.</p> |
| <p>IV. Strengthening information disclosure</p> <ul style="list-style-type: none"> ▪ Has the Company, on its website and on the Market Observation Post System, disclosed the content and promotion effectiveness of its Ethical Corporate Management Best-Practice Principles? | ✓ | | <p>Company website: http://www.khc.com.tw;</p> <p>ethical policies are disclosed by the annual report, internal regulations, and so on.</p> | <p>None.</p> |

| Evaluation item | Operational status | | | Deviation from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and causes thereof: |
|--|--------------------|----|---------------------|--|
| | Yes | No | Summary Description | |
| V. If the Company has enacted the Ethical Corporate Management Best-Practice Principles in accordance with the Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies, please describe the difference between its operation and the Principles: A code of ethical management has not yet been formulated, while a code of ethical conduct has been formulated, and there is no difference between the Company's operations and the established guidelines. | | | | |
| VI. Other information that enables a better understanding of the Company's ethical corporate management (for example, the Company's review and revision the Ethical Corporate Management Best-Practice Principles, etc.): None. | | | | |

If the Company has established the Corporate Governance Best-Practice Principles and the related regulations, it should disclose how to inquire about such principles: None.

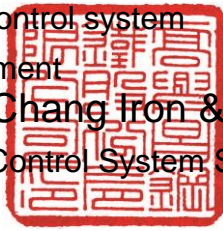
Other important information that is sufficient to enhance the understanding of corporate governance and operation conditions must be disclosed together: None.

Implementation status of internal control system

1. Internal Control System Statement

Kao Hsing Chang Iron & Steel Corp.

Internal Control System Statement



Date: March 10, 2022

For the Company's Internal Control System of 2021, based on the results of self-assessment, the following is hereby declared:

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

- VI. The Statement of Declaration will be the major contents of the annual report and prospectus of the Company and to be publicly disclosed. The Company shall be held liable for misrepresentation or nondisclosure in the above content, according to Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
- VII. This statement was approved by the Company's Board of Directors on March 10, 2022. Among the 9 directors present, none presented objections and all agreed to the content of this statement and hereby declaration.

Chairman: Lu Tai Rong



General Manager: Sheng Lu Rong Feng



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

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

1. Important resolutions of the 2021 Shareholders' Meeting (2021/8/26):

(1) Voted on acknowledgment of the 2020 business report and financial statements

(2) Voted to acknowledge the 2020 loss make-up proposal

(3) Voted to approve amendment of "Procedures for Election of Directors"

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

(5) Re-election of the 21st term Board of Directors of the Company.

Election results: Attending shareholders elected 9 directors (including 3 independent directors)

List of those elected:

Directors: Lu Tai-Rong; Sheng Lu Rong Feng institutional representative of Pro Imp'ex Company Limited; Huang Li-Chun, institutional representative of Huida Investment Co., Ltd.; Wu Hsien-Ming, institutional representative of You Chang Co., Ltd.; Lin Tzu-Hui;

Lu En-Chang, institutional representatives of Hong Well

Company Limited

Independent directors: Lin Hsien-Lang, Chen Chi-Hsiung, Wu Hsiao-Yen

Implementation of the resolutions of the Shareholders' Meeting of 2021:

- (1) Voted on acknowledgment of the 2020 business report and financial statements: Passed the proposal.

- (2) Vote office recognized the 2020 loss make-up proposal: No dividends to be distributed, and passed according to the proposal.
- (3) Voted to approve amendment of “Procedures for Election of Directors;” renamed as “Process for Selection of Directors” and revised procedures are to be followed.
- (4) Voted to pass the amendments to provisions of the “Rules of Procedure for Shareholders Meetings”: The amended Rules of Procedure shall apply.
- (5) Re-election of the 21st term Board of Directors of the Company.

Mandated announcement of election results: Attending shareholders elected 9 directors (including 3 independent directors)

Term of office 3 years from August 26, 2021 to August 25, 2024. The Board of Directors was further convened on August 26, 2021 for election of the Chairman, and Director Lu Tai-Rong was elected as Chairman of the Board by the attending directors.

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

2. Important Resolutions of the Board of Directors in 2021

| Item | Important resolutions |
|---|---|
| 1. The 13th session of the 20th term Board of Directors (2021.03.11) | <ol style="list-style-type: none"> 1. Acknowledgment of 2020 business report and financial statements 2. Acknowledged the 2020 loss make-up 3. Passed the assessment of independence of CPAs. 4. Passed 2020 Internal Control Statement. 5. Passed the amendments to the “Rules of Procedure for Shareholders Meetings.” 6. Passed the proposal for re-election of all directors. 7. Passed the convening of General Meeting of Shareholders on June 24, 2021, and agenda thereof. 8. Passed the measures to accept proposals from shareholders holding more than 1% of shares. 9. Passed the measures to accept proposals for nomination of candidates for directors from shareholders holding more than 1% of shares. 10. Passed the name list of candidates for directors of the Company’s 21st Board of Directors. 11. Passed the proposal for appointment and dismissal of financial and accounting managers. 12. Passed the proposal for appointment and dismissal of the Company’s chief corporate governance officer. |
| 2. The 14th session of the 20th term Board of Directors (2021.05. 07) | <ol style="list-style-type: none"> 1. Acknowledgment of financial statements for first quarter of 2021 2. Amended the Stock Services Internal Control System 3. Proposal to cooperate with construction companies to participate in government bids. |
| 3. The 15th session of the 20th term Board of Directors (2021.08.06) | <ol style="list-style-type: none"> 1. Acknowledgment of financial statements for second quarter of 2021 2. Proposed the convening of General Meeting of Shareholders on August 26, 2021 3. Appointment and dismissal of the foreman of the Pingnan Factory. |
| 4. The 1st session of the 21st term Board of Directors (2021.08.26) | <ol style="list-style-type: none"> 1. Election of the Chairman 2. Appointment of the Remuneration Committee of the Company |
| 5. The 2nd session of the 21st term Board of Directors | <ol style="list-style-type: none"> 1. Acknowledgment of financial statements for third quarter of 2021 2. Passed the 2022 annual budget. |

| Item | Important resolutions |
|---|---|
| (2021.11.11) | 3. Passed the loans from financial institutions in 2022. 4. Passed the 2022 annual audit plan. |
| 6. The 3rd session of the 21st term Board of Directors (2021.12.27) | 1. Obtaining recognition as top applicant for the “Special Trade III South Southside Base” urban renewal case from the Kaohsiung City Government, the Company is to cooperate with Kuo Cheng Construction to invest in the establishment of Smartway Ark Alliance Co., Ltd. to sign the contract with the Kaohsiung City Government. |
| 7. The 4th session of the 21st term Board of Directors (2021.03.10) | 1. Discuss employee remuneration and director remuneration distributions for 2021 2. Acknowledgment of 2021 business report and financial statements 3. Approved 2021 profit distribution. 4. Passed the expiry replacement and assessment of independence of CPAs. 5. Passed 2021 Internal Control Statement. 6. Passed amendments to “Procedures for Acquiring or Disposing of Assets” 7. Passed amendments to the “Operational Procedures for Endorsements and Guarantees” 8. Passed the convening of General Meeting of Shareholders on June 23, 2022, and agenda thereof. 9. Passed the measures to accept proposals from shareholders holding more than 1% of shares. |

- Directors or independent directors holding adverse opinions on the resolutions of the Board in the most recent year to the day this report was printed on record or in written declaration, and their main content: None.
- Summary of the resignation and removal of the Company’s Chairman, General Manager, chief accountant, treasurer, internal audit supervisor and R&D supervisor in the most recent year and up to the date of publication of the Annual Report:

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

April 23, 2022

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

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

V. Information about CPA professional fees

Currency unit: NTD thousand

| Accounting firm name | Accountant name | Accountant audit period | Audit fees | Non-audit fees | Total | Remarks |
|----------------------|-----------------|-------------------------|------------|----------------|-------|----------------------------|
| KPMG Taiwan | Chen Kuo-Tsung | 2021 | 1,680 | 95 | 1,775 | Business tax certification |
| | Hsu Chen-Lung | 2021 | | | | |

Please specify the content of non-audit fee services (e.g. tax certification, assurance, or other financial advisory services):

Note: If the Company has changed accountants or accounting firms this year, please list the audit period separately and explain the reason for the change in the remarks column; and disclose information on audit and non-audit fees paid in sequence. Non-audit fees should be annotated to explain the associated service content.

VI. Changes in Accountant Information

Information about changes of CPAs

- About the former accountant

| | | | |
|---|--|-------------------|------------------------------------|
| Date of replacement | 2022.1.1 | | |
| Reason for replacement and description | KPMG Taiwan adjustment in internal work allocation | | |
| Explain when the appointing person or accountant was terminated or did not accept the appointment | Circumstances of the parties | Accountants | Appointed person |
| | Circumstances | | |
| | Voluntary termination of appointment | None | |
| No longer accepting (continuing) appointment | | | |
| Comments and reasons for audit reports having other than an | None | | |
| Any discrepancies with the issuer | None | | Accounting principles or practices |
| | | | Disclosure of financial reports |
| | | | Audit scope or steps |
| | | | Others |
| | | | |
| | | No such situation | |
| | Explanation | | |
| Other disclosures (Article 10, Section 6, Item 1, Items 4 to 1-7 of this Code shall be disclosed) | None | | |

Note: Explanation for change of CPAs in 2022

| | |
|--------------------------------|--|
| Explanation for change of CPAs | In accordance with KPMG Taiwan's handling of Letter An Jian (111) Gaozi No. 0056L dated March 2, 2022: In order to meet the requirements of the Auditing Standards Bulletin No. 46, the relevant laws and regulations of the securities authority, and the needs of KPMG risk control: CPAs who have continuously served with a listed company for more 7 years should be rotated. From 2022 onward, the Company's certified accountants will be changed from accountants Chen Kuo-Tsung and Hsu Chen-Lung to accountants Hsu Chen-Lung and Chen Yung-Hsiang. |
|--------------------------------|--|

▪ About successor accountants

| | |
|--|---------------------------------|
| Firm name | KPMG Taiwan |
| Accountant name | Hsu Chen-Lung, Chen Yung-Hsiang |
| Date of appointment | 2022.1.1 |
| Prior to appointment, the accounting treatment methods or accounting principles for holding transactions and the possible issuance of financial reports and consultation matters and results | None |
| Written opinion of the successor accountant on the dissenting opinions of the former accountant | None |

- The former accountant's reply to item 3 of item 1 and item 2 of paragraph 6 of Article 10 of this Code: Not applicable.

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

VIII. Directors, managers, and major shareholders' equity changes

| Job Title | Name | 2021 | | The year ending on May 23 | |
|------------------------------------|--|--|---|--|---|
| | | Equity held Increase (decrease) number | Number of shares pledged Increase (decrease) number | Equity held Increase (decrease) number | Number of shares pledged Increase (decrease) number |
| Chairman | Lu Tai-Rong | — | — | — | — |
| Director | Pro Imp'ex Company Limited | — | — | — | — |
| | Sheng Lu Rong Feng | — | — | — | — |
| Director | Huida Investment Co., Ltd. | — | — | — | — |
| | Huang Li-Chun | — | — | — | — |
| Director | You Chang Co., Ltd. | — | — | — | — |
| | Wu Hsien-Ming | (9,000) | — | — | — |
| | Lin Tzu-Hui | — | — | — | — |
| Director | Hong Well Company Limited | — | — | — | — |
| | Lu En-Chang | 1,000 (57,000) | — | (10,000) | — |
| Independent Director | Lin Hsien-Lang | — | — | — | — |
| Independent Director | Chen Chi-Hsiung | — | — | — | — |
| Independent Director | Wu Hsiao-Yen | — | — | — | — |
| General Manager | Sheng Lu Rong Feng | — | — | — | — |
| Chief Corporate Governance Officer | Lin Tzu-Hui | — | — | — | — |
| Financial and Accounting Manager | Huang Feng-Yuan (removed from office on April 1, 2021) | — | — | — | — |
| Financial and Accounting Manager | Chao Hui-Mei (holding office on April 1, 2021) | — | — | — | — |
| Major Shareholder | Lu Tai Rong | — | — | — | — |
| Major Shareholder | Huida Investment Co., Ltd. | — | — | — | — |
| Major Shareholder | Hsieh Chang Hsing Trading Co., Ltd. | — | — | — | — |

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

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

Equity transfer information: None

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

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

Note 2: Indicate associated acquisition or disposal.

Equity pledge information: None

| Name | Pledge Change Reason | Date of change | Name of Counterparty | The relationship between the counterparty of the transaction and the Company's directors, supervisors, and shareholders who hold more than 10% of shares | Number of shares | Shareho lding Percent age | Pledge Percent age | Pledge (redemption) Amount |
|------|----------------------------|-------------------|-------------------------|--|---------------------|------------------------------------|--------------------------|----------------------------------|
| — | — | — | — | — | — | — | — | — |

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

April 25, 2022

| Sequence | Name | Number of shares personally held | | Spouse and minor children shares held | | Shares held in the name of others total number of shares held | | Where top ten shareholders have a relationship with each other or a relative relationship within the scope of their spouse or relative within the second degree of kinship, the name or designation and the relationship | | Remarks |
|----------|--|----------------------------------|-------------------------|---------------------------------------|-------------------------|---|-------------------------|--|---|---|
| | | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | Number of shares | Shareholding Percentage | Designation (or personal name) | Relationship | |
| 1 | Huida Investment Co., Ltd. | 40,999,312 | 20.41 | — | — | — | — | Corporate Director | | |
| | Representative: Huang Li-Chun | 22,343 | — | 5,785,926 | 2.88 | — | — | | Lu Ho-Ching | Spouse |
| 2 | Lu Tai Rong | 27,551,329 | 13.72 | 6,053,477 | 3.01 | — | — | Chairman | Yang Yen-Ju Lu Chung-Chi Lu Ho-Ching Lu Ho-Lin | Spouse Brother Sister and brother Sister and brother |
| 3 | Hsieh Chang Hsing Trading Co., Ltd. Representative: Lu Ho-Lin | 26,007,915 | 12.95 | — | — | — | — | | | |
| 4 | Lu Ho-Lin | 16,426,010 | 8.18 | — | — | — | — | | | |
| 5 | KHC Steel International Corp. Representative: Lu Ho-Lin | 15,322,000 | 7.63 | — | — | — | — | | | |
| 6 | Qiangyi Investment Co., Ltd. Representative: Lu Ho-Lin | 8,046,283 | 4.01 | — | — | — | — | | | |
| 7 | Sheng Lu Rong Feng | 6,293,995 | 3.13 | — | — | — | — | Director and General Manager | | |
| 8 | Yang Yen-Ju | 6,053,477 | 3.01 | 27,551,329 | 13.72 | — | — | | | |
| 9 | Lu Ho-Ching | 5,785,926 | 2.88 | 22,343 | — | — | — | | | |
| 10 | Lu Chung-Chi | 2,718,365 | 1.35 | — | — | — | — | | | |

X. Comprehensive shareholding ratio in identical reinvested business

Units: Shares; %

| Reinvested business (Note 1) | The Company's investment | | Directors, supervisors, managers, and investments holding direct or indirect control of the business | | Comprehensive investment | |
|-------------------------------------|--------------------------|----------------------------|--|----------------------------|--------------------------|----------------------------|
| | Number of shares | Percentage of shareholding | Number of shares | Percentage of shareholding | Number of shares | Percentage of shareholding |
| Hsieh Chang Hsing Trading Co., Ltd. | 17,172,851 | 45.79% | 5,736,200 | 15.30% | 22,909,051 | 61.09% |
| KHC Steel International Corp. | 7,280,000 | 38.31% | 7,563,200 | 39.81% | 14,843,200 | 78.12% |
| Sunward Refractories Co., Ltd. | 4,588,600 | 20.00% | — | — | 4,588,600 | 20.00% |

Note 1: Investment using the equity method.

Four. Status of Fundraising

I. Capital and Shares

Sources of equity

| Year and Month | Issued Price (NT\$) | Approved share capital | | Paid-in capital | | Remarks | | |
|----------------|---------------------|------------------------------------|-----------------------|------------------------------------|-----------------------|--|--|--------|
| | | Number of shares (thousand shares) | Amount (NTD thousand) | Number of shares (thousand shares) | Amount (NTD thousand) | Sources of equity | Property other than cash contributed as equity capital | Others |
| January 1966 | 10.00 | 0.8 | 800 | 0.8 | 800 | Founded | None | None |
| 1966.09 | 10.00 | 10 | 10,000 | 10 | 10,000 | Cash capital increase, NTD 9,200 thousand | None | None |
| 1970.08 | 10.00 | 40 | 40,000 | 40 | 40,000 | Cash capital increase, NTD 30,000 thousand | None | None |
| 1971.06 | 10.00 | 120 | 120,000 | 120 | 120,000 | Cash capital increase, NTD 80,000 thousand | None | None |
| 1975.02 | 10.00 | 220 | 200,000 | 200 | 200,000 | Capital increase of NTD 32,000 thousand in cash, merger with Kao Hsing Iron & Steel Company of NTD 40,000 thousand, capitalization of retained earnings of NTD 8,000 thousand. | None | None |
| 1976.12 | 10.00 | 230 | 280,000 | 280 | 280,000 | Cash capital increase of NTD 20,000 thousand, capital revaluation value resulting in capital increase of NTD 60,000 thousand | None | None |
| 1977.06 | 10.00 | 400 | 400,000 | 400 | 400,000 | Capital increase through shareholder transactions of NTD 120,000 thousand | None | None |
| 1979.08 | 10.00 | 50,000 | 500,000 | 50,000 | 500,000 | Capitalization of retained earnings, NTD 100,000 thousand | None | None |

| Year and Month | Issued Price (NT\$) | Approved share capital | | Paid-in capital | | Remarks | | |
|----------------|---------------------|------------------------------------|-----------------------|------------------------------------|-----------------------|--|--|--------|
| | | Number of shares (thousand shares) | Amount (NTD thousand) | Number of shares (thousand shares) | Amount (NTD thousand) | Sources of equity | Property other than cash contributed as equity capital | Others |
| 1981.04 | 10.00 | 60,000 | 600,000 | 60,000 | 600,000 | Capitalization of retained earnings, NTD 100,000 thousand | None | None |
| 1986.05 | 10.00 | 65,000 | 650,000 | 65,000 | 650,000 | Cash capital increase, NTD 50,000 thousand | None | None |
| 1986.11 | 10.00 | 75,000 | 750,000 | 75,000 | 750,000 | Capitalization of capital reserves, NTD 100,000 thousand | None | None |
| 1988.11 | 15.00 | 160,000 | 1,600,000 | 160,000 | 1,600,000 | Cash capital increase, NTD 850,000 thousand (Note) | None | None |
| 1989.08 | 10.00 | 184,000 | 1,840,000 | 184,000 | 1,840,000 | Capitalization of capital reserves, NTD 100,000 thousand | None | None |
| 1990.03 | 40.00 | 234,000 | 2,340,000 | 234,000 | 2,340,000 | Cash capital increase, NTD 500,000 thousand (Note) | None | None |
| 1990.12 | 10.00 | 280,800 | 2,808,800 | 280,800 | 2,808,800 | Capitalization of retained earnings of NTD 234,000 thousand, capitalization of capital reserves of NTD 234,000 thousand | None | None |
| 1991.10 | 10.00 | 308,880 | 3,088,800 | 308,880 | 3,088,800 | Capitalization of capital reserves, NTD 280,800 thousand | None | None |
| 1994.01 | 10.00 | 339,768 | 3,397,680 | 339,768 | 3,397,680 | Capitalization of capital reserves of NTD 308,880 thousand (1994.1.7 (83) Taizaizheng No. 44814) | None | None |
| 1996.10 | 10.00 | 445,000 | 4,450,000 | 366,949 | 3,669,494 | Capitalization of capital reserves of NTD 271,814.4 thousand (1996.10.9 (85) Taizaizheng No. 59439) | None | None |
| 1997.12 | 10.00 | 450,000 | 4,500,000 | 403,644 | 4,036,443 | Capitalization of capital reserves of NTD 146,779 thousand, capitalization of retained earnings of NTD 220,169 thousand (1997.9.11 (86) Taizaizheng (1) No. 70405) | None | None |
| 1998.09 | 10.00 | 480,000 | 4,800,000 | 423,826 | 4,238,266 | Capitalization of capital reserves of NTD 201,822 thousand, (1998.6.23 (87) Taizaizheng (1) No. 54948) | None | None |

| Year and Month | Issued Price (NT\$) | Approved share capital | | Paid-in capital | | Remarks | | |
|----------------|---------------------|------------------------------------|-----------------------|------------------------------------|-----------------------|---|--|--------|
| | | Number of shares (thousand shares) | Amount (NTD thousand) | Number of shares (thousand shares) | Amount (NTD thousand) | Sources of equity | Property other than cash contributed as equity capital | Others |
| 2013.12 | 10.00 | 580,000 | 5,800,000 | 275,487 | 2,754,872 | Cash capital reduction of NTD 1,483,393 thousand (2013.10.16 Jinguanzheng Fazi No. 10300406085) | None | None |
| 2016.03 | 10.00 | 580,000 | 5,800,000 | 272,342 | 2,723,422 | Capital reduction by treasury stock, NTD 31,450 thousand (2016.3.15 MOEA Jingshou Shangzi No. 10501059460) | None | None |
| 2016.05 | 10.00 | 580,000 | 5,800,000 | 247,942 | 2,479,422 | Capital reduction by treasury stock, NTD 244,000 thousand (2016.5.16 MOEA Jingshou Shangzi No. 10501097240) | None | None |
| 2017.03 | 10.00 | 580,000 | 5,800,000 | 223,152 | 2,231,522 | Capital reduction by treasury stock, NTD 247,900 thousand (2017.3.27 MOEA Jingshou Shangzi No. 10601039190) | None | None |
| 2018.03 | 10.00 | 580,000 | 5,800,000 | 200,852 | 2,008,522 | Capital reduction by treasury stock, NTD 223,000 thousand (2018.3.23 MOEA Jingshou Shangzi No. 10701031740) | None | None |

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

Type of shares

April 25, 2022

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

Information concerning the collective reporting system: None.

Shareholder structure

April 25, 2022

| Shareholder structure | Government agency | Financial institution | Other juridical person | Individual | Foreign institutions and foreign individuals | Total |
|--------------------------------|-------------------|-----------------------|------------------------|------------|--|-------------|
| Quantity | | | | | | |
| Number of individuals | — | 2 | 31 | 18,249 | 40 | 18,322 |
| Number of shares held | — | 712 | 91,357,429 | 94,533,745 | 14,960,407 | 200,852,293 |
| Percentage of shareholding (%) | — | 0 | 45.48 | 47.07 | 7.45 | 100 |

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

Distribution of equity

April 25, 2022

| Shareholding class | Number of shareholders | Number of shares held | Percentage of shareholding (%) |
|---------------------|------------------------|-----------------------|--------------------------------|
| 1 ~ 999 | 12,977 | 2,932,532 | 1.46 |
| 1,000 ~ 5,000 | 4,403 | 8,720,916 | 4.34 |
| 5,001 ~ 10,000 | 561 | 4,447,426 | 2.21 |
| 10,001 ~ 15,000 | 126 | 1,614,399 | 0.80 |
| 15,001 ~ 20,000 | 91 | 1,716,604 | 0.85 |
| 20,001 ~ 30,000 | 49 | 1,271,347 | 0.63 |
| 30,001 ~ 40,000 | 23 | 818,030 | 0.41 |
| 40,001 ~ 50,000 | 18 | 820,367 | 0.41 |
| 50,001 ~ 100,000 | 22 | 1,558,091 | 0.78 |
| 100,001 ~ 200,000 | 15 | 2,028,657 | 1.01 |
| 200,001 ~ 400,000 | 13 | 3,571,291 | 1.78 |
| 400,001 ~ 600,000 | 3 | 1,630,514 | 0.81 |
| 600,001 ~ 800,000 | 2 | 1,384,227 | 0.69 |
| 800,001 ~ 1,000,000 | 2 | 2,000,000 | 1.00 |
| 1,000,001 and over | 17 | 166,337,892 | 82.82 |
| Total | 18,322 | 200,852,293 | 100 |

Preferred shares: None.

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

April 25, 2022; Unit: Shares

| Name | Shares | Number of shares held | Percentage of shareholding |
|-------------------------------------|--------|-----------------------|----------------------------|
| Huida Investment Co., Ltd. | | 40,999,312 | 20.41% |
| Lu Tai Rong | | 27,551,329 | 13.72% |
| Hsieh Chang Hsing Trading Co., Ltd. | | 26,007,915 | 12.95% |
| Lu Ho-Lin | | 16,426,010 | 8.18% |
| KHC Steel International Corp. | | 15,322,000 | 7.63% |
| Qiangyi Investment Co., Ltd. | | 8,046,283 | 4.01% |
| Sheng Lu Rong Feng | | 6,293,995 | 3.13% |
| Yang Yen-Ju | | 6,053,477 | 3.01% |
| Lu Ho-Ching | | 5,785,926 | 2.88% |
| Lu Chung-Chi | | 2,718,365 | 1.35% |

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

| Item | Year | | 2020 | 2021 | From the current year through March 31 |
|---|-----------------------------------|--|--------------------|--------------------|--|
| | Per share Market price | High | | 21.45 | 29.65 |
| Low | | 12.1 | 12.65 | 18.25 | |
| Average | | 17.1 | 19.45 | 19.07 | |
| Per share Net value | Before distribution | | 13.80 | 14.79 | 14.69 |
| | After distribution | | — | — | — |
| Per share Earnings | Weighted average number of shares | | 200,852,293 shares | 200,852,293 shares | 200,852,293 shares |
| | Earnings per share | | (0.16) | 0.21 | 0.01 |
| Per share Dividends | Cash dividend | | — | — | — |
| | Stock dividend | Stock dividends from retained earnings | — | — | — |
| | | Additional paid in capital | — | — | — |
| | Accumulated unpaid dividends | | — | — | — |
| Method of investment of remuneration analysis | P/E ratio | | — | — | — |
| | Price to dividend ratio | | — | — | — |
| | Cash dividend yield | | — | — | — |

- Company dividend policy and implementation status

1. Dividend policy:

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

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

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

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

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

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

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

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

- Employee and director remuneration

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

Article 26 of the Company's Articles of Incorporation:

If the Company's annual accounts show a profit, employees and directors shall

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

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

As audited by accountants, 2021 net profit before tax was NTD 62,568,800 (estimated employee remuneration of NTD 328,000 already deducted); no remuneration was paid to directors, and employee remuneration of 0.5% was set aside in cash in accordance with provisions of the Articles of Incorporation.

Employee remuneration: In accordance with the statutory reasons given by Article 235-1 of the Company Act, "profitability" refers to pre-tax profit before the distribution of employee remuneration. Its calculation is as follows:

Minimum employee remuneration = (NTD 62,568,800 + NTD 328,000) × 0.5% = NTD 314,484.

Intended issuance is the estimated financial statement amount of 328,000, so there is no difference in the accounting treatment.

3. Remuneration distribution approved by the Board of Directors:

2022.3.10 Approved by all directors present at the 4th session of the 21st term Board of Directors: NTD 328,000 in employee remuneration will be paid for 2021 and no payment will be made for director remuneration.

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

Actual payment in cash will be made for employee remuneration of NTD 328,000 for 2021, and no payment will be made for director remuneration.

- Circumstances of share buybacks of the Company: In 2021, Company "did not" buy back any of the Company's shares.

II. Handling of corporate bonds

- Information on the Company's issuance of corporate bonds, including unretired bonds and unissued bonds for which an issue is currently under preparation, and disclosure of all the matters set forth thereunder and their effect upon shareholders' equity under Article 248 of the Company Act. Any privately placed corporate bonds shall be prominently identified as such: None.
- The section on preferred shares shall include both outstanding and unissued shares for which an issue is currently under preparation, and shall disclose any conditions attaching to issuance and their effect upon shareholders' equity. The information on preferred shares shall also specify the matters listed under Article 157 of the Company Act. Any privately placed preferred shares shall be prominently identified as such: None.
- The section on global depository receipts shall include information on receipts issues that remain partially outstanding, and on unissued receipts for which an issue is currently under preparation. The date of issue, total value of issue, the rights and responsibilities of the holders of global depository receipts, and related matters shall also be disclosed. Any privately placed global depository receipts shall be prominently identified as such: None.
- The section on employee stock warrants shall specify the following matters:
 1. Disclosure of unexpired employee subscription warrants issued by the Company in existence as of the date of publication of the Annual Report, and the effect of such warrants upon shareholders' equity. Any privately placed employee subscription warrants shall be prominently identified as such: None.
 2. Names of top-level Company executives holding employee share subscription warrants as of the date of publication of the Annual Report, and the names of the ten employees holding employee subscription warrants authorizing purchase of the most shares, along with the cumulative number of warrants exercised by these ten employees: None.
- The following matters should be recorded in the handling of Restricted Stock Awards (RSAs):
 1. For all new restricted employee shares for which the vesting conditions have not

yet been met for the full number of shares, disclose the status up to the date of publication of the Annual Report and the effect on shareholders' equity: None.

2. Names and acquisition status of managerial officers who have acquired new restricted employee shares and of employees who rank among the top ten in the number of new restricted employee shares acquired, cumulative to the date of publication of the Annual Report: None.
- The section on issuance of new shares in connection with mergers or acquisitions or with acquisitions of shares of other companies shall specify the following matters:
 1. If, during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, the Company has completed any issuance of new shares in connection with a merger or acquisition or with acquisition of shares of any other company, the Annual Report shall specify the following matters: None.
 2. Where the Board of Directors has, during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, adopted a resolution approving any issuance of shares in connection with a merger or acquisition or with acquisition of shares of any other company, the Annual Report shall disclose the state of the plan's implementation together with the basic identifying information of the company (or companies) to be merged or acquired or whose shares are to be acquired. Where any issuance of new shares in connection with a merger or acquisition or with acquisition of shares of any other company is currently in progress, the Annual Report shall disclose the state of the plan's implementation and its effect upon shareholders' equity: None.

III. Implementation status of fund utilization plan:

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

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

Five. Overview of Operations

I. Business content

Business Scope

1. Main content of the business:

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

2. Current merchandise and business contributions

| Main industry sector | Main products | Operating profit contribution | |
|------------------------------------|---|-------------------------------|------|
| | | 2021 | 2020 |
| Steel pipes | Galvanized steel pipe, black steel pipe, API steel pipe, PE coated pipe, submerged arc welding straight seam steel pipe | 86% | 92% |
| Logistics and circulating products | Cold rolled steel coil, hot rolled steel coil, galvanized steel coil | 12% | 7% |
| Others | Zinc products and film, etc. | 2% | 1% |

3. 2021 R&D products

The Company is constantly committed to the renewal of steel pipe equipment, focusing on improving production efficiency, saving energy, preventing pollution, and strengthening work safety to improve product quality. In 2021 we undertook replacement of galvanizing furnace equipment and smoke tube boilers as well as refurbishment of pipe-making vehicle and overhead crane track.

▪ Industry Overview

1. Current status and development of the industry:

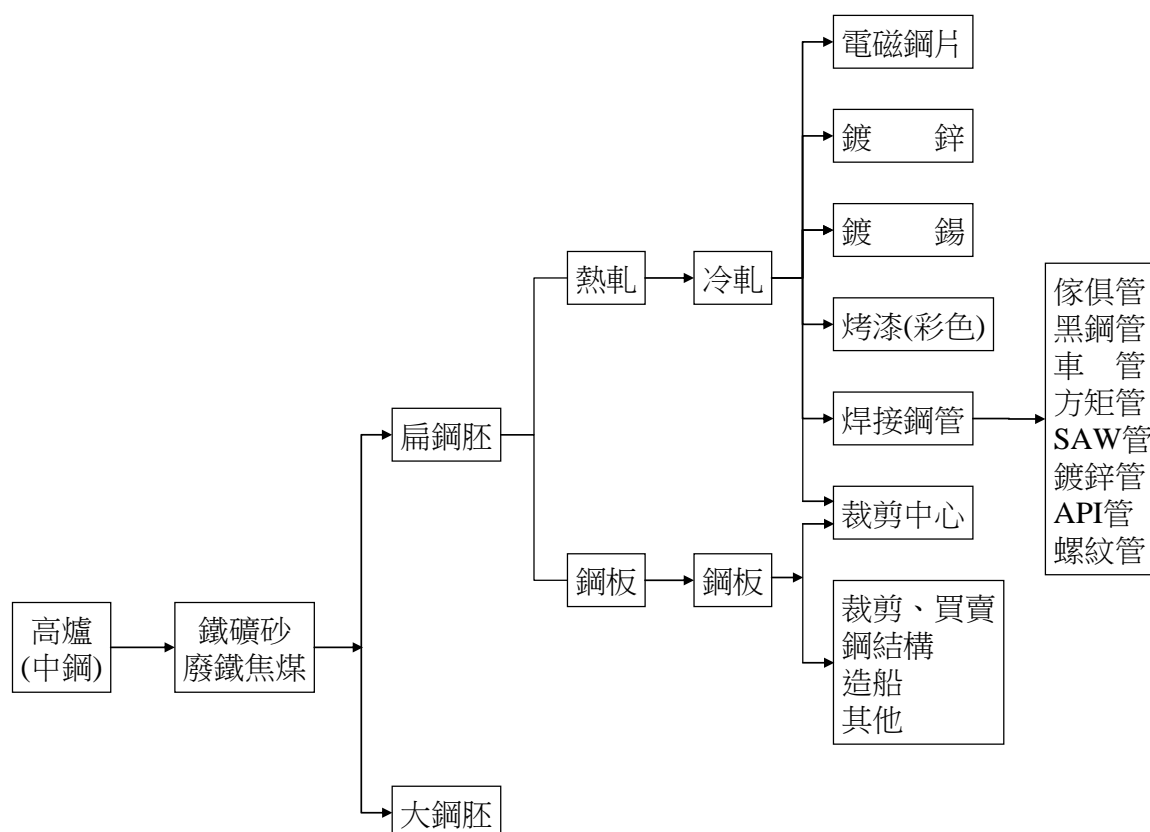
Steel pipes are divided into welded steel pipes and seamless steel pipes according to the manufacturing process. In 1999, the output of steel pipe gradually declined after reaching its peak. However, due to the active expansion of the export market of petroleum pipes by Taiwanese steel pipe manufacturers, this has contributed to the gradual expansion of the export volume of steel pipe products. In addition, since domestic steel pipe factories are still unable to mass-produce seamless steel pipes, Taiwanese seamless steel pipes still need to rely on imports.

The steel pipe industry is an important downstream application industry for hot-rolled and cold-rolled steel products. Among them, black steel pipe and galvanized steel pipe are mainly supplied to the construction industry. Cold-rolled steel pipe is used in the metal furniture and bicycle industries, and hot-rolled steel pipe is used in the sports equipment, automobile, and motorcycle industries.

Galvanized steel pipe constitutes the Company's primary domestic product, and it has benefited from continuous government infrastructure construction projects as well as the gradual repatriation of Taiwan businesses as this has driven the

expansion of engineering and plant orders. As the same time, economic recovery among major countries has strengthened global oil demand, which in turn has boosted demand for oil pipelines and corresponding exports of API oil pipes. The overall sales situation is thus expected to improve significantly.

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



| TC | EN |
|-----------------|---|
| 高爐 (中鋼) | shaft furnace (China Steel) |
| 鐵礦砂 廢鐵 焦煤 | Iron sand Cocking coal of scrap iron |
| 扁鋼胚 | Slab |
| 大鋼胚 | Bloom |
| 熱軋 | Hot rolling |
| 冷軋 | Cold rolling |
| 鋼板 | Steel board |
| 電磁鋼片 | Silicon-electrical steel |

| | |
|--|--|
| 鍍鋅 | Galvanizing |
| 鍍錫 | Tin plating |
| 烤漆（彩色） | Baking varnish (multicolor) |
| 焊接鋼管 | Steel pipe's welding |
| 裁剪中心 | Cutting center |
| 裁剪、買賣 鋼結構 造船 其他 | Cutting, trading Steel structure Shipbuilding Others |
| 家俱管 黑鋼管 車管 方矩管 SAW管 API管 螺紋管 | Furniture pipe Black steel pipe Car pipe Square pipe SAW pipe API pipe Screw thread pipe |

Important production and supply of the Company:

- Cold rolling mill: cold rolled steel coil, pickled & oiled coils, cold rolled tempered steel coil, steel straps (temporarily discontinued in June 2012)
- Steel pipe factory: Galvanized steel pipe, black steel pipe, API steel pipe, PE coated pipe, submerged arc welding straight seam steel pipe

Demand industries include home appliances, personal computers, machinery, automobiles, motorcycles, bicycles, and construction industries.

3. Product development trends and competition

- Product development trends

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

- Competition:
 - A. The relationship between China and the USA remains tense. The trade war causes the global market disorder. The export end-customers' demand becomes unstable due to the tariff and prevailing Protectionism for steel products trading. As a result, the high inventory retained by customers is squeezing the confidence in market demand.
 - B. The steel industry still faces high tariff barriers in the US under "Section 232" as well as the defensive measures of Europe's overall restrictions. This has resulting in fierce competition in the steel market. Recently, the Russia–Ukraine war has caused oil prices to surge, and export orders for API5CT tubing have increased significantly.
 - C. In respect to domestic steel pipe market demand, repatriation of Taiwan businesses and a continuous increase in orders released for electronic factory expansions have caused both sales and profits to rise in comparison with the past.

- Technology and R&D Overview

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

- Long-term and short-term business development plans:

1. Short-term:

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

2. Long-term:

- Actively adjust the core industry structure and implement product

differentiation, continue to improve and upgrade products and technologies, and ensure quality competitive advantages.

- Strengthen cooperation with customers to stabilize sales channels, flexibly operate production and sales combinations, and achieve balanced development of domestic and foreign sales.
- Prudently develop diversified business operations, and wait for opportunities to evaluate additional business items, hoping to pursue sustainable business operations and growth.

II. Market and production and sales overview

Market analysis

Thanks to increased domestic vaccination rates and stabilizing pandemic conditions in 2021, and as steel prices continued to rise, expansion projects among electronics factories saw continued rollouts and steel demand increased. High-grade steel is a requirement under global green energy trends. Whether in the form of wind power, solar energy, electric vehicles, or even the expansion of semiconductor factories, all need steel as a component raw material. The demand fundamentals of the steel industry are supported by three major factors: rising demand, green energy, and raw materials.

The International Monetary Fund (IMF) revised its forecast for global economic growth in April 2022 to 3.6% from the previous 4.4%. Global economic growth for 2023 has been revised to 3.6%. Looking ahead to Taiwan's economy in 2022, semiconductor manufacturers continue to invest in advanced processes. In addition, domestic demand is being driven by accelerated investment by Taiwan businesses that have been impacted by US-China trade issues and by manufacturers investing in Taiwan. The Directorate General of Budget, Accounting and Statistics of the Executive Yuan forecasts annual economic growth to attain 4.42%.

In respect to steel, the World Steel Association forecasts demand growth of 2.7% to attain 1.9 billion tons in 2022. Currently in export markets, the steel industry still faces high tariff barriers in the US under "Section 232" as well as the defensive measures of Europe's overall restrictions. Coupled with low-priced South Korean competitors, these factors are generating fierce competition in the steel market.

Regarding steel pipe sales, in exports of steel pipe API pipelines there are a large number of incoming inquiries for API5CT oil pipelines in the US given that oil prices are above US\$80 and this is favorable for shale oil exploration. Moreover, oil prices are soaring due to the Russia-Ukraine war and oil pipeline orders continue to be very robust. Meanwhile, domestic sales of steel pipes are benefiting from the government's promotion of a "Forward-Looking Infrastructure Development Program." The timely launch of public construction projects comes in conjunction with the continued expansion of efficient repatriation of Taiwan businesses impacted by the

trade war. Together, these trends should drive up demand for civil construction fire protection and A53B pressure piping, thereby increasing sales of key galvanized steel pipe products.

1. Supply and demand status of major domestic steel products Unit: Tons

| Steel products | Item | 2017 | 2018 | 2019 | 2020 | 2021 |
|-------------------|----------------|------------|------------|------------|------------|------------|
| Hot rolled | Production | 17,259,512 | 17,462,050 | 16,132,687 | 15,672,283 | 16,447,419 |
| | Domestic sales | 6,036,080 | 6,269,780 | 5,384,679 | 5,367,466 | 6,270,901 |
| | Inventory | 1,185,377 | 1,107,527 | 1,099,124 | 1,202,487 | 1,267,641 |
| Cold rolled | Production | 4,594,319 | 4,439,007 | 4,104,638 | 3,949,606 | 4,290,528 |
| | Domestic sales | 1,410,900 | 1,313,614 | 1,204,616 | 1,107,561 | 1,216,221 |
| | Inventory | 270,383 | 231,269 | 254,367 | 190,647 | 233,862 |
| Welded steel pipe | Production | 976,529 | 1,025,244 | 946,223 | 788,826 | 759,365 |
| | Domestic sales | 634,547 | 612,685 | 616,982 | 609,551 | 540,454 |
| | Inventory | 77,906 | 71,028 | 77,381 | 58,584 | 66,368 |

Source: Taiwan Steel & Iron Industries Association

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

| Item | Production volume | Import volume | Export volume | Apparent consumption | Self-sufficiency |
|------|-------------------|---------------|---------------|----------------------|------------------|
| 2020 | 788,826 | 38,794 | 219,117 | 608,503 | 105% |
| 2021 | 759,365 | 63,977 | 225,981 | 597,361 | 139% |

Source: Taiwan Steel & Iron Industries Association

3. Main domestic steel product market (2021) Unit: Factory price NTD/ton; Steel pipe NTD/kg

| Steel products | Q1 | Q2 | Q3 | Q4 |
|----------------------------|---------------|---------------|---------------|---------------|
| Hot rolled | 19,586~22,993 | 23,643~29,618 | 28,818~29,393 | 26,668~27,968 |
| Black steel pipe (BS) | 24.85~28.5 | 28.9~34.2 | 34.1~34.4 | 32.9~34.4 |
| Galvanized steel pipe (BS) | 41.1~45.9 | 42.3~48.0 | 48~49.3 | 47.4~49.3 |

Source: Taiwan Steel & Iron Industries Association

4. Main product sales areas of the Company

Unit: NTD Thousand

| Item \ Year | 2020 | | 2021 | |
|-------------------------------|----------|---------|----------|-----------|
| | Subtotal | Total | Subtotal | Total |
| Taiwan | | 948,871 | | 1,448,453 |
| Hong Kong - mainland China | — | | — | |
| Americas | 6,256 | | 61,086 | |
| Northeast Asia | 7,383 | | 1,085 | |
| Southeast Asia | — | | — | |
| Other regions | — | | — | |
| Operating income from exports | | 13,639 | | 62,171 |
| Net operating income | | 962,510 | | 1,550,624 |

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

Cold rolled steel products

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

Steel pipe

The Company mainly
sells steel pipe products

Sales targets

| | |
|------------------|--|
| Galvanized steel | Buildings, firefighting, engineering, water conservation |
| Black steel pipe | Buildings, firefighting, engineering, water conservation |
| API steel pipe | High pressure oil pipeline, petrochemical pipeline, building, water conservation |
| PE coated pipe | High pressure oil pipeline, petrochemical pipeline, building, water conservation |
| Steel pipe pile | Piling for foundations of ports, bridges, etc. |

Production volume of various welded steel pipe categories

Unit: Tons

| Type | 2021 ratio | 2021 (A) | 2020 (B) | (A) – (B) | Growth (%) |
|-----------------|------------|----------|----------|-----------|------------|
| Oil pipeline | 4.72% | 34,564 | 53,472 | (18,908) | (35.36)% |
| Furniture pipe | 11.04% | 80,738 | 76,767 | 3,971 | 5.17% |
| Square pipe | 12.84% | 93,906 | 78,725 | 15,181 | 19.28% |
| Mechanical pipe | 1.62% | 11,877 | 19,675 | (7,798) | (39.63)% |
| Black pipe | 35.78% | 261,775 | 296,050 | (34,275) | (11.57)% |
| Galvanized pipe | 25.2% | 184,335 | 178,989 | 5,346 | 2.98% |
| Other pipes | 8.8% | 64,404 | 64,404 | 0 | 0% |
| Total | 100% | 731,609 | 768,082 | (36,473) | (4.75)% |

Source: Taiwan Steel & Iron Industries Association

Major domestic manufacturers:

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

The total sales volume of domestic manufacturers in 2021 was approximately 540,000 tons per year.

Kao Hsing Chang: Sales volume is about 31,900 tons per year and market share is 5.9%.

Market share of galvanized steel pipe is about 16.38%.

The Company's 2022 business target is approximately 52,059 tons (including 3,600 tons for distribution and logistics); and our steel pipes have grown by approximately 37% over the same period last year to 48,459 tons.

The Steel Pipe Factory has obtained ISO 9001 quality management system certification, and has passed CNS, API, and other domestic and international product specifications. It has the largest domestic pipe-making truck and production technology to produce API-5L52" large pipes. Completed the development of API5CT oil well casing and was authorized by the American Petroleum Institute.

The API oil line pipe produced by the Company was authorized by American Petroleum Institute (API) manufacturer and sold to major private enterprises such as CPC Corporation, Taiwan Power, the military, and Formosa Plastics. The galvanized steel pipe is of high quality and is designated for many major domestic projects. At the same time, the API5CT certification was completed and it was exported to the US market. Simultaneously, it has excellent quality, timely delivery, and high customer satisfaction.

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

6. Favorable and unfavorable factors for development prospects

- Favorable factors for development prospects
 - i. The brand has a good reputation, strict quality control, and has passed ISO 9001, CNS, API and ISO 14001, ISO 45001 & CNS 45001 certifications.
 - ii. Offer complete sizes, great flexibility in ordering, prepare materials in advance, map out production plans, shorten delivery periods, and strengthen customer service.
 - iii. The Company's overall operation is geared towards low-debt operations, and it actively develops high-quality products, enhances competitiveness, and keeps the Company sustainable.
 - iv. There are many land assets, and some are located in the best areas of Kaohsiung City.
- Unfavorable factors for development prospects
 - i. High product homogeneity and oversupply has led to fierce market competition.
 - ii. Orders cannot be made in large quantities, and there are many models and batch numbers, and production costs are increasing.
 - iii. The ratio of the cost of raw materials to the overall cost is high, and the rise and fall of raw materials are rapid and difficult to grasp.
 - iv. The steel industry features large investment, slow recovery and difficult recruitment and cultivation of professional and technical personnel.
 - v. Domestic peers have expanded their investment in petroleum steel pipes and put them into market supply competition. A large amount of production capacity must rely on the export market, which has significantly increased industrial sales competition.
 - vi. The trade war between China and the USA causes the global market disorder. The tariff barrier and prevailing Protectionism resulted in unstable market demand.

- Countermeasures:

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

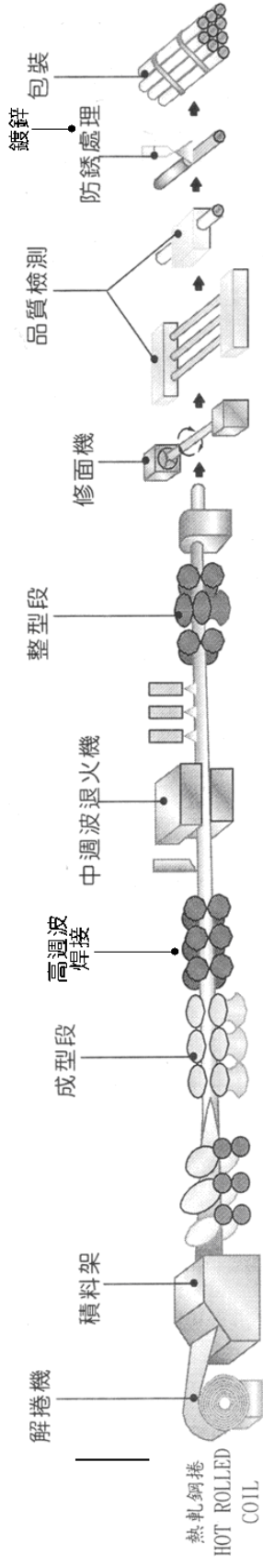
Adhere to the image of good quality and stable supply of products, and strengthen cooperation with customers to stabilize sales channels.

- Important purpose and production processes of main products:

1. Important uses of main products

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

2. Production processes Steel pipe products



Unwinder

Part Refacing Machine

Quality Detection Anti-rust Coating Zincing Packaging

- Supply status of main raw materials

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

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

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

Unit: NTD Thousand

| Item | 2020 | | | | 2021 | | | | 2022 to the end of the first quarter | | | |
|------|---------------|---------|---|--------------------------|---------------|-----------|---|--------------------------|--------------------------------------|---------|--|--------------------------|
| | Designation | Amount | Total annual Net purchases Percentage (%) | Relationship with issuer | Designation | Amount | Total annual Net purchases Percentage (%) | With issuer relationship | Designation | Amount | Current year through prior quarter net purchases percentage of total (%) | With issuer relationship |
| 1 | China Steel | 246,041 | 47 | — | Shang Chen | 529,043 | 46 | — | China Steel | 224,909 | 66 | — |
| 2 | Shang Chen | 206,519 | 39 | — | China Steel | 512,921 | 45 | — | Shang Chen | 88,264 | 26 | — |
| 3 | Cheng Heng | 69,398 | 13 | — | Cheng Heng | 97,127 | 8 | — | Hyosung | 23,072 | 7 | — |
| | Others | 2,260 | 1 | | Others | 3,250 | 1 | | Others | 5,206 | 1 | |
| | Net purchases | 524,218 | 100 | | Net purchases | 1,142,341 | 100 | | Net purchases | 341,451 | 100 | |

Reasons for increase or decrease: Prices of raw materials rose in 2021 and quantities of purchases and production increased.

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

Unit: NTD Thousand

| Item | 2020 | | | | 2021 | | | | 2022 to the end of the first quarter | | | |
|------|------------------|---------|--|--------------------------|------------------|-----------|--|--------------------------|--------------------------------------|---------|--|--------------------------|
| | Designation | Amount | Total annual Net sales amount Percentage (%) | With issuer relationship | Designation | Amount | Total annual Net sales amount Percentage (%) | With issuer relationship | Designation | Amount | Current year through prior quarter net sales percentage of total (%) | With issuer relationship |
| 1 | Customer A | 325,106 | 34 | — | Customer A | 395,054 | 25 | — | Customer A | 130,251 | 30 | — |
| 2 | Customer B | 143,842 | 15 | — | Customer B | 227,016 | 15 | — | Customer B | 48,993 | 11 | — |
| 3 | Customer C | 77,995 | 8 | — | Customer C | 185,756 | 12 | — | Customer D | 48,182 | 11 | — |
| 4 | Others | 415,567 | 57 | | Others | 742,798 | 48 | | Others | 212,359 | 48 | |
| | Net sales amount | 962,510 | 100 | | Net sales amount | 1,550,624 | 100 | | Net sales amount | 439,785 | 100 | |

Reasons for increase or decrease: The increase in sales in 2021 was mainly due to rising steel prices and increased market demand.

Production value in the last two years:

Capacity output: Tons Output value: NTD thousand

| Production value Major products | Year | 2021 | | | 2020 | | |
|------------------------------------|------|---------------|---------------|------------------|---------------|---------------|------------------|
| | | Capacity | Yield | Production value | Capacity | Yield | Production value |
| Steel pipe | | 72,000 | 33,234 | 1,017,910 | 72,000 | 30,496 | 771,920 |
| Others | | — | 457 | 27,293 | — | 344 | 15,826 |
| Total | | 72,000 | 33,691 | 1,045,203 | 72,000 | 30,840 | 787,746 |

Sales volume in the last two years:

Volume: Tons Value: NTD thousand

| Sales Value Major products | Year | 2021 | | | | 2020 | | | |
|-------------------------------|------|----------------|------------------|--------------|---------------|----------------|----------------|------------|---------------|
| | | Domestic sales | | Exports | | Domestic sales | | Exports | |
| | | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| Steel pipes | | 33,266 | 1,236,978 | 2,152 | 62,171 | 28,711 | 862,377 | 632 | 13,639 |
| Circulating steel products | | 7,914 | 192,278 | — | — | 3,928 | 62,979 | — | — |
| Others | | 447 | 59,197 | — | — | 338 | 23,515 | — | — |
| Total | | 41,627 | 1,488,453 | 2,152 | 62,171 | 32,977 | 948,871 | 632 | 13,639 |

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

| Year | | 2020 | 2021 | From the current year through May 23, 2022 |
|---------------------------------|------------------------|------|------|--|
| Personnel | Headquarters | 49 | 47 | 50 |
| | Yongan Factory | 3 | 3 | 3 |
| | Pingnan Factory | 160 | 155 | 153 |
| | Total | 212 | 205 | 206 |
| Average age | | 46 | 48 | 47 |
| Average years of service | | 17 | 18 | 18 |
| Educational distribution ratio. | Ph.D. | 0 | 0 | 0 |
| | Master's degree | 2 | 3 | 3 |
| | College and university | 104 | 97 | 100 |
| | High school | 94 | 94 | 92 |
| | Below high school | 12 | 11 | 11 |

IV. Environmental expenditure information

1. Pollution losses in the last two years Unit: NTD

| | 2020 | 2021 |
|---|------|---|
| Pollution status (type, degree) (Including occupational safety and health penalties by the Ministry of Labor Affairs) | None | Violation of Article 6, Paragraph 1 of the Occupational Safety and Health Act |
| Explanation | None | Without using safety equipment, a shipment handling employee slipped 1.7 meters from finished steel pipes and suffered minor injuries (October 5, 2021) |
| Compensation party or sanctioned unit | None | Occupational Safety and Health Administration of the Ministry of Labor |
| The amount of compensation or sanctions | None | Fine of NTD 60,000 |
| Other losses | None | None |

2. As of the publication date of the Annual Report in 2022, the Company has not been penalized due to environmental protection and industrial safety pollution.

- Continuity management strategy

1. A portion of proposed improvement measures

- Work safety:

1. Implement the PDCA continuous improvement management plan, report the implementation status at the monthly industrial safety meeting, and require units with deficiencies to propose corrective and preventive measures. By doing so, we can effectively prevent occupational accidents and achieve zero safety violations, so that employees can work with peace of mind and improve production and quality to achieve a mutually beneficial outcome for labor and management.
2. Comply with occupational safety and health laws and regulations, hazard risk

assessment and risk management in the workplace.

3. Implement automatic inspections, strengthen employee safety observation and analysis, and education and training on safety operating standards.
 4. Send relevant personnel to take courses on industrial safety, environmental protection, and fire protection and direct them to obtain licenses.
 5. Strengthen on-site safety inspections; work safety deficiencies shall require immediate improvement and reporting of corrective and preventive measures.
 6. Hire occupational doctors and occupational nurses to provide employee health consultations and implement employee health promotions.
 7. In response to the COVID-19 pandemic and to protect the health of employees, measure the forehead temperatures of entering personnel in the guard room at the factory gates and prepare 75% alcohol and have employees wear masks. (A real-name system is required for those who are not Company employees.) Further encourage employees to get vaccinated, and have cleaning staff regularly disinfect the environment. Furthermore, cooperate with implementation measures given through the policies of the Central Epidemic Command Center.
- Environmental protection:
 1. Comply with environmental protection laws, industrial waste reduction, and resource management.
 2. Implement environmental management system (ISO14001) to maintain effective operation and continuous improvement.
 3. Implement environmental assessment and classification in the manufacturing process, propose improvement plans for projects with major environmental considerations, and develop a management plan by objectives.
 4. In response to global climate change and warming temperatures, the provisions of the ISO 14001 environmental management system require the addition of management methods and operating standards for independent inventory of greenhouse gases.

2. Estimated environmental capital expenditure in the next three years

| | 2022 | 2023 | 2024 |
|--|---|---|--|
| Pollution prevention equipment or expenditures to be purchased | <ol style="list-style-type: none"> 1. Renovation of washing tower. 2. Replacement of two cloth pipes (400 pcs). 3. Boiler refurbishment. 4. Old air compressors to be replaced by energy-saving variable frequency air compressors (2 units). | <ol style="list-style-type: none"> 1. Resin replacement. 2. Renovation of washing tower. 3. Replacement of two cloth pipes (400 pcs). 4. Chromic acid pool refurbishment. 5. Old air compressors to be replaced by energy-saving variable frequency air compressors (2 units). | <ol style="list-style-type: none"> 1. Resin replacement. 2. Renovation of washing tower. 3. Replacement of two cloth pipes (400 pcs). 4. Old air compressors to be replaced by energy-saving variable frequency air compressors (1 units). |
| Expected improvements | <ol style="list-style-type: none"> 1. Improve the working environment of the pickling area. 2. Improve air pollution in the operating environment, reduce emissions of particulate matter and air pollution charges. 3. Improve safety | <ol style="list-style-type: none"> 1. Maintain the efficiency of water and wastewater treatment. 2. Improve the working environment of the pickling area. 3. Improve air pollution in the operating environment, reduce emissions of | <ol style="list-style-type: none"> 1. Maintain the efficiency of water and wastewater treatment. 2. Improve the working environment of the pickling area. 3. Improve air pollution in the operating environment, reduce emissions of |

| | | | |
|--------|---|---|---|
| | and production efficiency. | particulate matter and air pollution charges. | particulate matter and air pollution charges. |
| | 4. Energy savings and carbon reduction. | 4. Prevent soil pollution. 5. Energy savings and carbon reduction. | 4. Energy savings and carbon reduction. |
| Amount | Approximately NTD 11.6 million | Approximately NTD 10 million | Approximately NTD 7.4 million |

3. Estimated impact of environmental capital expenditures

- Can reduce costs, improve Company image and competitiveness.
- Avoids affecting production and sales due to environmental protection or industrial safety issues.

4. Portion of countermeasures not taken: Not applicable.

V. Labor Relations

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

1. Employee welfare measures

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

Employee children scholarships

Employee gift stipends for Spring Festival, Dragon Boat Festival, Mid-Autumn Festival

Employee marriage stipend

Funeral stipend for employees and parents

Employee group accident insurance and hospitalization allowances

2. Status of employee education and training

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

3. Retirement system

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

4. Other important agreements

In order to maintain a harmonious relationship between labor and management, the Company and the industrial union exert team spirit, improve work

efficiency, increase profit, sharing due rights and due obligations, and they have also signed a group agreement and held regular labor-management meetings. In addition, we have formulated employee behavior and responsibility standards.

▪ Losses due to labor disputes in the last three years

| | 2019 | 2020 | 2021 |
|-------------------------------------|---|------|------|
| 1. Status of labor disputes | None | None | None |
| 2. Amount of loss that has occurred | - | - | - |
| 3. Estimated possible future loss | - | - | - |
| 4. The Company's countermeasures | <p>The Company upholds the business philosophy of “righteousness, diligence, and thrift” and maintains a harmonious relationship with labor and management of the labor union. There have been no major labor disputes over the years. In the future, it will further enhance the harmony between labor and management, and continue to promote revenue and expenditure, lower costs, improve work efficiency, increase profits, and create opportunities for enterprise development.</p> | | |

VI. Important contracts

| Contract nature | Parties | Contract start and end date | Main content | Restriction clause |
|-------------------|-------------------------|-----------------------------|---------------------------|--------------------|
| Purchase contract | China Steel Corporation | 2022.01. 01 - 2022.12. 31 | Hot rolled steel products | - |
| Purchase contract | Sorin Corporation | 2022.01. 01 - 2022.12. 31 | Zinc slab | - |

Six. Financial Overview

I. Concise balance sheet and consolidated profit and loss statement information for the most recent five years

▪ Concise Balance Sheet

Unit: NTD thousand

| Item | Year | Financial data for the most recent five years (Note 1) | | | | | From the current year through March 31, 2022 Financial information |
|---|-------------------|--|-----------|-----------|------------|-----------|--|
| | | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Current assets | | 1,766,843 | 1,522,992 | 1,401,772 | 1,597,660 | 2,228,510 | 2,124,384 |
| Property, plant and equipment | | 1,692,798 | 1,626,992 | 1,578,543 | 1,539,887 | 1,519,830 | 1,519,333 |
| Intangible assets | | — | — | — | | | — |
| Other assets | | 1,975,380 | 2,084,862 | 2,181,147 | 3,524,647 | 3,578,540 | 3,733,445 |
| Total assets | | 5,435,021 | 5,234,846 | 5,161,462 | 6,662,194 | 7,326,880 | 7,377,162 |
| Current liabilities | Before distributi | 2,519,949 | 2,612,379 | 2,463,006 | 2,931,970 | 3,399,559 | 3,477,908 |
| | After distributi | 2,519,949 | 2,612,379 | 2,463,006 | 2,931,,970 | Note2 | |
| Non-current liabilities | | 262,265 | 254,845 | 253,787 | 958,066 | 957,680 | 948,204 |
| Total liabilities | Before distributi | 2,782,214 | 2,867,224 | 2,716,793 | 3,890,036 | 4,357,239 | 4,426,112 |
| | After distributi | 2,782,214 | 2,867,224 | 2,716,793 | 3,890,036 | Note2 | |
| Equity interest attributable to owner of the parent company | | 2,652,807 | 2,367,622 | 2,444,669 | 2,772,158 | 2,969,641 | 2,951,050 |
| Share capital | | 2,231,523 | 2,008,523 | 2,008,523 | 2,008,523 | 2,008,523 | 2,008,523 |
| Capital surplus | | 113,335 | 75,159 | 75,159 | 75,159 | 75,159 | 75,159 |
| Retained earnings | Before distributi | 691,491 | 558,117 | 442,196 | 444,762 | 674,974 | 684,420 |
| | After distributi | 691,491 | 558,117 | 442,196 | 444,762 | Note2 | |
| Other equity interest | | (122,366) | (274,177) | (81,209) | 243,714 | 210,985 | 182,948 |
| Treasury stock | | (261,176) | 0 | 0 | 0 | 0 | 0 |
| Non-controlling interest | | 0 | 0 | 0 | 0 | 0 | 0 |
| Total equity | Before distributi | 2,652,807 | 2,367,622 | 2,444,669 | 2,772,158 | 2,969,641 | 2,951,050 |
| | After distributi | 2,652,807 | 2,367,622 | 2,444,669 | 2,772,158 | Note2 | |

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

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

▪ Comprehensive income statement

Unit: NTD Thousand

| Item \ Year | Financial data for the most recent five years (Note 1) | | | | | From the current year through March 31, 2022 Financial information |
|---|--|-----------|-----------|----------|-----------|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Operating income | 1,270,214 | 1,413,110 | 1,142,137 | 962,510 | 1,550,624 | 439,785 |
| Operating margin | (27,334) | (21,455) | (4,328) | 22,021 | 194,573 | 47,411 |
| Operating profit and loss | (145,961) | (164,220) | (123,293) | (68,622) | 96,962 | 14,153 |
| Non-operating revenue and expenses | (78,566) | 24,243 | (813) | 37,537 | (34,393) | (11,332) |
| Net profit before tax | (224,527) | (139,977) | (124,106) | (31,085) | 62,569 | 2,821 |
| Profit from continuing operations | (224,527) | (139,977) | (124,106) | (31,085) | 42,117 | 2,821 |
| Profit or loss from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) for the period | (224,527) | (176,411) | (124,106) | (32,794) | 42,117 | 2,821 |
| Other comprehensive income for the period (After tax) | 93,479 | (126,882) | 201,153 | 360,283 | 155,366 | (21,412) |
| Total comprehensive income for the period | (131,048) | (303,293) | 77,047 | 327,489 | 197,483 | (18,591) |
| Net profit attributable to owner of the parent company | (224,527) | (176,411) | (124,106) | (32,794) | 42,117 | 2,821 |
| Net profit attributable to non-controlling interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Total comprehensive income attributable to owners of the parent company | (131,048) | (303,293) | 77,047 | 327,489 | 197,483 | (18,591) |
| Total comprehensive profit and loss attributable to non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Earnings and losses per share | (1.02) | (0.88) | (0.62) | (0.16) | 0.21 | 0.01 |

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

- CPA name and audit opinion for the most recent five years

| Year | Names of CPAs | Accountant's audit opinion | Reason for changing accountants |
|------|-------------------------------|----------------------------|---------------------------------|
| 2017 | Chen Kuo-Tsung, Yang Po-Jen | Unqualified opinion | Note |
| 2018 | Chen Kuo-Tsung, Yang Po-Jen | Unqualified opinion | |
| 2019 | Chen Kuo-Tsung, Hsu Chen-Lung | Unqualified opinion | |
| 2020 | Chen Kuo-Tsung, Hsu Chen-Lung | Unqualified opinion | |
| 2021 | Chen Kuo-Tsung, Hsu Chen-Lung | Unqualified opinion | |

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

II. Financial analysis for the last five years

Financial analysis

| Analysis item | | Year | Financial analysis for the last five years (Note 1) | | | | | From the current year through March 31, |
|--|---|---------|---|--------|--------|--------|---------|---|
| | | 2017 | 2018 | 2019 | 2020 | 2021 | | |
| Financial structure (%) | Debt to asset ratio | 51 | 55 | 53 | 58 | 59 | 60 | |
| | Long-term funds to property, plant, and equipment ratio | 156 | 146 | 155 | 180 | 241 | 240 | |
| Debt service Ability (%) | Current ratio | 70 | 58 | 57 | 54 | 66 | 61 | |
| | Quick ratio | 34 | 36 | 35 | 38 | 44 | 37 | |
| | Interest coverage ratio | (439) | (226) | (174) | 25 | 211 | 119 | |
| Operating Ability | Accounts receivable turnover (times) | 13 | 22 | 18 | 10 | 15 | 15 | |
| | Average cash collection days | 29 | 16 | 21 | 35 | 24 | 24 | |
| | Inventory turnover (times) | 3 | 3 | 2 | 2 | 2 | 2 | |
| | Payables turnover | 33 | 29 | 28 | 30 | 24 | 25 | |
| | Average sales days | 117 | 138 | 172 | 197 | 164 | 179 | |
| | Turnover rate of property, plant and equipment (times) | 0.75 | 0.86 | 0.72 | 0.62 | 1.02 | 1.16 | |
| | Total asset turnover rate (times) | 0.23 | 0.26 | 0.22 | 0.14 | 0.21 | 0.24 | |
| Profit Ability | Return on assets (%) | (3.50) | (2.66) | (1.69) | 0 | 1.24 | 0.2 | |
| | Return on equity (%) | (7.88) | (7.02) | (5.15) | (1.25) | 1.46 | 0.1 | |
| | Net profit before tax to paid-in capital ratio (%) | (10) | (7) | (6) | (2) | 3 | 0.14 | |
| | Net profit rate (%) | (18) | (12) | (11) | (3) | 4 | 0.64 | |
| | Earnings per share (NTD) | (1.01) | (0.88) | (0.61) | (0.16) | 0.21 | 0.01 | |
| Cash Flows | Cash flow adequacy ratio (%) | (13.42) | (5.81) | (2.44) | 2.5 | (3.19) | (2.34) | |
| | Cash flow adequacy ratio (%) | (161) | (110) | (116) | (44) | (34) | (34) | |
| | Cash reinvestment ratio (%) | (3) | (3) | (1) | 1 | (1) | (1) | |
| Leverage | Operating leverage | (0.72) | (0.93) | (0.73) | (1.88) | 3 | 4 | |
| | Financial leverage | 0.77 | 0.79 | 0.73 | 0.62 | 2.39 | (24.54) | |
| Please explain reasons for changes in various financial ratios in the last two years. (If the increase or decrease does not reach 20%, the analysis is exempt) | | | | | | | | |

Financial analysis calculation formulas:

1. Financial structure

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

2. Solvency

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

3. Operating ability

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

4. Profitability

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

5. Cash flow

- a. Cash flow ratio = net cash flow from operating activities/current liabilities.

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

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

6. Leverage:

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

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

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

| Item | 2021 | 2020 | Rate of change % increase (decrease) | Explanation |
|------------------------------|--------|--------|--------------------------------------|--|
| Gross profit margin | 6.29% | 2.29% | 174.67 | Analysis of gross profit margin changes |
| Inventory turnover | 2.22% | 1.85% | 20.00 | Analysis of changes in inventory turnover rate |
| Accounts receivable turnover | 15.37% | 10.44% | 47.22 | Analysis of changes in accounts receivable turnover rate |

Analysis of gross profit margin changes:

| | | Net operating income | Operating costs | Operating margin | Gross profit margin (%) |
|--|------|----------------------|-----------------|------------------|-------------------------|
| 2020 | Year | 962,510 | 940,489 | 22,021 | 2.29 |
| 2021 | Year | 1,550,624 | 1,356,051 | 194,573 | 6.29 |
| Explanation of major changes in gross profit margin: | | | | | |
| Prices and quantities rose in the current period. | | | | | |

Analysis of changes in inventory turnover rate:

| | | Inventory turnover (times) | Average sales days |
|---|------|----------------------------|--------------------|
| 2020 | Year | 1.85 | 197 |
| 2021 | Year | 2.22 | 164 |
| Explanation of changes in inventory turnover rate: | | | |
| Increase in the sale volume in the current period from the previous period. | | | |

Analysis of changes in accounts receivable turnover rate:

| | | Accounts receivable turnover (times) | Average cash collection days |
|---|------|---|------------------------------|
| 2020 | Year | 10.44 | 35 |
| 2021 | Year | 15.37 | 24 |
| Explanation of major changes in accounts receivable turnover rate: | | | |
| Sales amount in the current period greater than in the previous period. | | | |

III. Audit Committee audit report for the most recent year

Audit Report of the Audit Committee

The Board of Directors prepared the Company's 2021 business report, financial statements and earnings distribution proposal. Among them, the financial statements have been checked by KPMG Taiwan and an audit report has been issued.

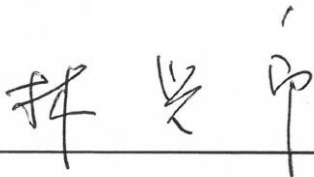
The above-mentioned business report, financial statements and earnings distribution proposal have been reviewed by this Audit Committee which regards them as having no discrepancies. This report is issued in accordance with relevant provisions of the Securities and Exchange Act and the Company Act.

As above

2022 Annual General Meeting of Shareholders of
the Company

Kao Hsing Chang Iron & Steel Corp.

Convener of Audit Committee:



A handwritten signature in black ink, consisting of stylized Chinese characters, is written above a horizontal line.

March 10, 2022

V. In the most recent year and as of the publication date of the Annual Report, if any financial difficulties occur among the Company and its affiliated companies, their effect on the Company's financial status: None.

Accountants Audit Report

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

Audit opinion

Regarding the balance sheet of Kao Hsing Chang Iron & Steel Corp. on December 31, 2021 and 2020, the comprehensive income statement, statement of changes in equity, and cash flow statement, as well as notes to the individual financial statements from January 1 to December 31, 2021 and 2020 (including a summary of major accounting policies), these have been audited by the accountants.

According to the opinion of the accountants, the above-mentioned consolidated financial statements are prepared in all material respects in accordance with the financial reporting standards of securities issuers, the International Financial Reporting Standards, International Accounting Standards, Interpretation and Interpretation Announcements approved and issued by the Financial Supervisory Commission. They are sufficient to express the financial situation of Kao Hsing Chang Iron & Steel Corp. on December 31, 2021 and 2020 and the financial performance and cash flows from January 1 to December 31 in 2021 and 2020.

Basis of Audit Opinion

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

Key audit items

Key audit items refer to the most important items for the audit of the 2021 financial statements of Kao Hsing Chang Iron & Steel Corp. according to the professional judgment of the accountant. These matters have been dealt with in the process of checking the individual and overall financial statements and the formation of the audit opinion. The accountant does not express an opinion on these matters separately. The accountants judge that the key audit items that should be communicated in the audit report are as follows:

Inventory valuation

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

Explanation of key audit issues:

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

Audit procedures:

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

Responsibilities of the management and governance body to the financial statements

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

The management's responsibilities when preparing financial statements also involved: assessing the ability of Kao Hsing Chang Iron & Steel Corp. to operate, disclose information, and account for transactions as a going concern unless the management intends to liquidate or cease business operations, or is compelled to do so with no alternative solution.

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

Auditors' responsibilities in the audit of financial statements

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

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

1. Identified and assessed risks of material misstatement due to fraud or error; designed and executed appropriate response measures for the identified risks; and obtained adequate and appropriate audit evidence to support audit opinions. Fraud may involve conspiracy, forgery, intentional omission, untruthful declaration, or breach of internal control, and our audit did not find any material misstatement where the risk of fraud is greater than the risk of error.
2. Developed relevant understanding of internal control for the audit in order to design audit procedures that are appropriate for the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Kao Hsing Chang Iron & Steel Corp.
3. Assessed the appropriateness of accounting policies adopted by the management, and the rationality of accounting estimates and related disclosures made.
4. Formed conclusions regarding the appropriateness of managements decision to account for the business as a going concern, and whether there are doubts or uncertainties about the ability of Kao Hsing Chang Iron & Steel Corp. to operate as a going concern, based on the audit evidence obtained. We are bound to remind financial statement users and make related disclosures if material uncertainties exist in regards to the above mentioned events or circumstances, and amend audit opinions when the disclosures are no longer appropriate. Our conclusions are based on the audit evidence obtained up to the date of audit report. However, future events or change of circumstances may still render Kao Hsing Chang Iron & Steel Corp. no longer capable of operating as a going concern.

5. Assessed the overall presentation, structure and contents of the financial statements (including related footnotes), and whether transactions and events are presented appropriately in the financial statements.
6. Obtained sufficient and appropriate audit evidence on the financial information of equity-accounted investments, and expressed opinions on financial statements. Our responsibilities as auditor are to instruct, supervise, and execute audits and form audit opinions on Kao Hsing Chang Iron & Steel Corp.

We have communicated with the governance body about the scope, timing, and significant findings (including significant defects identified in the internal control) of our audit.

We have also provided the governance body with a declaration of independence stating that all relevant personnel of the accounting firm have complied with auditors' professional ethics, and communicated with the governance body on all matters that may affect the auditor's independence (including protection measures).

Based on the matters communicated with the governance unit, the accountant decides the key audit items for the audit of Kao Hsing Chang Iron & Steel Corp.'s 2021 individual financial reports. The accountant stated these matters in the audit report, unless the law does not allow the public disclosure of specific matters or in very rare circumstances, the accountant decides not to communicate specific matters in the audit report because it can be reasonably expected that the negative impact of such communication will be greater than the public interest promoted.

KPMG Taiwan

Auditor: Kuo-Tsung, Chen
Chen-Lung, Hsu

Approval reference of the securities authority : (89)Tai-Tsai-Cheng (VI) No. 62474
Jin-Guan-Zheng NO. 6-0960069825
March 10, 2022

Kao Hsing Chang Iron & Steel Corp.
Balance Sheet
December 31, 2021 and 2020

Unit: NTD Thousand

| | 2021.12.31 | | 2020.12.31 | | |
|----------------------------|---|---------------------|-------------------|------------------|------------|
| | Amount | % | Amount | % | |
| Assets | | | | | |
| Current assets: | | | | | |
| 1100 | Cash and cash equivalents (Note 6(1)) | \$ 559,241 | 8 | 275,370 | 4 |
| 1120 | Financial assets measured at fair value through other comprehensive income -- current (Note 6(2)) | 804,074 | 11 | 716,128 | 11 |
| 1152 | Other notes receivable (Note 6 (4)) | 200 | - | 200 | - |
| 1170 | Net accounts receivable (Note 6 (3)) | 96,357 | 1 | 105,317 | 2 |
| 1200 | Other receivables (Notes 6 (4) and 7) | 28,623 | - | 17,827 | - |
| 1220 | Current income tax assets | - | - | 2 | - |
| 130X | Inventory (Note 6 (5)) | 719,811 | 10 | 468,253 | 7 |
| 1470 | Other current assets (Notes 6 (10) and 7) | 20,204 | - | 14,563 | - |
| | Total current assets | 2,228,510 | 30 | 1,597,660 | 24 |
| Non-current assets: | | | | | |
| 1517 | Financial assets at fair value through other comprehensive income - non-current (Note 6(2)) | 973,059 | 13 | 986,641 | 15 |
| 1550 | Investments using the equity method (Notes 6 (6) and 7) | 448,777 | 6 | 370,586 | 6 |
| 1600 | Property, plant, and equipment (Notes 6 (7) and 8) | 1,519,830 | 21 | 1,539,887 | 23 |
| 1755 | Right-of-use assets (Notes 6 (8) and 7) | 9,871 | - | 13,161 | - |
| 1760 | Net investment property (Notes 6 (9), 7, and 8) | 2,141,002 | 30 | 2,144,792 | 32 |
| 1920 | Refundable deposits (Notes 6 (4), 7 and 9) | 5,831 | - | 9,467 | - |
| | Total non-current assets | 5,098,370 | 70 | 5,064,533 | 76 |
| | Total assets | \$ 7,326,880 | 100 | 6,662,194 | 100 |

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting Supervisor: Hui-Mei Chao

Kao Hsing Chang Iron & Steel Corp.
Balance Sheet (continued)
December 31, 2021 and 2020

Unit: NTD Thousand

| | | 2021.12.31 | | 2020.12.31 | |
|--------------------------------------|---|---------------------|------------|-------------------|------------|
| | | Amount | % | Amount | % |
| Liabilities and equity | | | | | |
| Current liabilities: | | | | | |
| 2100 | Short-term loans (Notes 6 (11) and 8) | \$ 3,232,341 | 44 | 2,822,723 | 42 |
| 2151 | Bills payable | 28,384 | - | 20,280 | - |
| 2152 | Other notes payable | 12,878 | - | 7,561 | - |
| 2170 | Accounts payable | 39,758 | 1 | 21,733 | - |
| 2200 | Other accounts payable | 56,739 | 1 | 54,980 | 1 |
| 2230 | Current tax liabilities | 22,161 | - | 1,709 | - |
| 2300 | Other current liabilities (Note 6 (12)) | 7,298 | - | 2,984 | - |
| Total current liabilities | | 3,399,559 | 46 | 2,931,970 | 43 |
| Non-current liabilities: | | | | | |
| 2540 | Long-term loans (Notes 6 (13) and 8) | 700,000 | 10 | 700,000 | 11 |
| 2570 | Deferred income tax liabilities (Note 6 (16)) | 210,632 | 3 | 210,632 | 3 |
| 2640 | Net defined benefit liabilities-non-current (Note 6 (15)) | 42,008 | 1 | 42,394 | 1 |
| 2645 | Guarantee deposits received | 5,040 | - | 5,040 | - |
| Total non-current liabilities | | 957,680 | 14 | 958,066 | 15 |
| Total liabilities | | 4,357,239 | 60 | 3,890,036 | 58 |
| Equity (Note 6 (17)): | | | | | |
| 3100 | Share capital | 2,008,523 | 27 | 2,008,523 | 30 |
| 3200 | Capital reserve | 75,159 | 1 | 75,159 | 1 |
| 3300 | Retained earnings: | | | | |
| 3310 | Statutory reserve | 147,137 | 2 | 146,880 | 2 |
| 3320 | Special reserve | - | - | 81,209 | 1 |
| 3350 | Undistributed surplus earnings | 527,837 | 7 | 216,673 | 4 |
| | | 674,977 | 9 | 444,762 | 7 |
| 3400 | Other equity interest | 210,985 | 3 | 243,714 | 4 |
| Total equity | | 2,969,641 | 40 | 2,772,158 | 42 |
| Total liabilities and equity | | \$ 7,326,880 | 100 | 6,662,194 | 100 |

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu Manager: Rong-Feng Shenglu Accounting Supervisor: Hui-Mei Chao

Kao Hsing Chang Iron & Steel Corp.
Statements of Comprehensive Income
January 1 to December 31, 2021 and 2020

| | | Unit: NTD Thousand | | | |
|------|---|--------------------|-----------|----------------|-----------|
| | | 2021 | | 2020 | |
| | | Amount | % | Amount | % |
| 4000 | Operating revenue (Notes 6 (19) and 7) | \$ 1,550,624 | 100 | 962,510 | 100 |
| 5000 | Operating costs (Notes 6 (5) (15)) | 1,356,051 | 88 | 940,489 | 98 |
| 5900 | Operating margin | 194,573 | 12 | 22,021 | 2 |
| 6000 | Operating expenses (Notes 6 (15) and 7): | | | | |
| 6100 | Marketing fees | 33,868 | 2 | 25,679 | 3 |
| 6200 | Management expenses | 63,743 | 4 | 64,964 | 7 |
| | Total operating expenses | 97,611 | 6 | 90,643 | 10 |
| 6900 | Operating profit (loss) | 96,962 | 6 | (68,622) | (8) |
| | Non-operating income and expenses: | | | | |
| 7100 | Interest income (Note 6 (21)) | 105 | - | 134 | - |
| 7010 | Other income (Note 6 (21)) | 40,281 | 3 | 84,890 | 9 |
| 7020 | Other gains and losses (Note 6 (21)) | (26,849) | (2) | (5,559) | - |
| 7050 | Finance costs (Note 6 (21)) | (56,353) | (4) | (41,190) | (4) |
| 7060 | Share of profits/losses on equity-accounted associated companies and joint ventures (Note 6 (6)) | 8,423 | 1 | (738) | - |
| | Total non-operating income and expenses | (34,393) | (2) | 37,537 | 5 |
| 7900 | Net profit (loss) before tax of continuing operations | 62,569 | 4 | (31,085) | (3) |
| 7950 | Less: Income tax expense (Note 6 (16)) | 20,452 | 1 | 1,709 | - |
| | Net profit (loss) for the period | 42,117 | 3 | (32,794) | (3) |
| 8300 | Other comprehensive income: | | | | |
| 8310 | Items not reclassified into profit and loss | | | | |
| 8311 | Remeasurement of defined benefit plan | (6,840) | - | 1,715 | - |
| 8316 | Unrealized gain/loss on valuation of equity instruments at fair value through other comprehensive income | 161,638 | 10 | 240,892 | 25 |
| 8320 | Share of other comprehensive profits and losses of affiliated companies and joint ventures recognized using the equity method-items not reclassified to profits and losses (Note 6 (6)) | 568 | - | 117,676 | 12 |
| 8349 | Less: Income tax related to items not reclassified | - | - | - | - |
| | Total items not reclassified to profit and loss | 155,366 | 10 | 360,283 | 37 |
| 8300 | Other comprehensive income for the period (net after tax) | 155,366 | 10 | 360,283 | 37 |
| | Total comprehensive income for the period | \$ 197,483 | 13 | 327,489 | 34 |
| | Earnings per share (Note 6 (18)) | | | | |
| 9750 | Basic earnings per share | \$ 0.21 | | (0.16) | |
| 9850 | Diluted earnings per share | \$ 0.21 | | (0.16) | |

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting Supervisor: Hui-Mei Chao

Kao Hsing Chang Iron & Steel Corp.
Statement of Changes in Equity
January 1 to December 31, 2021 and 2020

Unit: NTD Thousand

| | Share capital | Capital reserve | Retained earnings | | | Undistributed surplus earnings | Other equity items | Total equity interest |
|---|-------------------------------|-----------------|-------------------|-----------------|--|--------------------------------|-------------------------------|-----------------------|
| | | | Statutory reserve | Special reserve | Unrealized gains on financial assets measured at fair value through other comprehensive income | | Profit and loss at fair value | |
| Balance as of January 1, 2020 | <u>\$</u> <u>2,008,523</u> | <u>75,159</u> | <u>146,880</u> | <u>274,177</u> | <u>21,139</u> | <u>(81,209)</u> | <u>2,444,669</u> | |
| Current net loss | - | - | - | - | (32,794) | - | (32,794) | |
| Other comprehensive income for the period | - | - | - | - | 1,715 | 358,568 | 360,283 | |
| Total comprehensive income for the period | - | - | - | - | (31,079) | 358,568 | 327,489 | |
| Earnings appropriation and distribution: | | | | | | | | |
| Reversal of special reserve | - | - | - | (192,968) | 192,968 | - | - | |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | 8) | 33,645 | (33,645) | - | |
| Balance as of December 31, 2020 | <u>23</u> <u>2,008,5</u> | <u>75,159</u> | <u>146,880</u> | <u>81,209</u> | <u>216,673</u> | <u>243,714</u> | <u>2,772,158</u> | |
| Balance as of January 1, 2021 | <u>23</u> <u>2,008,5</u> | <u>75,159</u> | <u>146,880</u> | <u>81,209</u> | <u>216,673</u> | <u>243,714</u> | <u>2,772,158</u> | |
| Current net income | - | - | - | - | 42,117 | - | 42,117 | |
| Other comprehensive income for the period | - | - | - | - | (6,841) | 162,206 | 155,366 | |
| Total comprehensive income for the period | - | - | - | - | 35,277 | 162,206 | 197,483 | |
| Earnings appropriation and distribution: | | | | | | | | |
| Statutory surplus reserve | - | - | 257 | - | (257) | - | - | |
| Reversal of special reserve | - | - | - | (81,209) | 81,209 | - | - | |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | - | 194,935 | (194,935) | - | |
| Balance as of December 31, 2021 | <u>\$</u> <u>2,008,523</u> | <u>75,159</u> | <u>147,137</u> | <u>-</u> | <u>527,837</u> | <u>210,985</u> | <u>2,969,641</u> | |

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting Supervisor: Hui-Mei Chao

Kao Hsing Chang Iron & Steel Corp.
Statement of Cash Flow
January 1 to December 31, 2021 and 2020

Unit: NTD Thousand

| | 2021 | 2020 |
|---|-------------------|--------------------|
| Cash flow from operating activities: | | |
| Current pre-tax profit (loss) | \$ 62,569 | (31,085) |
| Adjustment items: | | |
| Income, expenses, and losses | | |
| Depreciation | 54,485 | 55,546 |
| Interest expenses | 56,353 | 41,190 |
| Interest income | (105) | (134) |
| Dividend income | (31,210) | (56,669) |
| Share of losses (profits) on equity-accounted associated companies and joint ventures | (8,422) | 738 |
| Loss on disposal and scrapping of property, plant and equipment | 30 | - |
| Unrealized gains on foreign currency exchange | (70) | (15) |
| Total income, expenses, and losses | <u>71,061</u> | <u>40,656</u> |
| Changes in assets/liabilities related to business activities: | | |
| Net changes in assets related to business activities: | | |
| Decrease (increase) in notes receivable | - | 356 |
| Decrease (increase) in accounts receivable | 8,960 | (26,681) |
| Increase in other receivables | (531) | (370) |
| Decrease (increase) in inventories | (251,559) | 11,969 |
| Decrease (increase) in other current assets | (5,640) | 36,315 |
| Total net changes in assets related to business activities | <u>(248,770)</u> | <u>21,589</u> |
| Net changes in liabilities related to operating activities: | | |
| Increase in bills payable | 8,104 | 8,653 |
| Increase in accounts receivable | 18,025 | 12,162 |
| Increase in other payables | 8,315 | 2,955 |
| Increase in other current liabilities | 4,314 | 1,033 |
| Increase (decrease) in net defined benefit liabilities | (7,227) | 994 |
| Total net changes in liabilities related to operating activities | <u>31,531</u> | <u>25,797</u> |
| Total net changes in assets and liabilities related to business activities | <u>(217,239)</u> | <u>47,386</u> |
| Total adjustment items | <u>(146,178)</u> | <u>88,042</u> |
| Cash inflow (outflow) from operations | (83,609) | 56,957 |
| Interest received | 105 | 134 |
| Dividends received | 30,935 | 56,669 |
| Interests paid | (55,990) | (40,255) |
| Income tax refunded | 2 | 9 |
| Net cash inflow (outflow) from operating activities | <u>(108,557)</u> | <u>73,514</u> |
| Cash flow from investing activities: | | |
| Acquisition of financial assets at fair value through other comprehensive income | (2,259,525) | (1,822,801) |
| Disposal of financial assets at fair value through other comprehensive income | 2,304,661 | 1,625,334 |
| Investments accounted for using equity method | (45,200) | (2,677) |
| Acquisition of property, plant, and equipment | (20,801) | (9,959) |
| Disposal of property, plant, and equipment | 63 | 50,000 |
| Decrease (increase) in refundable deposits | 3,636 | (1,398) |
| Acquisition of investment real estate | - | (1,100,892) |
| Net cash flows (used in) from investing activities | <u>(17,166)</u> | <u>(1,262,393)</u> |
| Cash flows from (used in) financing activities: | | |
| Increase in short-term loan | 4,616,045 | 8,210,722 |
| Decrease in short-term loan | (4,206,357) | (7,786,116) |
| Increase in long-term debt | - | 700,000 |
| Increase in deposit margin | - | 5,000 |
| Decrease in bills payable for the return of capital reduction | (94) | (25) |
| Net cash inflow from financing activities | <u>409,594</u> | <u>1,129,581</u> |
| Increase (decrease) in current cash and cash equivalents | 283,871 | (59,298) |
| Beginning cash and cash equivalent balance | 275,370 | 334,668 |
| Cash and cash equivalents at the end of the period | <u>\$ 559,241</u> | <u>275,370</u> |

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu Manager: Rong-Feng Shenglu Accounting Supervisor: Hui-Mei Chao

Kao Hsing Chang Iron & Steel Corp.

Notes to Financial Statements

2021 and 2020

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

I. Company history

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

II. Financial statement approval date and procedures

This financial report has been approved during the board of directors meeting held on March 10, 2022, and announced to the public.

III. Application of new and amended standards and interpretations

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

The Company has applied the following newly revised International Financial Reporting Standards from January 1, 2021, and they have not had a material effect on its financial reporting.

- Amendment to IFRS 4 regarding "Deferral of effective date of IFRS 9"
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16, "Interest Rate Benchmark Reform-Phase 2"
- Amendment to IFRS 16, "Covid-19-Related Rent Concessions of June 30, 2021"

(II) Impact of not adopting FSC-approved IFRS

Based on the Company's assessments, the application of the following newly revised International Financial Reporting Standards effective from January 1, 2022 will not have a material effect on its financial reporting.

- Amendments to IAS 16, "Property, Plant and Equipment: Proceeds before Intended Use"
- Amendments to IAS 37 "Onerous Contracts — Cost of Fulfilling a Contract"
- Annual improvements to IFRS standards for 2018-2020
- Amendments to IFRS 3 "Reference to the Conceptual Framework"

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

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

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

- Amendments to IFRS 10 and IAS 28 regarding "Sale or contribution of assets between an investor and its associate or joint venture"
- IFRS 17 "Insurance contracts" and amendments to IFRS 17
- Amendments to IAS 1, "Classifying Liabilities as Current or Non-current"
- Amendments to IAS 1, "Disclosure of Accounting Policies"
- Amendments to IAS 8, "Definition of Accounting Estimates"
- Amendments to IAS 12, "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"
- Amendments to IFRS 17, "Initial Application of IFRS 17 and IFRS 9—Comparative Information"

IV. Summary of significant accounting policies

(I) Statement of compliance

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

(II) Basis of preparation

1. Basis for measurement

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

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

2. Functional currency and presentation currency

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

(III) Foreign currency

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

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

exchange rate as of the valuation date. Foreign currency-denominated non-monetary items carried at historical cost are converted using exchange rate as of the initial transaction date.

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

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

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

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

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

Liabilities that match any of the following criteria are classified as current liabilities;

liabilities that do not fall into the current category are classified as non-current liabilities:

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

(V) Cash and cash equivalents

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

(VI) Financial instruments

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

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

1. Financial assets

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

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

(1) Financial assets measured at amortized cost

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

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

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

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

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

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

outstanding principals.

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

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

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

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

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

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

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

(4) Impairment on financial assets

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

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

- Debt securities that are deemed to be of low risk as of the reporting date; and

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

- Other debt instruments and bank deposits that exhibit no significant increase in credit risk (i.e. risk of default over the financial instrument's expected duration) since initial recognition.

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

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

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

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

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

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

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

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

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

The Company assesses financial assets carried at cost after amortization for credit impairment on every reporting date. A financial asset is deemed to have credit-impaired if estimated future cash flow exhibits one or several adverse events. Evidence of credit

impairment includes any observable data that can be used to establish the following with respect to a financial asset:

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

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

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

(5) Removal of financial assets

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

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

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

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

(2) Equity transactions

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

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

(3) Treasury stock

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

(4) Financial liabilities

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

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

(5) Removal of financial liabilities

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

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

(6) Offset of financial assets and liabilities

Financial assets and financial liabilities may be offset against each other and reported on the balance sheet in net amount only when the Company is legally entitled to do so, and has the intention to settle assets and liabilities in net amount or realize them both at the same time.

(VII) Inventory

Inventory is stated at the lower of cost or net realizable value. Cost includes all costs incurred to acquire, produce, process, and bring inventory to its usable state and location, and

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

is calculated using the weighted average method. Cost of finished products and work-in-progress includes manufacturing overheads, which are allocated proportionally based on normal production capacity.

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

(VIII) Investment in associated companies

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

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

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

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

(IX) Investment properties

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

Gain or loss on disposal of investment property (calculated as the difference between net

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

disposal proceeds and book value of the asset) is recognized through profit and loss.

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

(X) Property, plant, and equipment

1. Recognition and measurement

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

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

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

2. Subsequent costs

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

3. Depreciation

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

No depreciation is provided on land.

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

| | |
|------------------------------|------------|
| (1) Housing and construction | 5-60 years |
| (2) Machinery | 2-25 years |
| (3) Other equipment | 5-25 years |

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

(XI) Leases

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

1. As a lessee

The Company recognizes right-of-use assets and lease liabilities on the lease start date. Right-of-use assets are measured at cost at initiation; this cost includes the initial amount of lease liability, adjusted for any lease payments paid on or before the lease start date, plus

any initial direct costs incurred and any estimated costs to dismantle/remove the asset and restore the location or the asset to its original state, less any lease incentives received.

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

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

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

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

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

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

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

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

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

recognized through profit and loss.

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

2. As a lessor

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

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

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

(XII) Intangible assets

1. Recognition and measurement

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

2. Subsequent expenses

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

3. Amortization

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

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

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

(XIII) Impairment of non-financial assets

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

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

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

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

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

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

(XIV) Revenue recognition

1. Revenue from contracts with customers

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

(1) Sale of merchandise

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

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

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

(2) Financial component

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

2. Cost of contracts with customers

(1) Additional costs of contract establishment

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

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

(2) Cost of fulfilling contractual obligations

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

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

(XV) Employee benefits

1. Defined contribution plan

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

2. Defined benefit plan

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

Defined benefit obligations are estimated by certified actuaries on a yearly basis using the Projected Unit Credit Method. If the calculated result is favorable to the Company, the amount of assets recognized shall not exceed the present value of future economic benefits,

whether they are realized through refund of plan contributions or decrease of future contributions. Present value of economic benefits is calculated after taking into consideration all minimum contribution requirements.

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

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

3. Short-term employee benefits

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

(XVI) Income tax

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

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

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

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

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

3. Taxable temporary differences arising from initial recognition of goodwill.

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

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

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

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

(XVII) Earnings per share

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

(XVIII) Segment information

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

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

When preparing financial statements in compliance with the Preparation Regulations, the management is required to make judgments, estimates, and assumptions in accordance with FSC-approved IFRS. These judgments, estimates, and assumptions may affect adoption of

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

accounting policies and amounts of asset, liability, income, and expense reported. The actual results may differ from estimates.

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

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

Inventory valuation

Due to the fact that inventory is measured at the lower of cost and net realizable value, the Company would assess inventory on the reporting date for any decrease in sales value due to normal wear, obsolescence, or absence of market demand, and reduce inventory cost to net realizable value accordingly. This inventory valuation is made by estimating product demand within a specific period of time in the future, which may give rise to significant changes due to rapid development of the industry. For details on inventory valuation, please refer to Note 6 (5).

VI. Notes to major accounts

(I) Cash and cash equivalents

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--|-----------------------|--------------------|
| Reserve cash | \$ 265,497 | 252,607 |
| Demand deposit | 540,294,852 | 262,452,932 |
| Check deposit | <u>18,681,143</u> | <u>12,664,776</u> |
| Cash and cash equivalents presented in the cash flow statement | <u>\$ 559,241,492</u> | <u>275,370,315</u> |

For disclosure of exchange rate risk, exchange rate sensitivity analysis, and credit risk associated with the Company's financial assets, please see Note 6 (22).

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--|-------------------|-------------------|
| Equity instruments at fair value through other comprehensive income: | | |
| TWSE/TPEX listed shares: | | |
| China Steel Chemical | \$ 120,500,000 | 281,015,000 |
| Formosa Sumco Technology | - | 8,640,000 |
| ASE Technology Holding | 53,250,000 | 16,260,000 |
| Hon Hai Precision Industry | 52,000,000 | 18,400,000 |
| ChainQui Construction Development | 1,715,850 | 1,719,372 |
| Asia Pacific Telecom | 49,320,000 | 53,530,000 |

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

| | | |
|--|--------------------------------|-----------------------------|
| Asia Optical | 14,085,000 | 88,680,000 |
| Zhen Ding Technology Holding-KY | 30,150,000 | 5,700,000 |
| Keystone Microtech | - | 9,360,000 |
| Yageo | 76,720,000 | 51,800,000 |
| Kaimei Electronic | 80,800,000 | - |
| Foxconn Technology | 25,960,000 | - |
| Ta Chen Stainless Pipe | 13,875,000 | - |
| China Steel | 14,140,000 | - |
| Episil | 14,300,000 | - |
| Gudeng Precision | 32,400,000 | - |
| Genius Electronic | 21,160,000 | - |
| Evergreen International | - | 7,634,250 |
| Giga solar | - | 6,120,000 |
| CHPT | 25,596,000 | 7,640,000 |
| Sunspring Metal | 8,220,000 | 5,040,000 |
| Wonderful Hi Tech | - | 4,620,099 |
| Win Semiconductors | 29,960,000 | 3,460,000 |
| HTC | - | 12,300,000 |
| Taiwan Semiconductor Manufacturing | 49,200,000 | 53,000,000 |
| Cleanaway | 23,350,000 | - |
| Largan Precision | - | 63,900,000 |
| Eternal Materials | 26,122,500 | 21,930,000 |
| Delta Electronics | <u>41,250,000</u> | <u>-</u> |
| Subtotal | <u>804,074,350</u> | <u>720,748,721</u> |
| Non-listed domestic and foreign companies: | | |
| Universal Venture Capital Investment | 10,778,424 | 9,478,000 |
| KHH Arena Corporation | 68,557,500 | 81,551,250 |
| ENRESTEC | 268,373,422 | 289,332,707 |
| CSGT Metals | 54,802,550 | 40,779,800 |
| How Weih Holding | <u>570,547,183</u> | <u>560,878,673</u> |
| Subtotal | <u>973,059,079</u> | <u>982,020,430</u> |
| Total | <u>\$ 1,777,133,429</u> | <u>1,702,769,151</u> |
| Current | \$ 804,074,350 | 716,128,622 |
| Non-current | <u>973,059,079</u> | <u>986,640,529</u> |

\$ 1,777,133,429 **1,702,769,151**

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

The Company recognized dividend income totaling NTD 31,209,496 in 2021 and NTD 56,669,166 in 2020 from equity instruments at fair value through other comprehensive income mentioned above.

The Company sold equity instruments measured at fair value through other comprehensive income out of concern for changes in investment strategy in 2021 and 2020; fair values of the disposed investments were assessed at NTD 2,314,650,854 and NTD 1,637,157,689 at the time of disposal and cumulative gains amounting to NTD 170,935,739 and NTD 75,697,941 have been reclassified from other equity items into retained earnings for the respective years.

For market risk information, please refer to Note 6 (22).

None of the above financial assets was pledged as collateral.

(III) Accounts receivable

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--|-----------------------------|---------------------------|
| Accounts receivable - at cost after amortization | \$ 96,356,522 | 105,316,666 |
| Less: loss provisions | <u>-</u> | <u>-</u> |
| | <u>\$ 96,356,522</u> | <u>105,316,666</u> |

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

| | 2021.12.31 | | |
|-------------|---|---|---|
| | Accounts receivable carrying value | Weighted average expected credit loss rate | Provision for expected credit loss over the remaining duration |
| Not overdue | \$ 96,356,522 | - | - |
| Overdue | <u>-</u> | - | <u>-</u> |
| | <u>\$ 96,356,522</u> | | <u>-</u> |

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

| | 2020.12.31 | | |
|-------------|---|---|---|
| | Accounts receivable carrying value | Weighted average expected credit loss rate | Provision for expected credit loss over the remaining duration |
| Not overdue | \$ 105,316,666 | - | - |
| Overdue | - | - | - |
| | <u>\$ 105,316,666</u> | | <u>-</u> |

Changes in loss provision on accounts receivable is shown below:

| | 2021 | 2020 |
|-----------------|--------------------|-----------------|
| Opening balance | \$ - | - |
| Closing balance | <u>\$ -</u> | <u>-</u> |

The Company held no collateral over the above-mentioned balances.

(IV) Other receivables and notes

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--|-----------------------------|--------------------------|
| 1. Other accounts receivable | | |
| Other receivables - proceeds from disposal of shares | \$ 26,322,345 | 16,332,066 |
| Other receivables - purchase discounts | 356,601 | 430,521 |
| Other receivables - taxes refundable | - | 29,315 |
| Other receivables - others | 2,414,048 | 1,505,071 |
| Guarantee deposits paid | 5,830,867 | 9,466,537 |
| Less: loss provisions | <u>470,460</u> | <u>470,460</u> |
| | <u>\$ 34,453,401</u> | <u>27,293,050</u> |
| | <u>2021.12.31</u> | <u>2020.12.31</u> |
| Presented as net other receivables | \$ 28,622,534 | 17,826,513 |
| Presented as guarantee deposits paid | <u>5,830,867</u> | <u>9,466,537</u> |
| | <u>\$ 34,453,401</u> | <u>27,293,050</u> |

Others mainly comprise proceeds from the sale of scraps.

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--|--------------------------|--------------------------|
| 2. Other notes receivable | | |
| Other notes receivable - rent proceeds | \$ 200,000 | 200,000 |
| Less: loss provisions | <u>-</u> | <u>-</u> |
| | <u>\$ 200,000</u> | <u>200,000</u> |

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

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

(V) Inventory

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|-------------------------------|-----------------------|--------------------|
| Raw materials and merchandise | \$ 335,657,133 | 157,527,523 |
| Work-in-progress | 139,636,706 | 63,456,809 |
| Finished goods | 232,918,709 | 245,803,449 |
| Inventory in transit | 11,293,208 | 1,458,881 |
| Scraps | 305,692 | 6,004 |
| | <u>\$ 719,811,448</u> | <u>468,252,666</u> |

Detailed breakdown of sales cost:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------------|--------------------|
| Reclassified into sales costs and expenses | \$1,325,269,830 | 925,865,403 |
| Inventory devaluation loss (gain from price recovery) | 1,641,231 | (38,350,723) |
| Unallocated manufacturing overheads | 38,837,082 | 58,105,125 |
| Others | (19,865,300) | (11,678,205) |
| Leasing costs | 10,168,173 | 6,546,940 |
| | <u>\$ 1,356,051,016</u> | <u>940,488,540</u> |

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

(VI) Investments accounted for using equity method

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

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

Due to the Company's purchase of equity rights in Sunward Refractories Co., Ltd. in 2020 for a total of NTD 2,762,812, raising its shareholding ratio to 20% from 16.10% previously, therefore, the Company has a significant influence on Sunward Refractories Co., Ltd. but does

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

not have control. The Company's accounting treatment is based on the equity method of financial assets measured at fair value through other comprehensive gains and losses. Therefore, the Company recognized and disposed of financial asset losses of NTD 48,986,001 measured at fair value through other comprehensive gains and losses, transferring to retained earnings from other equity.

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|-------------------------------------|-----------------------|--------------------|
| KHC Steel International Corp. | \$ 141,629,586 | 130,888,282 |
| Hsieh Chang Hsing Trading Co., Ltd. | 238,042,155 | 225,593,900 |
| Sunward Refractories Co., Ltd. | <u>69,105,142</u> | <u>14,104,103</u> |
| | <u>\$ 448,776,883</u> | <u>370,586,285</u> |

1. Associated companies

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

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|---------------------|------------------|
| KHC Steel International Corp. | \$ (1,322,159) | (1,065,990) |
| Hsieh Chang Hsing Trading Co., Ltd. | (56,221) | (56,326) |
| Sunward Refractories Co., Ltd. | <u>9,801,039</u> | <u>384,103</u> |
| | <u>\$ 8,422,659</u> | <u>(738,213)</u> |

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

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-------------------|--------------------|
| KHC Steel International Corp. | \$ (11,935,992) | 39,671,628 |
| Hsieh Chang Hsing Trading Co., Ltd. | 12,504,476 | 78,004,109 |
| Sunward Refractories Co., Ltd. | <u>-</u> | <u>-</u> |
| | <u>\$ 568,484</u> | <u>117,675,737</u> |

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

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--------------------|-----------------------|--------------------|
| Current assets | \$ 34,898,141 | 34,052,052 |
| Non-current assets | <u>342,169,388</u> | <u>312,969,288</u> |
| | <u>\$ 377,067,529</u> | <u>347,021,340</u> |

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

| | | |
|----------------------------|-------------------------------|---------------------------|
| Current liabilities | \$ 7,289,164 | 5,273,520 |
| Non-current liabilities | <u>181,323</u> | <u>181,323</u> |
| | <u>\$ 7,470,487</u> | <u>5,454,843</u> |
| | <u>2021</u> | <u>2020</u> |
| Operating revenue | <u>\$ -</u> | <u>-</u> |
| Current net loss | (3,450,310) | (2,781,810) |
| Other comprehensive income | <u>(31,148,203)</u> | <u>103,527,212</u> |
| Total comprehensive income | <u>\$ (34,598,513)</u> | <u>100,745,402</u> |

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

| | | |
|----------------------------|------------------------------|---------------------------|
| | <u>2021.12.31</u> | <u>2020.12.31</u> |
| Current assets | \$ 1,034,298 | 1,157,078 |
| Non-current assets | <u>518,857,904</u> | <u>491,549,594</u> |
| | <u>\$ 519,892,202</u> | <u>492,706,672</u> |
| Current liabilities | \$ 36,000 | 36,000 |
| Non-current liabilities | <u>-</u> | <u>-</u> |
| | <u>\$ 36,000</u> | <u>36,000</u> |
| | <u>2021</u> | <u>2020</u> |
| Operating revenue | <u>\$ -</u> | <u>-</u> |
| Current net loss | (122,780) | (123,009) |
| Other comprehensive income | <u>27,308,310</u> | <u>170,351,844</u> |
| Total comprehensive income | <u>\$ 27,185,530</u> | <u>170,228,835</u> |

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

| | | |
|-------------------------|------------------------------|---------------------------|
| | <u>2021.12.31</u> | <u>2020.12.31</u> |
| Current assets | \$ 326,739,094 | 181,990,841 |
| Non-current assets | <u>190,287,229</u> | <u>206,844,785</u> |
| | <u>\$ 517,026,323</u> | <u>388,835,626</u> |
| Current liabilities | \$ 94,248,980 | 506,391,466 |
| Non-current liabilities | <u>268,809,573</u> | <u>3,481,583</u> |
| | <u>\$ 363,058,553</u> | <u>509,873,049</u> |
| | <u>2021</u> | <u>2020</u> |
| Operating revenue | <u>\$ 335,676,746</u> | <u>208,411,033</u> |

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

| | | |
|---|----------------------|--------------------|
| Current net income | \$ 49,005,193 | 375,053,138 |
| Other comprehensive income | - | - |
| Total comprehensive income | \$ 49,005,193 | 375,053,138 |
| | 2021 | 2020 |
| Share of net assets attributable to the Company as of the beginning of the period | \$ 14,104,103 | (24,207,485) |
| Add: Goodwill | - | 38,311,588 |
| Comprehensive income (loss) attributable to the Company | 9,801,039 | - |
| Capital increase in affiliated companies in the current period | 45,200,000 | - |
| Share of net assets attributable to the Company as of the end of the period | \$ 69,105,142 | 14,104,103 |

2. Collateral

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

(VII) Property, plant, and equipment

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

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery</u> | <u>Others</u> | <u>Total</u> |
|--|------------------------|----------------------|----------------------|--------------------|----------------------|
| Cost or deemed cost: | | | | | |
| Balance as of January 1, 2021 | \$1,106,417,035 | 1,446,436,138 | 2,218,221,257 | 248,689,692 | 5,019,764,122 |
| Additions | - | 400,000 | 16,588,200 | 10,452,264 | 27,440,464 |
| Disposals | - | - | (7,390,420) | (257,000) | (7,647,420) |
| Reclassification | - | 432,764 | 4,518,000 | (4,950,764) | - |
| Balance as of December 31, 2021 | \$1,106,417,035 | 1,447,268,902 | 2,231,937,037 | 253,934,192 | 5,039,557,166 |
| Balance as of January 1, 2020 | \$1,106,417,035 | 1,446,436,138 | 2,208,627,918 | 246,810,140 | 5,008,291,231 |
| Additions | - | - | 8,208,739 | 4,074,552 | 12,283,291 |
| Disposals | - | - | (810,400) | - | (810,400) |
| Reclassification | - | - | 2,195,000 | (2,195,000) | - |
| Balance as of December 31, 2020 | \$1,106,417,035 | 1,446,436,138 | 2,218,221,257 | 248,689,692 | 5,019,764,122 |
| Accumulated depreciation and impairment: | | | | | |
| Balance as of January 1, 2021 | \$ - | 1,123,674,319 | 2,121,110,450 | 235,091,984 | 3,479,876,753 |
| Depreciation | - | 17,741,083 | 26,516,019 | 3,147,833 | 47,404,935 |
| Disposals | - | - | (7,297,465) | (257,000) | (7,554,465) |
| Balance as of December 31, 2021 | \$ - | 1,141,415,402 | 2,140,329,004 | 237,982,817 | 3,519,727,223 |
| Balance as of January 1, 2020 | \$ - | 1,105,461,184 | 2,093,437,499 | 230,849,661 | 3,429,748,344 |
| Depreciation | - | 18,213,135 | 28,483,351 | 4,242,323 | 50,938,809 |

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

| | | | | | |
|---------------------------------|------------------------|----------------------|----------------------|--------------------|----------------------|
| Disposals | - | - | (810,400) | - | (810,400) |
| Balance as of December 31, 2020 | <u>\$ -</u> | <u>1,123,674,319</u> | <u>2,121,110,450</u> | <u>235,091,984</u> | <u>3,479,876,753</u> |
| Book value: | | | | | |
| December 31, 2021 | <u>\$1,106,417,035</u> | <u>305,853,500</u> | <u>91,608,033</u> | <u>15,951,375</u> | <u>1,519,829,943</u> |
| January 1, 2020 | <u>\$1,106,417,035</u> | <u>340,974,954</u> | <u>115,190,419</u> | <u>15,960,479</u> | <u>1,578,542,887</u> |
| December 31, 2020 | <u>\$1,106,417,035</u> | <u>322,761,819</u> | <u>97,110,807</u> | <u>13,597,708</u> | <u>1,539,887,369</u> |

Please refer to Note 8 for details of property, plant, and equipment pledged as collateral.

(VIII) Right-of-use asset

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

| | <u>Buildings</u> |
|---|----------------------|
| Cost of right-of-use asset: | |
| Balance as of January 1, 2021 (i.e., balance as of December 31) | <u>\$ 19,741,680</u> |
| Balance as of January 1, 2020 (i.e., balance as of December 31) | <u>\$ 19,741,680</u> |
| Accumulated depreciation and impairment losses: | |
| Balance as of January 1, 2021 | \$ 6,580,560 |
| Provision for depreciation | <u>3,290,280</u> |
| Balance as of December 31, 2021 | <u>\$ 9,870,840</u> |
| Balance as of January 1, 2020 | \$ 3,290,280 |
| Provision for depreciation | <u>3,290,280</u> |
| Balance as of December 31, 2020 | <u>\$ 6,580,560</u> |
| Book value: | |
| December 31, 2021 | <u>\$ 9,870,840</u> |
| January 1, 2020 | <u>\$ 16,451,400</u> |
| December 31, 2020 | <u>\$ 13,161,120</u> |

(IX) Investment properties

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

| | <u>Land and improvement</u> | <u>Buildings</u> | <u>Total</u> |
|---|-----------------------------|-------------------|----------------------|
| Cost or deemed cost: | | | |
| Balance as of January 1, 2021 | <u>\$2,122,918,103</u> | <u>25,004,535</u> | <u>2,147,922,638</u> |
| Balance as of December 31, 2021 | <u>\$2,122,918,103</u> | <u>25,004,535</u> | <u>2,147,922,638</u> |
| Balance as of January 1, 2020 | \$1,038,553,654 | 8,477,500 | 1,047,031,154 |
| Additions | <u>1,084,364,449</u> | <u>16,527,035</u> | <u>1,100,891,484</u> |
| Balance as of December 31, 2020 | <u>\$2,122,918,103</u> | <u>25,004,535</u> | <u>2,147,922,638</u> |
| Accumulated depreciation and impairment losses: | | | |

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

| | | | |
|---------------------------------|------------------------|-------------------|------------------------|
| Balance as of January 1, 2021 | \$ - | 3,131,020 | 3,131,020 |
| Depreciation | - | <u>3,789,759</u> | <u>3,789,759</u> |
| Balance as of December 31, 2021 | <u>\$ -</u> | <u>6,920,779</u> | <u>6,920,779</u> |
| Balance as of January 1, 2020 | \$ - | 1,813,266 | 1,813,266 |
| Depreciation | - | <u>1,317,754</u> | <u>1,317,754</u> |
| Balance as of December 31, 2020 | <u>\$ -</u> | <u>3,131,020</u> | <u>3,131,020</u> |
| Book value: | | | |
| December 31, 2021 | <u>\$2,122,918,103</u> | <u>18,083,756</u> | <u>2,141,001,859</u> |
| January 1, 2020 | <u>\$1,038,553,654</u> | <u>6,664,234</u> | <u>1,045,217,888</u> |
| December 31, 2020 | <u>\$2,122,918,103</u> | <u>21,873,515</u> | <u>2,144,791,618</u> |
| Fair value: | | | |
| December 31, 2021 | | | <u>\$6,621,698,470</u> |
| January 1, 2020 | | | <u>\$2,861,892,550</u> |
| December 31, 2020 | | | <u>\$4,457,572,250</u> |

Investment property includes land that has been leased out as carpark without contingent rent. Please refer to Note 6 (14) for details (including rental income and direct operating expenses incurred).

For the Company's purchase of land and buildings from related parties in 2020, please refer to Note 7 for details.

Investment properties outstanding as at December 31, 2021 and 2020, are measured at fair value on a recurring basis. The Company assesses fair value in its sole capacity using comparable real estate transaction information in similar locations. These fair value assessment techniques make use of level 3 inputs.

Please refer to Note 8 for details of investment property pledged as collateral.

(X) Other current assets

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|----------------------------|----------------------|-------------------|
| Prepaid insurance premiums | \$ 107,956 | 116,107 |
| Supplies inventory count | 15,314,572 | 13,671,824 |
| Prepaid purchases | 5,829 | 5,101 |
| Tax credit | 4,524,673 | 552,761 |
| Others | <u>250,864</u> | <u>217,703</u> |
| | <u>\$ 20,203,894</u> | <u>14,563,496</u> |

(XI) Short-term loans

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

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|---------------------|-------------------------|----------------------|
| Loans under L/C | \$ 722,340,870 | 322,722,585 |
| Secured bank loan | <u>2,510,000,000</u> | <u>2,500,000,000</u> |
| Total | <u>\$ 3,232,340,870</u> | <u>2,822,722,585</u> |
| Unused limit | <u>\$ 217,659,130</u> | <u>627,277,415</u> |
| Interest rate range | <u>1.45%~1.92%</u> | <u>0.83%~1.50%</u> |

For details on bank loans secured by the Company's assets, please see Note 8.

(XII) Other current liabilities

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|---|---------------------|-------------------|
| Unearned revenues | \$ 190,475 | 190,475 |
| Sales proceeds in advance - contractual liabilities | 6,982,486 | 2,679,466 |
| Others | <u>125,491</u> | <u>114,269</u> |
| | <u>\$ 7,298,452</u> | <u>2,984,210</u> |

(XIII) Long-term loans

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

| <u>2021.12.31</u> | | | | |
|--------------------------------------|-----------------|--------------------------------|--------------------------|-----------------------|
| | <u>Currency</u> | <u>Interest rate range</u> | <u>Maturity date</u> | <u>Amount</u> |
| Secured bank loan | NTD | 1.8% | 2030.10.23 | \$ 700,000,000 |
| Less: Portion due within one year | | | | <u>-</u> |
| Total | | | | <u>\$ 700,000,000</u> |
| Unused limit | | | | <u>\$ -</u> |

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

1. For details on bank loans secured by the Company's assets, please see Note 8.

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

2. The Company and the financial institution agree that the first three years of the loan period (September 2020 to September 2023) is a grace period. During the grace period, only interest needs to be paid, and no principal is required to be repaid.

(XIV) Operating leases

1. As a lessee

The Company rents office space from related parties in the form of operating lease; please refer to Note 7 for details.

2. As a lessor

The Company leases out its investment properties and some machinery. Since almost all risks and rewards belonging to the ownership of the underlying asset have not been transferred and paid, these lease contracts are classified as operating leases. For details please refer to Note 6 (9), Investment Properties.

Rental income from investment properties amounted to NTD 32,776,266 in 2021 and NTD 8,386,776 in 2020, both of which were presented in operating revenues. Maintenance and servicing expenses incurred on investment properties amounted to NTD 10,168,173 in 2021 and NTD 6,546,940 in 2020, both of which were presented in operating costs.

(XV) Employee benefits

1. Defined benefit plan

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|--|----------------------|---------------------|
| Present value of defined benefit obligations | \$ 125,585,966 | 126,725,675 |
| Fair value of plan assets | <u>(83,577,790)</u> | <u>(84,331,416)</u> |
| Net defined benefit liabilities | <u>\$ 42,008,176</u> | <u>42,394,259</u> |

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

(1) Composition of plan assets

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

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

As of the reporting date, balance of the Company's labor pension reserve account at Bank of Taiwan totaled NTD 85,998,385. Please visit the BLF website for more details such as fund yield and allocation of fund assets.

(2) Changes in present value of defined benefit obligations

Changes in present value of defined benefit obligations for 2021 and 2020 are explained below:

| | <u>2021</u> | <u>2020</u> |
|--|------------------------------|---------------------------|
| Defined benefit obligations as at January 1 | \$ 126,725,675 | 139,148,896 |
| Service cost and interest in the current period | 1,587,224 | 2,490,716 |
| Remeasurement of net defined benefit liabilities (assets) | | |
| - Actuarial gains/losses due to adjustment by experience | 5,218,094 | (2,587,863) |
| - Actuarial gains/losses due to change of financial assumption | 2,801,848 | 3,881,810 |
| Amount of direct payment | <u>(10,746,875)</u> | <u>(16,207,884)</u> |
| Defined benefit obligations as at December 31 | <u>\$ 125,585,966</u> | <u>126,725,675</u> |

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

Changes in the fair value of defined benefit plan assets in 2021 and 2020 are explained below:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------------|--------------------------|
| Fair value of plan assets as at January 1 | \$ 84,331,416 | 96,033,720 |
| Remeasurement of net defined benefit liabilities (assets) | | |
| - Return on plan assets (excluding current period interest) | 1,178,969 | 3,008,749 |
| Amount contributed to the plan | 8,307,051 | 562,875 |
| Expected return on plan assets | 507,229 | 933,956 |
| Benefits paid from plan | <u>(10,746,875)</u> | <u>(16,207,884)</u> |
| Fair value of plan assets as at December 31 | <u>\$ 83,577,790</u> | <u>84,331,416</u> |

(4) Expenses recognized in profit and loss

Details of expenses recognized for 2021 and 2020 are presented below:

| | <u>2021</u> | <u>2020</u> |
|---|----------------|----------------|
| Current period service costs | \$ 816,715 | 1,128,436 |
| Net interest on net defined benefit liabilities | <u>263,280</u> | <u>428,324</u> |

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

| | | |
|---------------------|---------------------|------------------|
| | <u>\$ 1,079,995</u> | <u>1,556,760</u> |
| Operating costs | \$ 915,763 | 1,171,034 |
| Management expenses | <u>164,232</u> | <u>385,726</u> |
| | <u>\$ 1,079,995</u> | <u>1,556,760</u> |

(5) Remeasurement of net defined benefit obligations recognized in other comprehensive income

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

| | <u>2021</u> | <u>2020</u> |
|---|------------------------|---------------------|
| Cumulative balance as of January 1 | \$ (31,399,749) | (33,114,551) |
| Amount recognized in the current period | <u>(6,840,973)</u> | <u>1,714,802</u> |
| Cumulative Balance as of December 31 | <u>\$ (38,240,722)</u> | <u>(31,399,749)</u> |

(6) Actuarial assumptions

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|------------------------|-------------------|-------------------|
| Discount rate | 0.625% | 0.625% |
| Future salary increase | 1.000% | 1.000% |

The Company expects to contribute NTD 454,932 to the defined benefit plan within one year from the 2021 reporting date.

The defined benefit plan has a weighted average duration of 10.47 years.

(7) Sensitivity analysis

The following shows impact of changes in actuarial assumption on the present value of defined benefit obligations as at December 31, 2021 and 2020:

| | Effect of (gains) losses to defined benefit obligations | |
|--|--|-----------------|
| | <u>Increase</u> | <u>Decrease</u> |
| December 31, 2021 | | |
| Discount rate (change by 0.25%) | \$ (2,523,203) | 2,605,098 |
| Future salary increase (change by 0.25%) | 2,497,137 | (2,431,489) |
| December 31, 2020 | | |
| Discount rate (change by 0.25%) | (2,609,078) | 2,696,809 |
| Future salary increase (change by 0.25%) | 2,587,127 | (2,516,130) |

The above sensitivity analysis assumes changes to one variable at a time while keeping all other variables constant. In reality, however, multiple assumptions may change at the same time and are related to each other. The sensitivity analysis was conducted

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

using the same method as how net pension liabilities are presented in the balance sheet.

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

2. Defined contribution plan

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

Pension expenses recognized for the Company's defined contribution plan in 2021 and 2020 amounted to NTD 4,593,734 and NTD 4,426,167, respectively and have been contributed to the Bureau of Labor Insurance.

3. Short-term employee benefits

Below are details of employee benefit liabilities:

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|---|---------------------|-------------------|
| Paid leave of absence (presented as other payables) | <u>\$ 6,513,878</u> | <u>6,309,792</u> |

(XVI) Income tax

1. Income tax expense

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

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|------------------|
| Income tax expense for the current period -- Incurred \$ | 20,452,288 | 1,709,159 |
| in the current period | | |
| Deferred income tax expense | - | - |
| Income tax expense | <u>\$ 20,452,288</u> | <u>1,709,159</u> |

The Company had no income tax expense recognized through equity or other comprehensive income in 2021 and 2020.

Reconciliation of income tax expense and pre-tax profit (loss) for 2021 and 2020 is explained below:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|---------------------|
| Profit (loss) before tax | <u>\$ 62,568,800</u> | <u>(31,084,756)</u> |
| Income tax calculated by applying local tax rate of the \$ | 12,513,760 | (6,216,951) |
| country where the Company is located | | |
| Non-deductible expenses | 1,485,234 | 197,797 |
| Exempt income | (3,959,670) | (4,212,891) |
| Effect of investment losses (gains) recognized using | (1,684,531) | 147,642 |
| the equity method | | |
| Current tax losses not recognized as deferred income | (10,818,988) | 23,881,736 |

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

| | | |
|---|----------------------|------------------|
| tax asset | | |
| Changes in temporary difference not recognized as deferred income tax asset | (1,495,475) | (18,010,224) |
| Dividend income not eligible for loss deduction | 3,959,670 | 4,212,891 |
| Undistributed surplus earnings plus tax | - | 1,709,159 |
| Basic income tax amount | 20,452,288 | - |
| Income tax expense | <u>\$ 20,452,288</u> | <u>1,709,159</u> |

2. Deferred income tax assets and liabilities

(1) Items not recognized as deferred income tax asset

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

| | | |
|----------------------------------|-----------------------|----------------------|
| | <u>2021.12.31</u> | <u>2020.12.31</u> |
| Deductible temporary differences | \$ 84,854,403 | 86,349,878 |
| Tax losses | <u>856,326,093</u> | <u>923,477,909</u> |
| | <u>\$ 941,180,496</u> | <u>1,009,827,787</u> |

Tax losses, as defined in the Income Tax Act, are losses certified by the tax authority in the last 10 years that can be taken to reduce current year's taxable income. The Company had assessed the amount of deductible losses and deductible temporary differences as at December 31, 2021 by estimating its ability to generate taxable income in future years. Since the Company is not very likely to offset deductible losses against taxable income, the Company has decided not to recognize deferred income tax asset but will do so if revenues, profits and taxable income increase in the future.

Tax losses not recognized as deferred income tax asset and expiry as of December 31, 2021 are as follows:

| <u>Year of loss</u> | <u>Losses not yet deducted</u> | <u>Final year available for deduction</u> |
|---------------------|--------------------------------|---|
| 2012 | \$ 799,881,006 | 2022 |
| 2013 | 630,414,477 | 2023 |
| 2014 | 408,627,351 | 2024 |
| 2015 | 412,763,244 | 2025 |
| 2016 | 454,038,427 | 2026 |
| 2017 | 300,896,195 | 2027 |
| 2018 | 866,931,041 | 2028 |
| 2019 | 214,049,807 | 2029 |
| 2020 | <u>194,028,917</u> | 2030 |
| Total | <u>\$ 4,281,630,465</u> | |

(2) Recognized deferred income tax liabilities

Changes in deferred income tax liabilities in 2021 and 2020 are explained below:

Land value
increment tax

Deferred income tax liabilities:

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

| | |
|--|------------------------------|
| Balance as of January 1, 2021 | \$ 210,632,330 |
| Debit (credit) to profit and loss | - |
| Balance as of December 31, 2021 | <u>\$ 210,632,330</u> |
| Balance as of January 1, 2020 | \$ 210,632,330 |
| Debit (credit) to profit and loss | - |
| Balance as of December 31, 2020 | <u>\$ 210,632,330</u> |

3. Verified income tax expense

The Company's profit-seeking enterprise income tax returns for the years through 2019 were examined and approved by the tax authority.

(XVII) Capital and other equity items

1. Common share capital

The Company had authorized capital of NTD 5,800,000,000 as at December 31, 2021 and 2020, available in 580,000,000 shares at a par value of NTD 10. A total of 200,852,293 common shares had been issued and 200,852,293 shares remained outstanding net of treasury stock on both two dates. All issued shares were fully paid up.

2. Capital reserve

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

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|----------------|----------------------|-------------------|
| Treasury stock | <u>\$ 75,159,101</u> | <u>75,159,101</u> |

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

3. Retained earnings

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

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

(1) Legal reserve

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

(2) Special reserve

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

(3) Earnings appropriation

Appropriation of 2020 and 2019 earnings was passed during the shareholder meetings held on August 26, 2021 and June 19, 2020, respectively and no dividends were resolved in either year.

4. Other equity items (net, after tax)

| | Investments at fair value through other comprehensive income |
|---|---|
| Balance as of January 1, 2021 | \$ 243,713,136 |
| Unrealized gains (losses) on financial assets at fair value through other comprehensive income: | |
| The Company | 161,638,217 |
| Associated companies | 568,484 |
| Disposal of equity instruments at fair value through other comprehensive income: | |
| The Company | (170,935,739) |
| Associated companies | (23,999,455) |
| Balance as of December 31, 2021 | \$ 210,984,643 |
| Balance as of January 1, 2020 | \$ (81,209,398) |
| Unrealized gains (losses) on financial assets at fair value through other comprehensive income: | |
| The Company | 240,892,281 |
| Associated companies | 117,675,737 |
| Disposal of equity instruments at fair value through other comprehensive income: | |
| The Company | (26,711,940) |

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

| | |
|---------------------------------|-----------------------|
| Associated companies | (6,933,544) |
| Balance as of December 31, 2020 | <u>\$ 243,713,136</u> |

(XVIII) Earnings per share

Calculation of basic and diluted earnings per share for 2021 and 2020 is explained below:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|---------------------|
| 1. Basic earnings per share | | |
| Net profit (loss) attributable to common shareholders of the Company | <u>\$ 42,116,512</u> | <u>(32,793,915)</u> |
| The weighted average number of ordinary shares outstanding (unit: shares) | <u>200,852,293</u> | <u>200,852,293</u> |
| | <u>\$ 0.21</u> | <u>(0.16)</u> |
| 2. Diluted earnings per share | | |
| Net profit (loss) attributable to common shareholders of the Company | <u>\$ 42,116,512</u> | <u>(32,793,915)</u> |
| The weighted average number of ordinary shares outstanding (unit: shares) | 200,852,293 | 200,852,293 |
| Employee stock bonus | <u>16,441</u> | <u>-</u> |
| The weighted average number of ordinary shares outstanding (unit: shares) (After adjusting for impact of dilutive potential ordinary shares) | <u>200,868,734</u> | <u>200,852,293</u> |
| | <u>\$ 0.21</u> | <u>(0.16)</u> |

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

(XIX) Revenue from contracts with customers

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|-------------------------|--------------------|
| Sale of merchandise | \$ 1,517,847,995 | 954,123,645 |
| Rent income from investment property | <u>32,776,266</u> | <u>8,386,776</u> |
| | <u>\$ 1,550,624,261</u> | <u>962,510,421</u> |

1. Details of revenue

| | <u>2021</u> | | |
|---------------------------|------------------------------|---------------|---------------|
| | <u>Steel Pipe Department</u> | <u>Others</u> | <u>Total</u> |
| Main regions and markets: | | | |
| Taiwan | \$ 1,263,394,801 | 225,058,405 | 1,488,453,206 |
| North America | 61,086,427 | - | 61,086,427 |

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

| | | | |
|------------------------|--------------------------------|---------------------------|-----------------------------|
| Northeast Asia | 1,084,628 | - | 1,084,628 |
| | <u>\$ 1,325,565,856</u> | <u>225,058,405</u> | <u>1,550,624,261</u> |
| Key products/services: | | | |
| Steel pipes | \$ 1,325,565,856 | - | 1,325,565,856 |
| Steel coils | - | 192,282,139 | 192,282,139 |
| Rental income | - | <u>32,776,266</u> | <u>32,776,266</u> |
| | <u>\$ 1,325,565,856</u> | <u>225,058,405</u> | <u>1,550,624,261</u> |

| | 2020 | | |
|---------------------------|---|--------------------------|---------------------------|
| | <u>Steel Pipe Department</u> | <u>Others</u> | <u>Total</u> |
| Main regions and markets: | | | |
| Taiwan | \$ 878,542,298 | 70,329,146 | 948,871,444 |
| North America | 6,256,068 | - | 6,256,068 |
| Northeast Asia | <u>7,382,909</u> | <u>-</u> | <u>7,382,909</u> |
| Total | <u>\$ 892,181,275</u> | <u>70,329,146</u> | <u>962,510,421</u> |
| Key products/services: | | | |
| Steel pipes | \$ 892,181,275 | - | 892,181,275 |
| Steel coils | - | 61,942,370 | 61,942,370 |
| Rental income | - | <u>8,386,776</u> | <u>8,386,776</u> |
| Total | <u>\$ 892,181,275</u> | <u>70,329,146</u> | <u>962,510,421</u> |

2. Contract balances

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|---|-----------------------------|---------------------------|
| Accounts receivable | \$ 96,356,522 | 105,316,666 |
| Less: loss provisions | <u>-</u> | <u>-</u> |
| Total | <u>\$ 96,356,522</u> | <u>105,316,666</u> |
| Contractual liabilities - sales proceeds in advance | <u>\$ 6,982,486</u> | <u>2,679,466</u> |

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

NTD 2,651,810 and NTD 1,351,029 of opening contractual liabilities as at January 1, 2021 and 2020, were later recognized as income for 2021 and 2020, respectively.

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

(XX) Remuneration of employees and directors

Pursuant to the Articles of Incorporation, profits concluded from a financial year are subject

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

to employee remuneration of no less than 0.5% and director remuneration of no more than 5%. However, profits must first be taken to offset against cumulative losses if any.

The Company's estimated employee compensation for 2021 was NTD 328,000 thousand and estimated directors' remuneration was NTD 0. These estimated amounts are calculated based on the net profit before tax excluding the remuneration to employees and directors as stipulated in the Company's Articles of Incorporation, multiplied by the percentage of remuneration to employees. These remunerations are based on estimates and have been presented as operating expenses for the period.

The Company reported pre-tax losses in 2020, hence no remuneration was provided for employees or directors. Details of employee/director remuneration for 2021 and 2020 can be found on the Market Observation Post System.

(XXI) Non-operating income and expense

1. Interest income

Details of interest income recognized in 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-----------------------------|--------------------------|-----------------------|
| Interest from bank deposits | \$ 74,251 | 91,975 |
| Other interest income | 31,200 | 41,600 |
| | <u>\$ 105,451</u> | <u>133,575</u> |

2. Other income

Details of other income recognized in 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------------|-----------------------------|--------------------------|
| Rental income | \$ 228,868 | 228,967 |
| Dividend income | 31,209,496 | 56,669,166 |
| Income from disposal of waste tires | 2,668,073 | 1,969,000 |
| Other income - others | 6,174,900 | 5,116,245 |
| Income from government subsidies | - | 20,906,507 |
| | <u>\$ 40,281,337</u> | <u>84,889,885</u> |

3. Other gains and losses

Details of other gains and losses incurred in 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------------------|---------------------------|
| Net gain (loss) on currency exchange | \$ 823,503 | (546,786) |
| Losses from disposal of property, plant and equipment | (29,955) | - |
| Soil pollution remediation expense | (25,771,854) | - |
| Tax and others | (1,871,003) | (5,012,527) |
| | <u>\$ (26,849,309)</u> | <u>(5,559,313)</u> |

4. Finance costs

Details of financial costs recognized in 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------------------|----------------------------|
| Interest expense - interest on bank borrowings | <u>\$ (56,353,471)</u> | <u>(41,189,719)</u> |

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

(XXII) Financial instruments

1. Credit risk

(1) Credit risk exposure

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

(2) Concentration of credit risk

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

(3) Credit risk of receivables

For credit risk information on accounts receivable, please refer to Note 6 (3). Other financial assets carried at cost after amortization include other notes receivable, other receivables, and guarantee deposits paid.

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

| 2021.12.31 | | | | |
|---|--|---|---|-------------------|
| | 12-month expected credit loss | At cost after amortization | | Total |
| | | Expected losses over duration - not impaired | Expected losses over duration - impaired | |
| Other notes and \$ accounts receivable | - | 28,822,534 | 470,460 | 29,292,994 |
| Guarantee deposits paid | 5,830,867 | - | - | 5,830,867 |
| Loss provisions | - | - | (470,460) | (470,460) |
| Cost after amortization | \$ 5,830,867 | 28,822,534 | - | 34,653,401 |
| Book value | \$ 5,830,867 | 28,822,534 | - | 34,653,401 |

| 2020.12.31 | | | | |
|---|--|---|---|--------------|
| | 12-month expected credit loss | At cost after amortization | | Total |
| | | Expected losses over duration - not impaired | Expected losses over duration - impaired | |
| Other notes and \$ accounts receivable | - | 18,026,513 | 470,460 | 18,496,973 |

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

| | | | | |
|-------------------------|---------------------|-------------------|-----------|-------------------|
| Guarantee deposits paid | 9,466,537 | - | - | 9,466,537 |
| Loss provisions | - | - | (470,460) | (470,460) |
| Cost after amortization | <u>\$ 9,466,537</u> | <u>18,026,513</u> | <u>-</u> | <u>27,493,050</u> |
| Book value | <u>\$ 9,466,537</u> | <u>18,026,513</u> | <u>-</u> | <u>27,493,050</u> |

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

| | 2021 | | | |
|-----------------|--|---|---|----------------|
| | 12-month expected credit loss | Credit loss over duration - not credit- impaired | Credit loss over duration - credit- impaired | Total |
| Opening balance | \$ - | - | 470,460 | 470,460 |
| Closing balance | <u>\$ -</u> | <u>-</u> | <u>470,460</u> | <u>470,460</u> |

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

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

2. Liquidity risk

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

| | <u>Book value</u> | <u>Contractual cash flow</u> | <u>Below 6 months</u> | <u>6-12 months</u> | <u>1-2 years</u> | <u>2-5 years</u> | <u>More than 5 years</u> |
|--|------------------------|------------------------------|------------------------|------------------------|---------------------|----------------------|--------------------------|
| December 31, 2021 | | | | | | | |
| Non-derivative instruments | | | | | | | |
| Short-term loans (floating rate) | \$3,232,340,870 | (3,260,779,069) | (1,236,654,959) | (2,024,124,110) | - | - | - |
| Notes payable (non-interest bearing) | 28,383,843 | (28,383,843) | (28,383,843) | - | - | - | - |
| Other notes payable (non-interest bearing) | 12,878,056 | (12,878,056) | (12,878,056) | - | - | - | - |
| Accounts payable (non-interest bearing) | 39,757,973 | (39,757,973) | (39,757,973) | - | - | - | - |
| Other payables (non-interest bearing) | 56,738,395 | (56,738,395) | (56,738,395) | - | - | - | - |
| Guarantee deposits paid (non-interest bearing) | 5,040,000 | (5,040,000) | - | (40,000) | - | (5,000,000) | - |
| Long-term loan (floating rate) | 700,000,000 | (766,668,009) | (6,300,000) | (6,300,000) | (45,084,884) | (321,373,260) | (387,609,865) |
| | <u>\$4,075,139,137</u> | <u>(4,170,245,345)</u> | <u>(1,380,713,226)</u> | <u>(2,030,464,110)</u> | <u>(45,084,884)</u> | <u>(326,373,260)</u> | <u>(387,609,865)</u> |
| December 31, 2020 | | | | | | | |
| Non-derivative instruments | | | | | | | |
| Short-term loans (floating rate) | \$2,822,722,585 | (2,851,609,879) | (775,318,783) | (2,076,291,096) | - | - | - |
| Notes payable (non-interest bearing) | 20,279,699 | (20,279,699) | (20,279,699) | - | - | - | - |
| Other notes payable (non-interest bearing) | 7,560,858 | (7,560,858) | (7,560,858) | - | - | - | - |
| Accounts payable (non-interest bearing) | 21,732,568 | (21,732,568) | (21,732,568) | - | - | - | - |
| Other payables (non-interest bearing) | 54,980,378 | (54,980,378) | (54,980,378) | - | - | - | - |
| Guarantee deposits paid (non-interest bearing) | 5,040,000 | (5,040,000) | - | (40,000) | - | (5,000,000) | - |
| Long-term loan (floating rate) | 700,000,000 | (779,268,009) | (6,300,000) | (6,300,000) | (12,600,000) | (261,091,863) | (492,976,146) |
| | <u>\$3,632,316,088</u> | <u>(3,740,471,391)</u> | <u>(886,172,286)</u> | <u>(2,082,631,096)</u> | <u>(12,600,000)</u> | <u>(266,091,863)</u> | <u>(492,976,146)</u> |

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

3. Exchange rate risk

(1) Exposure to exchange rate risk

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

| | <u>2021.12.31</u> | | | <u>2020.12.31</u> | | |
|------------------------------|-------------------------------|----------------------|------------|-------------------------------|----------------------|------------|
| | <u>Foreign currency (NTD)</u> | <u>Exchange rate</u> | <u>NTD</u> | <u>Foreign currency (NTD)</u> | <u>Exchange rate</u> | <u>NTD</u> |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary item</u> | | | | | | |
| USD | \$ 887,077.45 | 27.68 | 24,277,504 | 222,133.17 | 28.48 | 6,326,353 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary item</u> | | | | | | |
| USD | 343,657.74 | 27.68 | 9,512,446 | - | - | - |
| JPY | - | - | - | 2,297,400 | 0.2763 | 634,772 |

(2) Sensitivity analysis

The Company's exchange rate risk arises primarily from the conversion of cash, cash

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

equivalents, accounts receivable, and loans denominated in foreign currencies.

Conversion of foreign currency-denominated amounts gives rise to gains/losses on exchange. As of December 31, 2021 and 2020, if the New Taiwan dollar would depreciate or appreciate 4% relative to the U.S. dollar or Japanese yen and all other factors remained unchanged, the net profit after tax in 2021 would decrease or increase by NTD 472,482 and the net loss after tax in 2020 would increase or decrease by NTD 182,130. Analyses for the two periods were conducted on the same basis.

Since the Company's functional currency is New Taiwan dollars, the foreign currency exchange gains and losses (including realized and unrealized) for 2021 and 2020 were a gain of NTD 823,503 and a loss of NTD 546,786, respectively.

4. Interest rate analysis

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

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

If interest rate increased/decreased by 50 basis points while other variables remained unchanged, the Company's net profit after tax in 2021 would decrease/increase by NTD 15,729,363 and the net loss after tax in 2020 would increase/decrease by NTD 14,090,890. These potential changes would be primarily the result of the Company's floating-interest rate loans.

5. Other market price risk

| Price of security on reporting date | 2021 | | 2020 | |
|-------------------------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | Other comprehensive income after tax | After-tax profit/loss | Other comprehensive income after tax | After-tax profit/loss |
| Increasing 10% | \$ 80,407,435 | - | 72,074,872 | - |
| Decreasing 10% | \$ (80,704,435) | - | (72,074,872) | - |

6. Fair value of financial instruments

(1) Fair value hierarchy

Financial liabilities at fair value through profit and loss and financial assets at fair

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

value through other comprehensive income are measured at fair value on a recurring basis. Book value and fair value of financial assets and liabilities are shown below (categorized by level of fair value input; however, the Company is not required to disclose fair value for financial instruments that are not subject to fair value assessment and where the book value resembles the fair value):

| | Book value Amount | 2021.12.31 | | | Total |
|--|-------------------------------|-------------|---------|-------------|-------------|
| | | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through other comprehensive income | | | | | |
| TWSE/TPEX listed shares | \$ 804,074,350 | 804,074,350 | - | - | 804,074,350 |
| Non-listed domestic and foreign shares | <u>973,059,079</u> | - | - | 973,059,079 | 973,059,079 |
| | <u>\$1,777,133,429</u> | | | | |
| Financial assets carried at cost after amortization | | | | | |
| Cash and cash equivalents | \$ 559,241,492 | - | - | - | - |
| Notes and accounts receivable | 96,356,522 | - | - | - | - |
| Other notes and accounts receivable | 28,822,534 | - | - | - | - |
| Guarantee deposits paid | <u>5,830,867</u> | - | - | - | - |
| | <u>\$ 690,251,415</u> | | | | |
| Financial liabilities carried at cost after amortization | | | | | |
| Bank loan | \$3,932,340,870 | - | - | - | - |
| Notes and accounts payable | 68,141,816 | - | - | - | - |
| Other notes and accounts payable | 69,616,451 | - | - | - | - |
| Guarantee deposits received | <u>5,040,000</u> | - | - | - | - |
| | <u>\$4,075,139,137</u> | | | | |
| 2020.12.31 | | | | | |
| | Book value Amount | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through other comprehensive income | | | | | |
| TWSE/TPEX listed shares | \$ 720,748,721 | 720,748,721 | - | - | 720,748,721 |
| Non-listed domestic and foreign shares | <u>982,020,430</u> | - | - | 982,020,430 | 982,020,430 |
| | <u>\$1,702,769,151</u> | | | | |
| Financial assets carried at cost after amortization | | | | | |
| Cash and cash equivalents | \$ 275,370,315 | - | - | - | - |
| Accounts receivable | 105,316,666 | - | - | - | - |
| Other notes and accounts receivable | 18,026,513 | - | - | - | - |
| Guarantee deposits paid | <u>9,466,537</u> | - | - | - | - |
| | <u>\$ 408,180,031</u> | | | | |
| Financial liabilities carried at cost after amortization | | | | | |
| Bank loan | \$3,522,722,585 | - | - | - | - |
| Notes and accounts payable | 42,012,267 | - | - | - | - |
| Other notes and accounts payable | 62,541,236 | - | - | - | - |
| Guarantee deposits received | <u>5,040,000</u> | - | - | - | - |
| | <u>\$3,632,316,088</u> | | | | |

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

Level 1: Open market quotation (unadjusted) for the same asset or liability.

Level 2: Inputs/parameters that are directly observable (i.e. price) or indirectly

observable (i.e. inferred from price), other than level 1 inputs (open market quotation).

Level 3: Market inputs/parameters that are not observable (non-observable parameters).

(3) Valuation techniques for financial instruments not measured at fair value

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

(4) Valuation techniques for financial instruments measured at fair value

(4.1) Non-derivative financial instruments

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

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

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

Fair value of equity instruments without public quotation held on hand is estimated using the market comparable company approach, which takes into account an investee's net equity and price-to-book multiple of comparable TWSE/TPEX listed company inferred from market quotation. This estimate has already been adjusted and discounted for equity security's lack of marketability.

(4.2) Derivative financial instruments

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

(5) Transfers between Level 1 and Level 2

There had been no change in levels of fair value input when assessing financial instruments in 2021 and 2020.

(6) Reconciliation of Level 3 fair values

| | At fair value through other comprehensive income | |
|--|---|--------------------|
| | Equity instruments without open quotation | |
| Balance as of January 1, 2021 | \$ | 982,020,430 |
| Recognized in other comprehensive income | | (8,961,351) |
| Balance as of December 31, 2021 | \$ | 973,059,079 |
| Opening Balance as of January 1, 2020 | \$ | 873,963,758 |
| Recognized in other comprehensive income | | 97,737,658 |
| Reclassification | | (13,720,000) |
| Purchase | | 24,039,014 |
| Balance as of December 31, 2020 | \$ | 982,020,430 |

(7) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

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

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

Quantitative information of significant and unobservable inputs:

| <u>Item</u> | <u>Valuation technique</u> | <u>Significant and unobservable input</u> | <u>Relationship between fair value and significant and unobservable input</u> |
|--|----------------------------|--|---|
| Financial assets at fair value through other comprehensive income - equity instruments without active market | Market approach | Discount for lack of liquidity (17.5% for 2021.12.31 and 2020.12.31) | The higher discount for lack of liquidity, the lower the fair value |

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

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

| Through other comprehensive income | Input | Rate increasing or decreasing | Fair value changes reflected in other comprehensive income | |
|--|---------------------------------------|-------------------------------|--|---------------------|
| | | | Favorable variation | Adverse variation |
| Financial assets at fair value | | Change | | |
| December 31, 2021 | | | | |
| Equity instruments without active market | Discount for lack of liquidity: 17.5% | 1% | <u>\$11,794,118</u> | <u>(11,794,118)</u> |
| December 31, 2020 | | | | |
| Equity instruments without active market | Discount for lack of liquidity: 17.5% | 1% | <u>\$11,738,083</u> | <u>(11,738,083)</u> |

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

(XXIII) Financial risk management

1. Overview

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

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

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

2. Risk management framework

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

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

3. Credit risk

Credit risk refers to the risk of financial loss the Company may incur due to its customers or financial instrument counterparties being unable to fulfill contractual obligations. Credit risk

mainly arises from customers' accounts receivable and bank deposits.

(1) Accounts receivable and other accounts receivable

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

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

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

(2) Bank deposits

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

4. Liquidity risk

Liquidity risk is the risk of not being able to deliver cash or other financial assets to settle financial liabilities and failing to perform related obligations. Through management personnel, the Company supervises the use of bank financing limits to ensure sufficient funds and compliance with the terms of loan contracts. At the same time, we also conduct financing consultations with financial institutions to maintain certain credit lines and to reduce liquidity risk. Unused short-term bank limits as at December 31, 2021 and 2020 totaled NTD 217,659,130 and NTD 627,277,415, respectively.

5. Market risk

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

(1) Exchange rate risk

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

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

currencies such as NTD, USD, and JPY.

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

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

(2) Interest rate risk

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

(3) Equity instrument price risk

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

(XXIV) Capital management

Objectives of the Company's capital management practices are to ensure the ability to sustain operations, deliver shareholder returns, and perform in line with the interests of other stakeholders while maintaining optimal capital structure for minimal funding cost. The Company may maintain or adjust its capital structure by changing the amounts of dividend paid, reducing and refunding share capital back to shareholders, issuing new shares, or liquidating assets against liabilities.

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

Debt-to-capital ratio as at December 31, 2021 and 2020 is as follows:

| | <u>2021.12.31</u> | <u>2020.12.31</u> |
|---------------------------------|--------------------------------|-----------------------------|
| Total liabilities | \$ 4,357,239,542 | 3,890,036,046 |
| Less: Cash and cash equivalents | <u>559,241,492</u> | <u>275,370,315</u> |
| Net liabilities | <u>\$ 3,797,998,050</u> | <u>3,614,665,731</u> |

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

| | | |
|-----------------------|-------------------------|----------------------|
| Total equity interest | <u>\$ 2,969,640,169</u> | <u>2,772,157,929</u> |
| Gross capital | <u>\$ 6,767,638,219</u> | <u>6,386,823,660</u> |
| Debt-to-capital ratio | <u>56.12%</u> | <u>56.60%</u> |

There had been no change to the Company's capital management approach as at December 31, 2021.

(XXV) Non-cash investing and financing activities

Reconciliation of liabilities associated with financing activities is explained below:

| | <u>2021.1.1</u> | <u>Cash flow</u> | <u>Changes without cash effect Exchange rate changes</u> | <u>2021.12.31</u> |
|---|-------------------------|----------------------|--|----------------------|
| Short-term loan | \$ 2,822,722,585 | 409,688,391 | (70,106) | 3,232,340,870 |
| Long term borrowings | <u>700,000,000</u> | <u>-</u> | <u>-</u> | <u>700,000,000</u> |
| Total liabilities from financing activities | <u>\$ 3,522,722,585</u> | <u>409,688,391</u> | <u>(70,106)</u> | <u>3,932,340,870</u> |
| | <u>2020.1.1</u> | <u>Cash flow</u> | <u>Exchange rate changes</u> | <u>2020.12.31</u> |
| Short-term loan | \$ 2,398,131,396 | 424,414,391 | 176,798 | 2,822,722,585 |
| Long term borrowings | <u>-</u> | <u>700,000,000</u> | <u>-</u> | <u>700,000,000</u> |
| Total liabilities from financing activities | <u>\$ 2,398,131,396</u> | <u>1,124,414,391</u> | <u>176,798</u> | <u>3,522,722,585</u> |

VII. Related party transactions

(I) Names and relationship with related parties

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

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

| <u>Related parties</u> | <u>Relationship with the Company</u> |
|---|---|
| Kao Hsing Chang Iron & Steel Corp. Employee Welfare Committee | Employee welfare committee of the Company |
| Kao Hsing Smelting & Chemical Fiber Co., Ltd. | A company managed by key management personnel |
| ENRESTEC Inc. | A company managed by key management personnel |
| Sunward Refractories Co., Ltd. | Associated companies of the Company |

(II) Significant transactions with related parties

1. Income from sale of scrap

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|------------------|
| Kao Hsing Smelting & Chemical Fiber Co., Ltd. | <u>\$ 11,099,741</u> | <u>6,480,489</u> |

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

2. Leases

(1) The Company leases the office used by the headquarters from the Employee Welfare Committee of the Company, and the lease period is from January 1, 2015 to December 31, 2024. The payment method is a one-time payment of the rent during the lease period at the time of signing the contract.

Security deposits placed for the above lease were NTD 4,000,000 as at December 31, 2021 and 2020. As of December 31, 2021 and 2020, the balances of right-of-use assets were NTD 9,870,840 and NTD 13,161,120, respectively.

(2) The Company leased the plant in Zhuyuan Section, Renwu District, Kaohsiung City to Sunward Refractories Co., Ltd. in November 2020. The lease period is from November 2020 to November 2025. As of December 31, 2021 and 2020, the rental deposit collected for the aforementioned lease is NTD 5,000,000. The rental income recognized in 2021 and 2020 was NTD 28,608,567 and NTD 4,051,746 respectively. Operating income is reported in the consolidated income statement. As of December 31, 2021 and 2020, all receivables arising from the aforementioned transactions have been received.

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

3. Related party receivables

Details of related party receivables are shown below:

| <u>Account category</u> | <u>Type of related party</u> | <u>2021.12.31</u> | <u>2020.12.31</u> |
|-------------------------|---|-------------------|-------------------|
| Receivables | A company managed by key management personnel | <u>\$ 499,036</u> | <u>475,141</u> |

4. Others

- (1) The Company subscribed to the cash issue of Sunward Refractories Co., Ltd. in 2021 for a sum of NTD 45,200,000; all procedures relevant to the change of ownership have been completed.
- (2) The Company subscribed to the cash issue of ENRESTEC Inc. in September 2020 for a sum of NTD 21,362,202; all procedures relevant to the change of ownership have been completed.
- (3) For bank loans and their available limits as of December 31, 2021 and 2020, the primary management personnel of the Company served as the joint guarantors.

(III) Transactions involving key management personnel

Compensation to key management personnel includes the following:

| | <u>2021</u> | <u>2020</u> |
|------------------------------|----------------------|------------------|
| Short-term employee benefits | \$ 10,078,080 | 9,912,780 |
| Retirement benefits | 60,630 | 57,744 |
| Termination benefits | - | - |
| Other long-term benefits | - | - |
| Share-based payment | - | - |
| | <u>\$ 10,138,710</u> | <u>9,970,524</u> |

The Company provides vehicles for use by managerial personnel. As at December 31, 2021 and 2020, these vehicles had unimpaired balance of NTD 1,314,826 (NTD 11,270,000 cost less NTD 9,955,174 accumulated depreciation) and NTD 1,690,498 (NTD 11,270,000 cost less NTD 9,579,502 accumulated depreciation). NTD 375,672 and NTD 1,126,998 of depreciation expenses were recognized in 2021 and 2020, respectively. The Chairman has been assigned a driver, whose salary is determined according to the Company's Employee Salary Policy.

VIII. Pledged assets

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

| Name of asset | Collateral | 2021.12.31 | 2020.12.31 |
|--------------------------------|--------------------------------------|-------------------------|----------------------|
| Property, plant, and equipment | Short-term loans and long-term loans | \$ 959,595,740 | 1,259,847,975 |
| Investment property | Short-term loans and long-term loans | 1,765,680,183 | 667,744,054 |
| | | <u>\$ 2,725,275,923</u> | <u>1,927,592,029</u> |

IX. Major contingent liabilities and unrecognized contractual commitments

- (I) As at December 31, 2021 and 2020, the Company had respectively issued NTD 12,820,000 and NTD 10,550,000 of guarantee notes payable for the purchase of supplies.
- (II) As at December 31, 2021 and 2020, the Company had NTD 40,655,135 and NTD 73,331,779 of letters of credit that were issued but unused, respectively.
- (III) As at December 31, 2021 and 2020, the Company had signed sales commitments for NTD 25,226,040 and NTD 88,569,205 and placed performance bonds totaling NTD 1,624,367 and NTD 5,260,037, respectively, that were presented as performance bonds. Failure to deliver goods as agreed will be subject to penalties calculate at 0.1%-0.3% on the amount of goods undelivered for every day delayed.

X. Losses from major disasters: None.**XI. Major post-balance sheet events: None.****XII. Others**

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

| By function | 2021 | | | 2020 | | |
|---------------------------------|-----------------------------|--------------------------------|-------------|-----------------------------|--------------------------------|-------------|
| | Presented as operating cost | Presented as operating expense | Total | Presented as operating cost | Presented as operating expense | Total |
| Nature | | | | | | |
| Employee benefit expenses | | | | | | |
| Salary expenses | 80,212,162 | 31,793,220 | 112,005,382 | 78,248,662 | 34,317,186 | 112,565,848 |
| Labor/health insurance premium | 9,492,919 | 3,547,712 | 13,040,631 | 8,780,116 | 3,521,435 | 12,301,551 |
| Pension expense | 4,147,376 | 1,526,353 | 5,673,729 | 4,234,349 | 1,748,578 | 5,982,927 |
| Directors' compensation | - | 4,638,000 | 4,638,000 | - | 4,443,000 | 4,443,000 |
| Other employee benefit expenses | 5,630,512 | 2,029,614 | 7,660,126 | 3,368,253 | 1,342,793 | 4,711,046 |
| Depreciation | 48,096,048 | 6,388,926 | 54,484,974 | 48,309,022 | 7,237,821 | 55,546,843 |
| Amortization | - | - | - | - | - | - |

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

Additional information on employee size and employee benefit expenses for 2021 and 2020 is presented below:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|----------------|
| Employee count | <u>215</u> | <u>222</u> |
| No. of directors without concurrent position as employee | <u>6</u> | <u>6</u> |
| Average employee benefit expenses | <u>\$ 662,105</u> | <u>627,599</u> |
| Average employee salary expenses | <u>\$ 535,911</u> | <u>521,138</u> |
| Adjustments to average employee salary expenses | <u>2.83%</u> | |
| Supervisor remuneration | <u>\$ -</u> | <u>-</u> |

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

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

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

- II. Manager's salary remuneration is based on the Company's business strategy, profitability, performance and job contribution, etc. and refers to the salary market level including salaries, job bonus, severance payment, various bonuses, incentives, various allowances, etc. In addition and accordance with to the Company's Articles of Incorporation, if the Company makes a profit during the year, no less than 0.5% shall be allocated as employee compensation.

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

However, profits must first be taken to offset against cumulative losses if any.

III. In addition to receiving a fixed amount every month, directors' salary and remuneration includes transportation fees for implementing business affairs. The remuneration of the chairman also includes salary, various bonuses, and incentives, etc. In addition, and in accordance with the Company's Articles of Incorporation, if the Company makes a profit during the year, no more than 5% shall be allocated as directors' remuneration. However, profits must first be taken to offset against cumulative losses if any.

XIII. Other disclosures

(I) Information relating to significant transactions

Significant transactions in 2021 that require further disclosures under the Preparation Regulations are as follows:

1. Loans to third parties: None.
2. Endorsement/guarantee to third parties: None.
3. End-of-period holding position of marketable securities (excluding investment in subsidiaries, associated companies, and joint ventures):

| Holder | Category and name of security | Relationship with company | Account category | Closing amount | | | | Remarks |
|-------------|---|---------------------------|---|----------------|-------------|-------------------------|-------------|---------|
| | | | | Shares | Book value | Shareholding percentage | Fair value | |
| The Company | Share/China Steel Chemical | - | Financial assets at fair value through other comprehensive income - current | 1,000,000 | 120,500,000 | 0.42% | 120,500,000 | |
| The Company | Share/Win Semiconductors | - | Financial assets at fair value through other comprehensive income - current | 80,000 | 29,960,000 | 0.02% | 29,960,000 | |
| The Company | Share/ChainQui Construction Development | - | Financial assets at fair value through other comprehensive income - current | 93,000 | 1,715,850 | 0.04% | 1,715,850 | |
| The Company | Stocks / Ta Chen Stainless Pipe | - | Financial assets at fair value through other comprehensive income - current | 300,000 | 13,875,000 | 0.01% | 13,875,000 | |
| The Company | Share/Asia Pacific Telecom | - | Financial assets at fair value through other comprehensive income - current | 6,000,000 | 49,320,000 | 0.14% | 49,320,000 | |
| The Company | Stocks/Asia Optical | - | Financial assets at fair value through other comprehensive income - current | 150,000 | 14,085,000 | 0.05% | 14,085,000 | |
| The Company | Stocks / Episil | | Financial assets at fair value through other comprehensive income - current | 100,000 | 14,300,000 | 0.03% | 14,300,000 | |
| The Company | Stocks / Gudeng Precision | | Financial assets at fair value through other comprehensive | 100,000 | 32,400,000 | 0.12% | 32,400,000 | |

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

| | | | | | | | | |
|-------------|--|---|---|---------|------------|-------|------------|--|
| | | | income - current | | | | | |
| The Company | Stocks / Delta Electronics | | Financial assets at fair value through other comprehensive income - current | 150,000 | 41,250,000 | 0.01% | 41,250,000 | |
| The Company | Stocks / Genius Electronic | | Financial assets at fair value through other comprehensive income - current | 40,000 | 21,160,000 | 0.04% | 21,160,000 | |
| The Company | Stocks/Eternal Materials | - | Financial assets at fair value through other comprehensive income - current | 645,000 | 26,122,500 | 0.05% | 26,122,500 | |
| The Company | Stocks/CHPT | - | Financial assets at fair value through other comprehensive income - current | 36,000 | 25,596,000 | 0.11% | 25,596,000 | |
| The Company | Share/Sunspring Metal | - | Financial assets at fair value through other comprehensive income - current | 300,000 | 8,220,000 | 0.02% | 8,220,000 | |
| The Company | Stocks/Taiwan Semiconductor Manufacturing | - | Financial assets at fair value through other comprehensive income - current | 80,000 | 49,200,000 | - % | 49,200,000 | |
| The Company | Stock/Hon Hai Precision Industry | - | Financial assets at fair value through other comprehensive income - current | 500,000 | 52,000,000 | - % | 52,000,000 | |
| The Company | Stocks / Cleanaway | - | Financial assets at fair value through other comprehensive income - current | 100,000 | 23,350,000 | 0.09% | 23,350,000 | |
| The Company | Share/Yageo | - | Financial assets at fair value through other comprehensive income - current | 160,000 | 76,720,000 | 0.03% | 76,720,000 | |
| The Company | Stocks / Zhen Ding Technology Holding - KY | - | Financial assets at fair value through other comprehensive income - current | 300,000 | 30,150,000 | 0.03% | 30,150,000 | |
| The Company | Stocks/ ASE Technology Holding | - | Financial assets at fair value through other comprehensive income - current | 500,000 | 53,250,000 | 0.01% | 53,250,000 | |
| The Company | Stocks / Kaimei Electronic | - | Financial assets at fair value through other comprehensive income - current | 800,000 | 80,800,000 | 0.59% | 80,800,000 | |
| The Company | Stocks / Foxconn Technology | - | Financial assets at fair value through other comprehensive income - current | 400,000 | 5,960,000 | 0.03% | 25,960,000 | |
| The Company | Stocks / China Steel | - | Financial assets at fair value through other comprehensive income - current | 400,000 | 14,140,000 | - % | 14,140,000 | |
| The Company | Share/Chunghwa Picture Tubes | - | Financial assets at fair value through other comprehensive income - non- | 71,210 | - | - | - | |

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

| | | | | | | | | |
|-------------|--|--|---|------------|-------------|--------|-------------|--|
| | | | current | | | | | |
| The Company | Share/Universal Venture Capital Investment Corp. | - | Financial assets at fair value through other comprehensive income - non-current | 1,400,000 | 10,778,424 | 1.16% | 10,778,424 | |
| The Company | Share/KHH Arena Corporation | - | Financial assets at fair value through other comprehensive income - non-current | 5,000,000 | 68,557,500 | 2.00% | 68,557,500 | |
| The Company | Stocks/ENRESTEC Inc. | The Company is a director of the securities issuer | Financial assets at fair value through other comprehensive income - non-current | 19,101,651 | 268,373,422 | 18.71% | 268,373,422 | |
| The Company | Share/CSGT Metals Vietnam Joint Stock Company | - | Financial assets at fair value through other comprehensive income - non-current | 1,328,940 | 54,802,550 | 6.00% | 54,802,550 | |
| The Company | Share/How Weih Holding (Cayman) Co. Ltd. | - | Financial assets at fair value through other comprehensive income - non-current | 12,700,000 | 570,547,183 | 18.68% | 570,547,183 | |

4. Cumulative purchase or sale of any single marketable security that amounts to NTD 300 million or more than 20% of paid-up capital: None.
5. Acquisition of real estate amounting to NTD 300 million or more than 20% of paid-up capital: None.
6. Disposal of real estate amounting to NTD 300 million or more than 20% of paid-up capital: None.
7. Sales and purchases with related parties amounting to NTD 100 million or more than 20% of paid-up capital: None.
8. Related party accounts receivable amounting to NTD 100 million or more than 20% of paid-up capital: None.
9. Derivative transactions: None.

(II) Information on business investments:

Information about the Company's business investments in 2021 (excluding Mainland investees):

| Name of investor | Net income (losses) of the investee | Location | Main businesses and products. | Sum of initial investment | | Period-end holding position | | | Net income (losses) of the investee. | Share of profits/losses of investee | Remarks |
|------------------|-------------------------------------|---------------------------------|--|---------------------------|----------------------|-----------------------------|------------|-------------|--------------------------------------|-------------------------------------|---------|
| | | | | End of current period | End of previous year | Shares | Percentage | Book value | | | |
| The Company | Hsieh Chang Hsing Trading Co., Ltd. | Gushan District, Kaohsiung City | Holding of various production and banking businesses | 171,728,510 | 171,728,510 | 17,172,851 | 45.79% | 238,042,155 | (122,780) | (56,221) | |
| The Company | KHC Steel International Corp. | Gushan District, Kaohsiung City | Trading of steel pipes and steel sheets | 105,800,000 | 105,800,000 | 7,280,000 | 38.32% | 141,629,588 | (3,450,310) | (1,322,159) | |
| The Company | Sunward Refractories Co., Ltd. | Renwu District, Kaohsiung City | Ceramic products and refractory material | 107,906,001 | 62,706,001 | 4,588,600 | 20.00% | 69,105,144 | 49,005,193 | 9,801,039 | |

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

| | | | | | | | | | | |
|--|--|--|---------------|--|--|--|--|--|--|--|
| | | | manufacturing | | | | | | | |
|--|--|--|---------------|--|--|--|--|--|--|--|

(III) Information relating to investments in the Mainland: None.

(IV) Information on principal shareholders:

Unit: Shares

| Name | Shares | Number of shares held | Percentage of shareholding |
|-------------------------------------|--------|-----------------------|----------------------------|
| Huida Investment Co., Ltd | | 40,999,312 | 20.41% |
| Lu Tai Run | | 27,551,329 | 13.71% |
| Hsieh Chang Hsing Trading Co., Ltd. | | 26,007,915 | 12.94% |
| Lu Ho-Lin | | 16,426,010 | 8.17% |
| KHC Steel International Corp. | | 14,747,000 | 7.34% |

The Company has applied to Taiwan Depository and Clearing Corporation to obtain the information listed in this table to explain the following matters:

- (1) Information of major shareholders in this table has been established by the Taiwan Depository and Clearing Corporation on the last business day of each quarter, calculating information of shareholders holding more than 5% of the Company's common stock that has been delivered with non-physical registration (including treasury stocks). As for the share capital recorded in the Company's financial statements and the Company's actual completed non-physical registration of the number of shares delivered, there may be differences or discrepancies due to different calculation bases.
- (2) In the case of the above information, if a shareholder delivers shares to a trust, it is disclosed in the individual sub-accounts for trustees who open special trust accounts. As for shareholders' declarations of insider equity holdings exceeding 10% in accordance with the Securities and Exchange Act, such shareholdings include personal shareholdings plus the shares delivered to a trust and have the right to use the trust property, and so on. For information on insider equity declarations, please refer to the Market Observation Post System.

XIV. Segment information

(I) Basis of disclosure and reconciliation of profit, asset, and liability information for reporting segments

The management allocates resources and evaluates segment performance based on pre-tax segment profits (excluding extraordinary gains/losses and exchange gains/losses), as shown on internal management reports verified by the main operational decision maker. Due to the fact that income tax, extraordinary gains/losses, and exchange gains/losses are managed at

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

the group level, the Company does not allocate income tax expenses (benefits), extraordinary gains/losses, and exchange gains/losses to reporting segments. The reported amounts are consistent with the amounts used by the management for decision-making.

Accounting policies adopted by various operating segments are consistent with those described in Note 4 - "Summary of significant accounting policies."

Disclosure and reconciliation of segment information:

| | Steel Pipe Department | Others | Reconciliation and elimination | Total |
|---|----------------------------------|---------------------|--|----------------------|
| 2021 | | | | |
| Revenues: | | | | |
| Revenues from external customers | \$ 1,325,565,856 | 192,282,139 | 32,776,266 | 1,550,624,261 |
| Inter-segment revenues | - | - | - | - |
| Total revenues | <u>\$ 1,325,565,856</u> | <u>192,282,139</u> | <u>32,776,266</u> | <u>1,550,624,261</u> |
| Interest expenses | \$ - | - | (56,353,471) | (56,353,471) |
| Depreciation and amortization | <u>\$ 43,988,415</u> | <u>746,034</u> | <u>9,750,525</u> | <u>54,484,974</u> |
| Share of equity-associated companies | \$ - | - | <u>8,422,659</u> | <u>8,422,659</u> |
| Profit/loss of reported segment | <u>\$ 89,336,269</u> | <u>(13,548,044)</u> | <u>(13,219,425)</u> | <u>62,568,800</u> |
| Assets: | | | | |
| Equity-accounted investments | \$ - | - | <u>448,776,883</u> | <u>448,776,883</u> |
| Capital spending for non-current assets | <u>\$ 24,617,700</u> | <u>2,672,764</u> | <u>150,000</u> | <u>27,440,464</u> |
| Assets of reported segment | <u>\$ 1,681,258,978</u> | <u>18,949,773</u> | <u>5,626,670,960</u> | <u>7,326,879,711</u> |
| | Steel Pipe Department | Others | Reconciliatio n and elimination | Total |
| 2020 | | | | |
| Revenues: | | | | |

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

| | | | | |
|--|-------------------------|---------------------|----------------------|----------------------|
| Revenues from external customers | \$ 892,181,275 | 61,942,370 | 8,386,776 | 962,510,421 |
| Inter-segment revenues | - | - | - | - |
| Total revenues | <u>\$ 892,181,275</u> | <u>61,942,370</u> | <u>8,386,776</u> | <u>962,510,421</u> |
| Interest expenses | <u>\$ -</u> | <u>-</u> | <u>(41,189,779)</u> | <u>(41,189,779)</u> |
| Depreciation and amortization | <u>\$ 47,023,029</u> | <u>288,207</u> | <u>8,235,607</u> | <u>55,546,843</u> |
| Share of equity-accounted associated companies | <u>\$ -</u> | <u>-</u> | <u>(738,213)</u> | <u>(738,213)</u> |
| Profit/loss of reported segment | <u>\$ (48,044,412)</u> | <u>(21,902,506)</u> | <u>38,862,162</u> | <u>(31,084,756)</u> |
| Assets: | | | | |
| Equity-accounted investments | <u>\$ -</u> | <u>-</u> | <u>370,586,285</u> | <u>370,586,285</u> |
| Capital spending for non-current assets | <u>\$ 28,810,326</u> | <u>-</u> | <u>-</u> | <u>28,810,326</u> |
| Assets of reported segment | <u>\$ 1,434,059,483</u> | <u>16,865,255</u> | <u>5,211,269,237</u> | <u>6,662,193,975</u> |

Significant reconciliation of information between the reporting segments mentioned above:

1. Unallocated profit/loss of reported segment:

| | <u>2021</u> | <u>2020</u> |
|---|------------------------|-------------------|
| Losses from disposal of property, plant and equipment | \$ (29,955) | - |
| Financial costs | (56,353,471) | (41,189,719) |
| Others | <u>43,164,001</u> | <u>80,051,881</u> |
| Total | <u>\$ (13,219,425)</u> | <u>38,862,162</u> |

2. Assets not attributable to reported segment:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------|----------------|---------------|
| Cash and bank deposits | \$ 559,151,492 | 275,280,315 |
| Equity-accounted investments | 448,776,883 | 370,586,285 |
| Property, plant, and equipment | 619,205,853 | 622,154,499 |
| Right-of-use asset | 9,870,840 | 13,161,120 |
| Investment property | 2,141,001,859 | 2,144,791,618 |

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

| | | |
|---|--------------------------------|-----------------------------|
| Financial assets at fair value through other comprehensive income | 1,777,133,429 | 1,702,769,151 |
| Others | <u>71,530,604</u> | <u>82,526,249</u> |
| Total | <u>\$ 5,626,670,960</u> | <u>5,211,269,237</u> |

(II) Regional disclosure

Disclosure of regional information is as follows. Income location is determined based on customers' geographic presence, whereas location of non-current assets is determined based on the asset's physical presence.

| <u>Location</u> | <u>2021</u> | <u>2020</u> |
|-----------------------------------|--------------------------------|-----------------------------|
| Revenues from external customers: | | |
| Taiwan | \$1,488,453,206 | 948,871,444 |
| America | 61,086,427 | 6,256,068 |
| Northeast Asia | <u>1,084,628</u> | <u>7,382,909</u> |
| | <u>\$ 1,550,624,261</u> | <u>962,510,421</u> |
| | | |
| <u>Location</u> | <u>110.12.31</u> | <u>109.12.31</u> |
| Non-current assets: | | |
| Taiwan | <u>\$ 3,670,702,642</u> | <u>3,697,840,107</u> |

Non-current assets include property, plant, and equipment, investment property, and right-of-use asset, but exclude non-current financial instruments.

(III) Information on major customers

| <u>Customer</u> | <u>2021</u> | <u>2020</u> |
|------------------------------|------------------------------|---------------------------|
| Nakosin Enterprise Co., Ltd. | \$ 395,054,118 | 325,105,617 |
| Long An Hardware Co., Ltd. | 227,015,649 | 143,842,264 |
| Gir Gai Trading Co., Ltd. | <u>185,756,351</u> | <u>77,994,674</u> |
| | <u>\$ 807,826,118</u> | <u>546,942,555</u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of cash and cash equivalents
As of December 31, 2021

Unit: NTD

| Item | Summary | Amount |
|----------------|--|------------------------------|
| Cash dividends | Reserve cash | \$ 265,497 |
| Cash in banks | Check deposit | 18,681,143 |
| | Demand deposit | 516,017,348 |
| | Foreign currency deposits (USD 877,077.45, exchange rate 27.68) | <u>24,277,504</u> |
| | Total | <u>\$ 559,241,492</u> |

**Schedule of financial assets at fair value through other
comprehensive income - current**

| Financial instruments Designation | Summary | Shares / Number of units | Face value | Total amount | Acquisition Cost | Fair value | | Provision of collateral or collateral |
|--|--------------------------|--------------------------------|---------------|-----------------|---------------------|---------------|-------------|---|
| | | | | | | Unit price | Total | |
| China Steel Chemical | Listed shares | 1,000,000 | \$ 10 | 10,000,000 | 110,033,653 | 120.50 | 120,500,000 | None |
| ChainQui Construction Development | Listed shares | 93,000 | 10 | 930,000 | 3,352,906 | 18.45 | 1,715,850 | None |
| Asia Pacific Telecom | Listed shares | 6,000,000 | 10 | 60,000,000 | 73,339,914 | 8.22 | 49,320,000 | None |
| Asia Optical | Listed shares | 150,000 | 10 | 1,500,000 | 13,041,704 | 93.90 | 14,085,000 | None |
| CHPT | TPEX listed shares | 36,000 | 10 | 360,000 | 24,179,351 | 711.00 | 25,596,000 | None |
| Sunspring Metal | Listed shares | 300,000 | 10 | 3,000,000 | 14,272,864 | 27.40 | 8,220,000 | None |
| Yageo | Listed shares | 160,000 | 10 | 1,600,000 | 94,317,965 | 479.50 | 76,720,000 | None |
| Win Semiconducto rs | TPEX listed shares | 80,000 | 10 | 800,000 | 28,536,523 | 374.50 | 29,960,000 | None |
| Taiwan Semiconducto r Manufacturing | Listed shares | 80,000 | 10 | 800,000 | 48,117,952 | 615.00 | 49,200,000 | None |
| Zhen Ding Technology Holding-KY | Listed shares | 300,000 | 10 | 3,000,000 | 33,465,880 | 100.50 | 30,150,000 | None |
| Eternal Materials | Listed shares | 645,000 | 10 | 6,450,000 | 24,231,366 | 40.50 | 26,122,500 | None |
| ASE Technology Holding | Listed shares | 500,000 | 10 | 5,000,000 | 56,694,317 | 106.50 | 53,250,000 | None |
| Hon Hai Precision Industry | Listed shares | 500,000 | 10 | 5,000,000 | 56,996,083 | 104.00 | 52,000,000 | None |

| | | | | | | | | |
|------------------------|--------------------|---------|----|-----------|-----------------------|--------|--------------------|------|
| Kaimei Electronic | Listed shares | 800,000 | 10 | 8,000,000 | 84,320,229 | 101.00 | 80,800,000 | None |
| Foxconn Technology | Listed shares | 400,000 | 10 | 4,000,000 | 28,887,194 | 64.90 | 25,960,000 | None |
| China Steel | Listed shares | 400,000 | 10 | 4,000,000 | 14,454,483 | 35.35 | 14,140,000 | None |
| Episil | TPEX listed shares | 100,000 | 10 | 1,000,000 | 12,854,025 | 143.00 | 14,300,000 | None |
| Gudeng Precision | TPEX listed shares | 100,000 | 10 | 1,000,000 | 32,606,389 | 324.00 | 32,400,000 | None |
| Delta Electronics | Listed shares | 150,000 | 10 | 1,500,000 | 41,764,433 | 275.00 | 41,250,000 | None |
| Genius Electronic | TPEX listed shares | 40,000 | 10 | 400,000 | 21,437,571 | 529.00 | 21,160,000 | None |
| Ta Chen Stainless Pipe | Listed shares | 300,000 | 10 | 3,000,000 | 14,618,059 | 46.25 | 13,875,000 | None |
| Cleanaway | Listed shares | 100,000 | 10 | 1,000,000 | <u>22,568,620</u> | 233.50 | <u>23,350,000</u> | None |
| Total | | | | | <u>\$ 854,091,481</u> | | <u>804,074,350</u> | |

Kao Hsing Chang Iron & Steel Corp.

Schedule of other notes receivable

As of December 31, 2021

Unit: NTD

| counter party | Summary | Amount |
|----------------------|----------------|-------------------|
| Mr. Pei-Kai Hsu | Rental income | <u>\$ 200,000</u> |

Schedule of net accounts receivable

| Customer name | Summary | Amount |
|--|----------------|----------------------|
| Gir Gai Trading Co., Ltd. | Business | \$ 31,601,748 |
| Nakosin Enterprise Co., Ltd. | Business | 18,643,736 |
| Long An Hardware Co., Ltd. | Business | 11,800,670 |
| Kiin's Corporation | Business | 10,996,330 |
| Ta Shen Shing Steel & Iron Co., Ltd. | Business | 8,455,390 |
| Sheng Lun Steel Co., Ltd. | Business | 5,134,812 |
| Others (If the balance of each account does not reach 5% of the accounts receivable, it is reported together) | Business | <u>9,723,836</u> |
| Total | | <u>\$ 96,356,522</u> |

Kao Hsing Chang Iron & Steel Corp.

Schedule of other net receivables

As of December 31, 2021

Unit: NTD

| Item | Summary | Amount |
|--------------------------------------|----------------|-----------------------------|
| Related party: | | |
| Income receivable from sale of scrap | | \$ 499,036 |
| Non-related party: | | |
| Income receivable from sale of scrap | | 1,126,809 |
| Receivables from sale of shares | | 26,322,345 |
| Dividend income receivable | | 275,000 |
| Receivable purchase discounts | | 356,601 |
| Receivables from scaffolding | | 470,460 |
| Others | | <u>42,743</u> |
| Total | | 29,092,994 |
| Less: Allowance for bad debts | | <u>470,460</u> |
| Net | | <u>\$ 28,622,534</u> |

Kao Hsing Chang Iron & Steel Corp.

Schedule of inventories

As of December 31, 2021

Unit: NTD

| Item | Amount | |
|-----------------------|------------------------------|-----------------------------|
| | Cost | Net realizable value |
| Finished goods | \$ 241,400,289 | 275,130,565 |
| Less: loss provisions | <u>8,481,580</u> | |
| Subtotal | <u>232,918,709</u> | |
| Work-in-progress | 141,228,540 | 156,868,675 |
| Less: loss provisions | <u>1,591,834</u> | |
| Subtotal | <u>139,636,706</u> | |
| Raw materials | 287,195,589 | 295,382,565 |
| Less: loss provisions | <u>944,386</u> | |
| Subtotal | <u>286,251,203</u> | |
| Materials | 49,406,294 | 52,525,956 |
| Less: loss provisions | <u>364</u> | |
| Subtotal | <u>49,405,930</u> | |
| Inventory in transit | 11,293,208 | 11,293,208 |
| Scraps | <u>305,692</u> | 305,692 |
| Total | <u>\$ 719,811,448</u> | |

Schedule of other current assets

For information concerning other current assets please refer to Note VI (X)

Kao Hsing Chang Iron & Steel Corp.
**Financial assets measured at fair value through other
comprehensive gains and losses - schedule of non-current
changes**

As of December 31, 2021

Unit: NTD

| Designation | Beginning of period | | Increase in the period | | Decrease in the period | | Closing amount | | Provision of collateral Guarantee or pledge |
|--|----------------------------|-----------------------|-------------------------------|---------------------|-------------------------------|---------------------|-----------------------|-------------------|--|
| | Shares | Fair value | Shares | Amount | Shares | Amount | Shares | Fair value | |
| Universal Venture Capital Investment Corporation | 1,400,000 | \$ 9,478,000 | - | 1,300,424 (Note 1) | - | - | 1,400,000 | 10,778,424 | None |
| Hanwei Arena Development Co., Ltd. | 5,000,000 | 81,551,250 | - | - | - | 12,993,750 (Note 1) | 5,000,000 | 68,557,500 | None |
| CSGT Metals Vietnam Joint Stock Company | 1,328,940 | 40,779,800 | - | 14,022,750 (Note 1) | - | - | 1,328,940 | 54,802,550 | None |
| ENRESTEC Inc. | 19,101,6 | 289,332,707 | - | - | - | 20,959,285 (Note 1) | 19,101,6 | 268,373,4 | None |
| How Weih Holding (Cayman) Co. Ltd. | 12,700,000 | 560,878,673 | - | 9,668,510 (Note 1) | - | - | 12,700,000 | 570,547,183 | None |
| Chunghwa Picture Tubes | 71,2 | - | - | - | - | - | 71,2 | - | None |
| Wonderful Hi Tech | 261,7 | 4,620,099 | 14,945 | 3,316,242 (Note 1) | 276,7 | 7,936,341 (Note 3) | - | - | |
| Total | | \$ 986,640,529 | | 28,307,926 | | 41,889,376 | | 973,059,0 | |

Note 1: This is the number of changes in the evaluation of the current period.

Note 2: This is the purchase of NTD 311,766 of equity in the current period and the amount of changes in the evaluation of the current period of NTD 3,004,476.

Note 3: Constitutes shares sold in this period.

Kao Hsing Chang Iron & Steel Corp.
Schedule of changes in investments accounted for using
equity method
January 1 to December 31, 2021

Unit: NTD

| Designation | Opening balance | | Increase in the period | | Decrease in the period | | Closing balance | | | Market price or net equity value | | Provision of collateral or Pledge |
|----------------------------------|-----------------|-----------------------|------------------------|----------------------------|------------------------|---------------------|-----------------|----------------------------|--------------------|----------------------------------|--------------------|-----------------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Percentage of shareholding | Amount | Unit price | Total price | |
| eh Chang Hsing Trading Co., Ltd. | 17,172,851 | \$ 225,593,900 | - | 12,504,476 (Note 1) | - | 56,221 (Note 1) | 17,172,85 | 45.79% | 238,042,155 | 13.86 | 238,042,155 | None |
| C Steel International Corp. | 7,280,000 | 130,888,282 | - | 23,999,455 (Note 2) | - | 13,258,151 (Note 2) | 7,280,00 | 38.32% | 141,629,586 | 19.45 | 141,629,586 | None |
| ward Refractories Co., Ltd. | 68,600 | <u>14,104,103</u> | 4,520,000 | <u>55,001,039</u> (Note 3) | - | - | 4,588,60 | 20.00% | <u>69,105,142</u> | 15.06 | <u>69,105,142</u> | None |
| Total | | <u>\$ 370,586,285</u> | | <u>91,504,970</u> | | <u>13,314,372</u> | | | <u>448,776,883</u> | | <u>448,776,883</u> | |

Note 1: This is the investment loss recognized in the current period of NTD (56,221), and the proportional unrealized profit of the invested company's financial assets recognized is NTD 12,504,476.

Note 2: This is the investment loss recognized in the current period of NTD (1,322,159), and the proportional unrealized loss of the invested company's financial assets recognized is NTD (11,935,992) and disposal of stock interest is NTD 23,999,455.

Note 3: This is the investment gain recognized in the current period of NTD 9,801,039 and the cash capital increase of NTD 45,200,000 in proportion with the shareholding ratio.

Kao Hsing Chang Iron & Steel Corp.
**Schedule of changes in property, plant, and
equipment**

January 1 to December 31, 2021

Unit: NTD

For information about changes in property, plant and equipment, please refer to Note VI (VII).

**Schedule of changes in accumulated
depreciation of property, plant and equipment**

| Item | Opening balance | Increase in the period | Decrease in the period | Closing balance |
|--------------|----------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Buildings | \$ 959,453,164 | 17,741,083 | - | 977,194,247 |
| Machinery | 1,304,584,101 | 26,516,019 | 6,239,076 | 1,324,861,044 |
| Others | 137,951,501 | 3,147,833 | 257,000 | 140,842,334 |
| Total | \$ 2,401,988,766 | 47,404,935 | 6,496,076 | 2,442,897,625 |

**Schedule of accumulated
impairment changes of property,
plant and equipment**

| Item | Opening balance | Increase in the period | Decrease in the period | Closing balance |
|--------------|----------------------------|-----------------------------------|-----------------------------------|----------------------------|
| Buildings | \$ 164,221,155 | - | - | 164,221,155 |
| Machinery | 816,526,349 | - | 1,058,389 | 815,467,960 |
| Others | 97,140,483 | - | - | 97,140,483 |
| Total | \$ 1,077,887,987 | - | 1,058,389 | 1,076,829,598 |

Kao Hsing Chang Iron & Steel Corp.
Schedule of changes in invested real estate
January 1 to December 31, 2021

Unit: NTD

For information about changes in invested real estate, please refer to Note VI (IX).

**Schedule of changes in accumulated
depreciation of invested real estate**

For information about changes in invested real estate, please refer to Note VI (IX).

**Schedule of guarantee deposits
paid**
As of December 31, 2021

| Item | Summary | Amount |
|-------------------------|------------------------------------|---------------------|
| Guarantee deposits paid | Bid deposit | \$ 1,624,367 |
| | Lease deposit and security deposit | 4,000,000 |
| | Others | 206,500 |
| Total | | \$ 5,830,867 |

Kao Hsing Chang Iron & Steel Corp.

Schedule of short-term loans

As of December 31, 2021

Unit: NTD

| <u>Loan type</u> | <u>Explanation</u> | <u>Closing balance</u> | <u>Contract period</u> | <u>Interest rate range</u> | <u>Financing amount</u> | <u>Mortgage or collateral</u> |
|------------------|--------------------|--------------------------------|------------------------|----------------------------|----------------------------|-------------------------------|
| Loans under L/C | Changhua Bank | \$ 419,159,078 | Within one year | 1.47% | Total amount 1,400,000,000 | Land |
| Loans under L/C | Huatai Bank | 163,244,632 | Within one year | 1.45 % | Total amount 1,380,000,000 | Land |
| Loans under L/C | Bank of Taiwan | 80,531,358 | Within one year | 1.48% | Total amount 150,000,000 | Land |
| Loans under L/C | JihSun Bank | 59,405,802 | Within one year | 1.50% | Total amount 520,000,000 | Land |
| Secured loans | Huatai Bank | 1,100,000,000 | Within one year | 1.45% | Total amount 1,380,000,000 | Land |
| Secured loans | Changhua Bank | 900,000,000 | Within one year | 1.50% | Total amount 1,400,000,000 | Land |
| Secured loans | JihSun Bank | 460,000,000 | Within one year | 1.50% | Total amount 520,000,000 | Land |
| Secured loans | Bank of Taiwan | <u>50,000,000</u> | Within one year | 1.48% | Total amount 150,000,000 | Land |
| Total | | <u>\$ 3,232,340,870</u> | | | | |

Schedule of bills payable

| <u>Supplier</u> | <u>Summary</u> | <u>Amount</u> |
|---|----------------|-----------------------------|
| I Hong Hot-Galvanization Industrial Co., Ltd. | Business | \$ 14,884,752 |
| Shun Tai Trucking Co., Ltd. | Business | 1,540,594 |
| Others (If the balance of each account does not reach 5% of bills payable, it is reported together) | Business | <u>11,958,497</u> |
| Total | | <u>\$ 28,383,843</u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of other bills payable
As of December 31, 2021

Unit: NTD

| <u>Payment counterparty</u> | <u>Summary</u> | <u>Amount</u> |
|---|--|-----------------------------|
| Each shareholder | Capital reduction and refund of shares | \$ 5,761,181 |
| Guor Lung Machine Co., Ltd. | Funds for equipment | 3,048,150 |
| Perfect Engineering Co., Ltd. | Funds for equipment | 1,706,250 |
| Li Fang Enterprise Co., Ltd. | Funds for equipment | 693,000 |
| Others (If the balance of each account does not reach 5% of other bills payable, it is reported together) | | <u>1,669,475</u> |
| Total | | <u>\$ 12,878,056</u> |

Schedule of accounts payable

| <u>Supplier</u> | <u>Summary</u> | <u>Amount</u> |
|--|----------------|-----------------------------|
| China Steel Corporation | Business | \$ 10,869,412 |
| I Hong Hot-Galvanization Industrial Co., Ltd. | Business | 18,314,772 |
| Kounan Steel Co., Ltd. | Business | 5,873,528 |
| Others (If the balance of each account does not reach 5% of the accounts payable, it is reported together) | Business | <u>4,700,261</u> |
| Total | | <u>\$ 39,757,973</u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of other payables
As of December 31, 2021

Unit: NTD

| <u>Item</u> | <u>Summary</u> | <u>Amount</u> |
|-------------------------------------|----------------|-----------------------------|
| Salary and bonus | | \$ 10,285,288 |
| Paid leave | | 6,513,878 |
| Utility bills | | 2,193,810 |
| Tax | | 2,926,998 |
| Stock delivery payment | | 6,479,719 |
| Freight and customs declaration fee | | 2,209,369 |
| Cargo allowance | | 1,731,895 |
| Funds for equipment | | 3,381,210 |
| Pension | | 772,620 |
| Repair costs | | 1,614,596 |
| Labor health insurance | | 1,063,099 |
| Interest | | 2,855,557 |
| Other | | 14,710,356 |
| Total | | <u><u>\$ 56,738,395</u></u> |

Schedule of other current liabilities

| <u>Item</u> | <u>Summary</u> | <u>Amount</u> |
|----------------------|---------------------------|----------------------------|
| Contract liabilities | Sales proceeds in advance | \$ 6,982,486 |
| Unearned revenues | Rent in advance | 190,475 |
| Collection | Self-paid pensions | 125,491 |
| Total | | <u><u>\$ 7,298,452</u></u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of long-term loans
As of December 31, 2021

Unit: NTD

| Creditor | Summary | Amount | | | Contract period | Interest rate | Mortgage or guarantee |
|---------------|---------------|---------------------|----------------------------|-------------|----------------------------|---------------|-----------------------|
| | | Due within one year | Due after one year or more | Total | | | |
| Changhua Bank | Secured loans | \$ - | 700,000,000 | 700,000,000 | 2020.10.23 ~ 2020.10.23 | 1.8% | Land |

Please refer to Note VI (XIII) for related information on the long-term loan schedule.

Schedule of deferred income tax liabilities

| Item | Summary | Amount |
|--|--------------------------------------|-----------------------|
| Land revaluation value-added tax provision | Property, plant and equipment – Land | \$ 138,600,366 |
| | Investment property | 72,031,964 |
| Total | | <u>\$ 210,632,330</u> |

Schedule of guarantee deposits received

| Item | Summary | Amount |
|--------------------|--------------------|---------------------|
| Guarantee received | Land lease deposit | <u>\$ 5,040,000</u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of net operating income
January 1 to December 31, 2021

Unit: NTD

| <u>Item</u> | <u>Quantity (kg)</u> | <u>Amount</u> |
|-----------------------|----------------------|--------------------------------|
| Steel pipes | 35,418,136 | \$1,299,148,571 |
| Hot rolled steel coil | 7,710,195 | 187,184,443 |
| Zinc products | 379,566 | 26,417,285 |
| Others | 210,620 | 5,097,696 |
| Rental income | | 32,776,266 |
| Total | | <u>\$ 1,550,624,261</u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of operating costs
January 1 to December 31, 2021

Unit: NTD

| Item | Amount |
|--|--------------------------------|
| Direct raw materials | |
| Beginning stock | \$ 109,696,880 |
| Plus: Feedstock this period | 1,138,736,230 |
| Less: Ending inventory | <u>(287,195,589)</u> |
| Direct raw materials consumed in this period | 961,237,521 |
| Direct labor | 63,179,428 |
| Manufacturing expenses | 295,454,608 |
| Unallocated manufacturing overheads | <u>(38,837,082)</u> |
| Manufacturing costs | 1,281,034,475 |
| Work in progress at the beginning of the period | 64,863,595 |
| Plus: Outsourcing | 31,840,535 |
| Inventory profit | 60,756 |
| Work in progress at the end of the period | <u>(141,228,540)</u> |
| Cost of finished goods for the current period | 1,236,570,821 |
| Finished goods at beginning of period | 252,843,339 |
| Plus: Outsourcing | 73,956,824 |
| Less: Inventory losses | (185,375) |
| Self-use | (210,833) |
| Finished goods at end of period | <u>(241,400,289)</u> |
| Cost of goods sold before adjustment | 1,321,574,487 |
| Cost of goods sold plus (minus) adjustment | |
| Income from sale of scrap | (19,989,924) |
| Net loss | 124,619 |
| Losses from inventory inactivity and devaluation | 1,641,231 |
| Unallocated manufacturing overheads | 38,837,082 |
| Others | <u>3,695,348</u> |
| Adjusted cost of goods sold | 1,345,882,843 |
| Leasing costs | <u>10,168,173</u> |
| Operating costs | <u>\$ 1,356,051,016</u> |

Kao Hsing Chang Iron & Steel Corp.
Schedule of selling expenses
January 1 to December 31, 2021

Unit: NTD

| <u>Item</u> | <u>Summary</u> | <u>Amount</u> |
|------------------|---|-----------------------------|
| Salary | Employee salary and bonus | \$ 8,114,467 |
| Shipping expense | Sales freight expense | 18,875,187 |
| Others | Rent, utilities, pension, labor and health insurance, warehouse rental and loading and unloading fees, entertainment expenses, etc. | <u>6,878,127</u> |
| Total | | <u>\$ 33,867,781</u> |

Schedule of management expenses

| <u>Item</u> | <u>Summary</u> | <u>Amount</u> |
|------------------------|---|-----------------------------|
| Salary | Employee salary, overtime pay and bonus | \$ 27,328,753 |
| Entertainment expenses | Entertainment expenses | 10,889,000 |
| Labor expenses | Public expenses for services such as lawyers and accountants | 2,035,000 |
| Utility bills | Utility bills for office premises | 1,235,179 |
| Tax | Housing tax and land value tax, etc. | 4,421,815 |
| Pension | Employee pensions | 1,065,427 |
| Others | Stationery printing, training expenses, post and telecommunications expenses, travel expenses and repair expenses, etc. | <u>16,768,157</u> |
| Total | | <u>\$ 63,743,331</u> |

Schedule of non-operating income and expenses

For information on non-operating income and expenses, please refer to Note VI (XXI).

Seven. Financial status and financial performance review analysis and risk issues

I. Financial status

Unit: NTD Thousand

| Item \ Year | 2021 | 2020 | Difference | |
|---------------------------|-----------|-----------|------------|---------|
| | | | Amount | % |
| Current assets | 2,228,510 | 1,597,660 | 630,850 | 39.49 |
| Non-current assets | 5,098,370 | 5,064,534 | 33,836 | 0.67 |
| Total assets | 7,326,880 | 6,662,194 | 664,686 | 9.98 |
| Current liabilities | 3,399,559 | 2,931,970 | 467,589 | 15.95 |
| Non-current liabilities | 957,680 | 958,066 | (386) | (0.04) |
| Total liabilities | 4,357,239 | 3,890,036 | 467,203 | 12.01 |
| Share capital | 2,008,523 | 2,008,523 | 0 | 0 |
| Capital surplus | 75,159 | 75,159 | 0 | 0 |
| Retained earnings | 674,974 | 444,762 | 230,212 | 51.76 |
| Other equity interest | 210,985 | 243,714 | (32,729) | (13.43) |
| Treasury stock | 0 | 0 | 0 | 0 |
| Total equity | 2,969,641 | 2,772,158 | 197,483 | 7.12 |
| Net value per share (NTD) | 14.79 | 13.8 | 0.99 | 7.17 |

Description of major changes:

1. Current assets increased by NTD 630,850 thousand, mainly due to increases in bank deposits and inventories.
2. Non-current assets increased by NTD 33,836 thousand, mainly due to investments using the equity method with increases recognized in proportion to the investments.
3. Current liabilities increased by NTD 467,589 thousand, mainly due to increased borrowings for the purchase of raw materials, caused in turn by increasing raw material purchases.
4. Non-current liabilities decreased by NTD 386,000, mainly due to a decrease in accrued pension liabilities.
5. Other equity decreased by NTD 32,729 thousand, which was mainly due to the decrease in unrealized equity investments at fair value through other comprehensive income.

II. Financial performance

Financial Performance

Unit: NTD thousand

| Item | Year | 2021 | 2020 | Amount of increase or decrease | Change in ratios (%) |
|--|------|-----------|-------------|--------------------------------|----------------------|
| | | Total | Total | | |
| Operating income | \$ | 1,550,624 | \$ 962,510 | 588,114 | 61.10 |
| Operating costs | | 1,356,051 | 940,489 | 415,562 | 44.19 |
| Operating margin (loss) | | 194,573 | 22,021 | 172,552 | 783.58 |
| Marketing fees | | 33,868 | 25,679 | 8,189 | 31.89 |
| Management expenses | | 63,743 | 64,964 | (1,221) | (1.88) |
| Operating expenses | | 97,611 | 90,643 | 6,968 | 7.69 |
| Operating profit (loss) | | 96,962 | (68,622) | 165,584 | 241.30 |
| Non-operating revenue and expenses | | (34,393) | 37,537 | (71,930) | (191.62) |
| Net profit before tax for continuing operations (loss) | | 62,569 | (31,085) | 93,654 | 301.28 |
| Income tax expense (benefit) | | 20,452 | 1,709 | 18,743 | 1096.72 |
| Net profit (loss) for the period | \$ | 42,117 | \$ (32,794) | \$ 74,911 | 228.43 |
| Other comprehensive income (net amount) | | 155,366 | 360,283 | (204,917) | (56.88) |
| Total comprehensive income for the period | | 197,483 | 327,489 | (130,006) | (39.70) |
| Earnings per share (NTD) | | 0.21 | (0.16) | 0.37 | 231.25 |

Analysis and explanation of increases and decreases in ratios:

1. Operating profit increased: mainly due to soaring prices and volumes.
2. Operating expenses increased: mainly due to expenses connected with increasing sales.
3. Non-operating revenue and expenses decreased: mainly due to an estimated NTD 24,563 thousand in soil remediation fees for 2021; factors included a dividend income decrease by NTD 25,460 thousand and subsidy granted under the government bailout policy was NTD 20,906 thousand.
4. Decrease in other comprehensive income: Mainly due to the decrease in unrealized valuation gains on equity instruments at fair value through other comprehensive income recognized by the Company and the investment under equity method.

- Expected sales volume and its basis and possible impact on the Company's

future financial business and the corresponding plan: See Page 4 of the Annual Report.

III. Cash flows

- Liquidity analysis for the recent two years

| Item \ Year | 2021 | 2020 | Increase (decrease) |
|--------------------------|----------|----------|---------------------|
| Cash flow ratio | (3.19)% | 2.5% | (227.60)% |
| Cash flow adequacy ratio | (33.75)% | (44.52)% | 24.19% |
| Cash reinvestment ratio | (1.45)% | 1.01% | (243.56)% |

Analysis and explanation of increases and decreases in ratios:

- Cash flow adequacy ratio decreased, mainly due to an increase in inventories resulting in turn from an increase in sales.
- The increase in cash flow adequacy ratio was mainly due to the increase in net cash outflow from operating activities in the last five years compared with the cumulative five years through 2020.
- Cash reinvestment ratio decreased, mainly due to the fact that an increase in stock in 2021, coming in response to an increase in sales, led to a net cash outflow from operating activities, whereas in 2020 this reflected a net cash inflow.

- Analysis of cash liquidity in the coming year

Unit: NTD Thousand

| Year | Beginning cash balance | Projected annual operating activities | Projected annual investing activities | Projected annual financing activities | Projected cash surplus (insufficiency) amount | Cash insufficiency remedial measures |
|------|------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---|--------------------------------------|
| | | | | | | Financing plan |
| 2022 | 559,241 | (111,491) | (1,632,363) | 1,595,901 | 411,288 | — |

Analysis of the changes in cash flows in 2022:

- Net cash outflow from operating activities resulted from an increase in stock, arising in turn from an increase in sales, thus leading to a net cash outflow from operating activities.
- The net cash outflow from investing activities was mainly due to re-investment.
- The net cash inflow from financing activities was mainly due to the projected loan.
- Remedial measures and liquidity analysis for expected cash shortage: Not applicable.

IV. The impact of major capital expenditures in recent years on financial operations: Not applicable.

V. Reinvestment policy in the most recent year, main reasons for its profit or loss, improvement plan and investment plan for the next year:

Explanation:

1. The Company's reinvestment policy is mainly to act in line with its deep cultivation of the steel industry, with a main focus on enhancing product competitiveness. This is supplemented by diversified operations to maximize the benefits of investment and enhance shareholder rights.
2. Reinvestment policy in the most recent year and main reasons for its profit or loss: None.
3. Investment plan for the coming year:

On May 7, 2021, the 14th session of the Company's 20th Board of Directors approved cooperation with Kuo Cheng Construction Co., Ltd. to participate in the urban renewal project of the Kaohsiung City Government titled "Special Trade III South Southside Base." On September 15 of the same year, and in accordance with the application rules of this case, the Company joined that company in forming a cooperative alliance to found Smartway Ark Alliance Co., Ltd. Agreed capital contribution ratios were 45% for the Company and 55% for Kuo Cheng Construction (i.e. the leading company). On November 19 of the same year, this was selected as the top applicant by the Kaohsiung City Government. In accordance with the cooperative alliance agreement, the selected top applicant must form a project company in line with the above-mentioned investment ratio and relevant regulations (i.e. Smartway Ark Alliance Co.) Registered establishment was completed on January 7, 2022; and on February 15 of the same year, it signed a corresponding contract with the Kaohsiung City Government to handle associated work.

Total capital of Smartway Ark Alliance Co., Ltd. is NTD 3.6 billion, divided into 360 million shares or NTD 10 per share, to be issued in installments. The paid-in capital of the initial issuance was NTD 220 million, and 9,900,000 shares were

subscribed in line with the Company's capital contribution of 45%, and the investment amount was NT\$99 million. In accordance with the total capital of Smartway Ark Alliance Co, Ltd. of NTD 3.6 billion and an investment ratio of 45%, the Company's total investment amount is calculated at approximately NT\$1.62 billion and this will change in the future with adjustments in total capital.

VI. Risk analysis

The following matters shall be analyzed and evaluated in the most recent year and up to the date of publication of the Annual Report:

- The impact of interest rates, exchange rate changes, and inflation on the Company's profit and loss and future countermeasures

1. Credit risk:

a. Credit risk exposure

The carrying amount of financial assets represents the maximum amount of credit exposure

b. Concentration of credit risk

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

2. Liquidity risk:

The following table shows the contract maturity dates of financial liabilities. It contains estimated interest but does not include the impact of netting agreements.

| | Carrying amount | Contractual cash flows | Within 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|--|-------------------------|------------------------|------------------------|------------------------|---------------------|----------------------|----------------------|
| December 31, 2021 | | | | | | | |
| Non-derivative instruments | | | | | | | |
| Short-term loans (floating rate) | \$ 3,232,340,870 | (3,260,779,069) | (1,236,654,959) | (2,024,124,110) | - | - | - |
| Notes payable (non-interest bearing) | 28,383,843 | (28,383,843) | (28,383,843) | - | - | - | - |
| Other notes payable (non-interest bearing) | 12,878,056 | (12,878,056) | (12,878,056) | - | - | - | - |
| Accounts payable (non-interest bearing) | 39,757,973 | (39,757,973) | (39,757,973) | - | - | - | - |
| Other payables (non-interest bearing) | 56,738,395 | (56,738,395) | (56,738,395) | - | - | - | - |
| Guarantee deposits paid (non-interest bearing) | 5,040,000 | (5,040,000) | - | (40,000) | - | (5,000,000) | - |
| Long-term loan (floating rate) | 700,000,000 | (766,668,009) | (6,300,000) | (6,300,000) | (45,084,884) | (321,373,260) | (387,609,865) |
| | \$ 4,075,139,137 | (4,170,245,345) | (1,380,713,226) | (2,030,464,110) | (45,084,884) | (326,373,260) | (387,609,865) |

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

3. Exchange rate risk:

The Company's financial assets and liabilities exposed to significant foreign currency exchange rate risks are as follows:

| | December 31, 2021 | | | December 31, 2020 | | |
|------------------------------|------------------------|---------------|------------|------------------------|---------------|-----------|
| | Foreign currency (NTD) | Exchange rate | NTD | Foreign currency (NTD) | Exchange rate | NTD |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary item</u> | | | | | | |
| USD | \$ 887,077.45 | 27.68 | 24,277,504 | 222,133.17 | 28.48 | 6,326,353 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary item</u> | | | | | | |
| USD | 343,657.74 | 27.68 | 9,512,446 | - | - | - |
| JPY | - | - | - | 2,297,400 | 0.2763 | 634,772 |

Sensitivity analysis

The Company's exchange rate risk arises primarily from the conversion of cash, cash equivalents, accounts receivable, and loans denominated in foreign currencies. Conversion of foreign currency-denominated amounts gives rise to gains/losses on exchange. As of December 31, 2021 and 2020, if the New Taiwan dollar would depreciate or appreciate 4% relative to the US dollar or Japanese yen and all other factors remained unchanged, the net profit after tax in 2021 would decrease or increase by NTD 472,482 and the net loss after tax in 2020 would increase or decrease by NTD 182,130. Analyses for the two periods were conducted on the same basis.

Since the Company's functional currency is New Taiwan dollars, the foreign currency exchange gains and losses (including realized and unrealized) for 2021 and 2020 were NTD 823,503 and NTD 546,786, respectively.

4. Inflation:

- The Company's main raw material is hot rolled steel coil, and its suppliers are companies such as China Steel, Chung Hung, and Shang Chen. Due to the signing of supply contracts, the sources of raw materials are stable.
- Some products of galvanized steel pipe are outsourced for plating and recycled

zinc for reuse to reduce the impact of rising zinc prices.

- Water, electricity and fuel costs: The Steel Pipe Factory accounts for approximately 13% of manufacturing expenses. In addition to actively promoting revenue and reducing expenditures, production units are also instructed to make more use of off-peak electricity prices for production and recycled water for reuse.
- Policies for engagement in high risk and high leverage investment, loaning to a third party, guarantee/endorsement, and derivative trade, the main reason for profit or loss, and the response in the future
 1. High risks engaged in by the Company in recent years: None.
 2. Highly leveraged investments: None.
 3. Loans of funds to others: None.
 4. Endorsements / guarantees provided: None.
 5. Derivative trading
 - In 2021, the Company did not engage in derivative transactions.
- Future R&D plans and estimated R&D expenses

The Company focuses on improving production efficiency, saving energy, preventing pollution, and improving product quality; there are currently no major R&D plans.
- The impact of important domestic and foreign policies and legal changes on the Company's financial business and corresponding measures:

The Company always pays attention to changes in important political and economic policies and laws at home and abroad, and proactively proposes corresponding measures in a timely manner. In the most recent year and as of the publication date of the Annual Report, the Company has not been affected by major domestic and foreign policy and legal changes that may affect its financial operations.
- The impact of technological changes and industrial changes on the Company's financial business and corresponding measures:

In view of the current market conditions of the product, the Company seeks a corresponding profit model to improve operating performance.
- The impact of corporate image change on corporate crisis management and countermeasures:

The Company has a dedicated spokesperson responsible for maintaining the relationship with the public and investors, and establishing the Company's image. In

the most recent year and as of the publication date of the Annual Report, no major incidents affecting the Company's corporate image have occurred.

- Expected benefits and possible risks of mergers and acquisitions and countermeasures:

The Company has no plans for mergers and acquisitions in the most recent year and as of the publication date of the Annual Report. If there are merger and acquisition plans in the future, the M&A will be carefully evaluated and considered to ensure the interests of shareholders.

- Expected benefits and possible risks of plant expansion and countermeasures:

The Company's operations are on track and the head office regularly communicates information with the production unit's factory area to relatively reduce the possibility of potential risks, such as: lack of materials or labor and so on.

- Risks and countermeasures faced by purchase or sales concentration:

The main suppliers of raw materials purchased by the Company are China Steel, Chung Hung, and Shang Chen. Due to the signing of supply contracts, the sources of raw materials are stable and the sales targets are mostly long-term stable customers. The Company provides high-quality products and optimal services to establish close interactive relationships and improve customer satisfaction.

- The influence and risk of the massive transfer of shares or the replacement of the directors or major shareholders holding more than 10% of the shares issued by the Company, and the response:

As of the printing date of the Annual Report, the Company had experienced no massive transfer or replacement of shares of directors, supervisors, or major shareholders holding more than 10% of shares.

- The impact, risks and countermeasures of a change of management rights on the Company:

In most recent year and as of the printing date of the Annual Report, there has been no change in management rights for the Company.

- Litigation or non-litigation events impacting the Company and its directors, supervisors, General Manager, substantive persons in charge, and major shareholders whose shareholding ratio exceeds 10%, and major litigation or non-litigation events or administrative disputes confirmed or still being adjudicated for affiliated companies should be specified where the outcomes may have a significant impact on shareholders' equity or the price of securities. Disclose the facts in dispute,

the amount at stake, the date of the commencement of the litigation, the main parties involved in the litigation, and the handling conditions as of the publication date of the Annual Report: None.

- Other major risks and countermeasures: Information security risk assessment.

The Company's Information Risk Assessment Report is as follows:

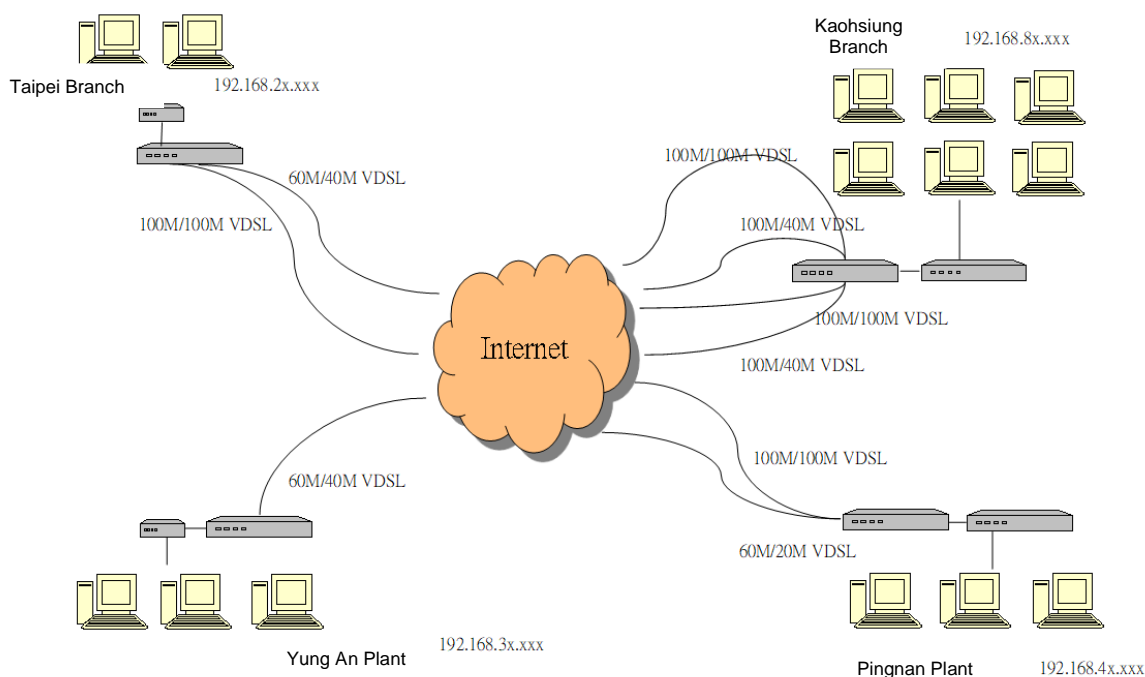
I. Purpose

In accordance with relevant laws and regulations and considering the Company's strategies and objectives, the Company shall conduct an information security risk assessment, determine the level of security requirements for various information security operations, and adopt appropriate and complete information security measures to ensure normal operations to reduce losses.

II. Description of information environment

(1) Network architecture

The Company's branches use Chunghwa Telecom's ADSL for VPN network connections and connect multiple lines for automatic failover. Each branch has a firewall and VPN encrypted connection.



(2) Information system

There are two major categories of Company information systems. The first category is basic general-purpose systems, such as mail systems, antivirus systems, firewall systems, NAS systems, and file server systems. The second category is application systems related to business operations, such as accounting systems, marketing systems, procurement systems, production management and manufacturing systems, and stock affairs systems, which are based on Windows servers and are built in VMware environments.

III. Information security policy

In terms of information security management, the Company has established a Computer Information Security Policy that strengthens information security, implements computer information use management, and maintains the effective use of computer resources, with a view to the smooth progress of the overall information business.

- (1) General
- (2) Personnel safety management and education training
- (3) Computer system security management
- (4) Network security management
- (5) System access control
- (6) System development and maintenance safety management
- (7) Classification and management of information assets
- (8) Sustainable operation planning for the business

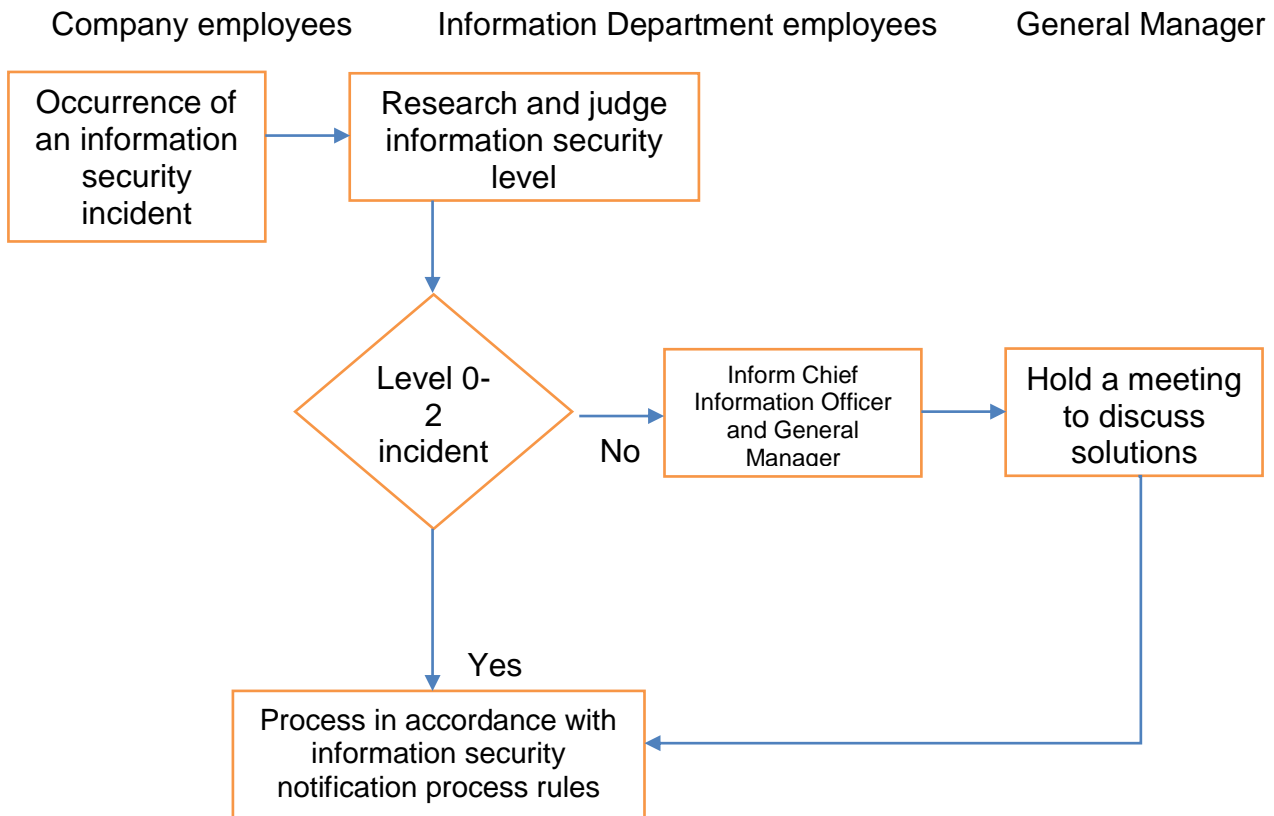
IV. Information and cyber risk analysis

| Asset designation | Risk event | | Controllable measures or disposal |
|--------------------|--|--------------------------------------|--|
| | Weakness | Derivative threat | |
| Server host | Operating system vulnerabilities | Causing the system to be compromised | Perform operating system vulnerability patching tests or network control from time to time |
| | Damaged hardware | Host is not working | Host virtualization or physical host backup |
| | No backup of software data | Data loss or damage | File remote backup on a regular basis |
| | Account password control | Data leakage or alteration | Regular changes and complexity of account passwords |
| | Unavoidable natural disasters | Host crash | Remote backup and storage of virtualized host data |
| Personal computers | Operating system vulnerabilities | Causing the system to be compromised | Unscheduled patching of operating system vulnerabilities or network control |
| | Computer virus | Computer is not working | Personal antivirus software installation and regular updates |
| Network equipment | Network protocol vulnerability | Internet is not available | Network protocol control or host firmware update |
| | Unavoidable natural disasters | Equipment is not working | Other related network equipment backup |
| Employees | Insufficient information security concepts | Computer infection or data theft | Advocacy and education of irregular information security views |

V. Information security notification event handling

Information security incidents include: system hacking, external attacks, targeted attacks, spread of malware, relay stations, email attacks, spam, command or control over a server, a zombie virus, malicious web pages, malicious messages, web page replacement, phishing pages, personal information leakage, and network interruptions.

The Company's information security incident levels are divided into three levels ranging from minor to severe. Information security incidents must be reported within 1 hour after they occur. Level 0, 1, and 2 incidents are to be processed and closed within 72 hours after the incident (including notification and response), and Level 3 incidents are to be completed and closed within 36 hours after the incident.



VI. Information security influence and corresponding measures

The Company has spared no effort in its investment in information systems, mainly to improve management and competitiveness, and relatively more and more rely on information systems. Therefore, strengthening the remote backup and data backup mechanism is indispensable, which is to ensure uninterrupted system services. However, recent information security incidents are frequent, and service interruptions are no longer limited to natural disasters and human negligence. Analysis is mainly caused by external attacks as major ones, followed by internal employees' lack of information security awareness and negligence. Therefore, employee education and training and system vulnerability prevention will be strengthened. The most important thing is to drill the backup recovery mechanism from time to time to prevent losses to the Company due to information security incidents.

VII. Other important matters: None.

Eight. Special Disclosures

- I. Related information of affiliated companies: Preparation unnecessary.
- II. Where the Company has carried out a private placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the Annual Report, disclose the date on which the placement was approved by the Board of Directors or by a Shareholders' Meeting, the amount thus approved, the basis for and reasonableness of the pricing, the manner in which the specified persons were selected, and the reasons why the private placement method was necessary: None.
- III. Status of holding or disposing of the Company's stocks by subsidiaries in the most recent year and as of the date of publication of the Annual Report: None.
- IV. Other necessary supplementary explanations: None.

Nine. Any of the situations listed in subparagraph 2, paragraph 2, Article 36 of the Securities and Exchange Act, which might materially affect shareholder equity or the price of the Company's securities, which has occurred during the most recent year or during the current year up to the date of publication of the annual report: None.

Kao Hsing Chang Iron & Steel Corp.



Chairman 呂 泰 榮 