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**KAO HSING CHANG IRON & STEEL CORP.**

# ***2022***

## **Annual Report**

Published on May 19, 2023

- 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)	No. 6, Yonggong 1st Rd, Yongan Industrial Park, Yongan District, Kaohsiung City	(07)6229601
Pingtung Branch (Steel pipes)	No. 2, Yongxiang Rd., Fangliao Township, Pingnan Industrial Park, Pingtung County	(08)8668800

- Spokesperson

Name: Hsu Pang-Feng

Title: Manager, Steel Pipe Department

Telephone: (07)555-6111

Email: purc02@khc.com.tw

- Deputy Spokesperson

Name: Kuo Chien-Hung

Title: Deputy Manager, Logistics Department

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

Name: Hsu Chen-Lung, Chen Yung-Hsiang

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>

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- 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
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In the most recent year and as of the printing date of the Annual Report, the occurrence of the matters that has a significant impact on shareholders' equity or securities prices as specified in Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act: None.

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## One. Letter to Shareholders

### I. Chairman's Remarks:

Dear Shareholders, ladies and gentlemen:

Welcome, everyone, to attend our general shareholders' meeting. Here are the reports on our business overview of 2022 and the business plan for this year:

In the second quarter of 2022, the number of people with a confirmed diagnosis domestically started to climb. Meanwhile, impacted by the Russia-Ukraine War and the lock-down measure adopted in China against the pandemic, demand in the US, Europe, and China all dropped significantly and the exports growth in Taiwan slowed down. Manufacturers turned conservative with investments. Fortunately, impact of the pandemic is gradually dying out and the government is slowly lifting related anti-pandemic measures. Domestic demand, spending and the performance of related sectors are turning better to support the economy with domestic demand instead of exports and hence the performance will not change much as a whole. In the second half of 2022, the demand on the primary market and in the downstream dropped suddenly and quotations of raw materials were sluggish, so the performance of the steel industry appeared to be slow throughout the year. As the price of steel continued to rise later and expansion of electronics factories went on, it helped the steel market to remain balanced between supply and demand and the falling stream on the primary market in terms of steel quotations slowed down.

With the rising demand, the sales of steel pipes of the Company in 2022 were superior to the preceding year both domestically and internationally. Profits also surged significantly compared to 2021. Due to the constantly stabilizing international oil prices, the number of oil wells rose significantly. Therefore, exports of steel pipes reached 15,557 MT, a year-on-year growth of 623% and despite the undesirable demand for steel pipes domestically due to the delay in private constructions in the market, governmental infrastructures and returning Taiwanese businesses managed to stabilize the economy and electronics factories increased their number of purchase orders; as a result, sales of the mainstream product, galvanized steel, remained stable and reached 33,840 MT, a year-on-year growth of 1.75% in 2022.

In terms of exports of steel pipes, the steel industry still has to deal with the high tariff barrier set under the US "Section 232" for the time being and to compete with the tariff-free low-price steel from Korea, resulting in fierce competition over purchase orders in the export market. Meanwhile, the demand on the market in the US is weak and export customers are yet to finish lowering their inventory levels. In other words, order-taking depends on how customers' inventory levels are lowered. In terms of the domestic sales of steel pipes, as the pandemic stabilizes, domestic investments and purchasing power are climbing steadily and it is expected that the

demand for galvanized steel will continue to grow.

To sum up, given the persistently stable pandemic and the continuously rising prices of steel in addition to the steady order-taking status of steel pipes, we are cautious and optimistic about this year's operation and it is our hope that you, the shareholders can continue to support and encourage us.

Finally, I wish all for shareholders

good health and happy families

Chairman Lu Tai Rong



## II. 2022 Annual Business Results

### Implementation of Business Plan:

In 2022, 50,238 tons were produced, a growth of 49% from the 33,691 tons in 2021. The sales in 2022 reached 52,419 tons, an increase of 20% from the 43,779 tons in 2021.

Operating income in 2022 was NTD 2,216,055 thousand, an increase of 43% compared to the NTD 1,550,624 thousand in 2021. The net profit after tax was NTD 112,184 thousand, with the earnings per share of NTD 0.56. Details are as follows:

## III, Financial Income, Expenditure, and Profitability Analysis:

### Financial Income and Expenditure:

#### 1. Comprehensive income statement for the last two years:

Unit: NTD Thousand

Item	2022	%	2021	%
Operating income	2,216,054	100	1,550,624	100
Operating cost	1,888,923	85	1,356,051	87
Gross operating loss	327,131	15	194,573	12
Marketing expenditure	120,872	5	33,868	2
Overhead	67,785	3	63,743	4
Net operating loss	138,474	7	96,962	6
Non-operating income and expenditure	(18,915)	(2)	(34,393)	(2)
Net profit (loss) before tax	119,559	5	62,569	4
Income tax expenditure	7,375		20,452	
Net profit (loss) for the period	112,184	5	42,117	4

2. The increase in the operating gross profit of 2022 was mainly due to the rising domestic and international steel prices.
3. The increase in solicitation was mainly to the increase in export sales and the rising sea freight cost.
4. The net profit after tax in 2022 was NTD 112,184 thousand, with the earnings per share of NTD 0.56.



#### Profitability Analysis:

Analysis item		2022	
Profitability	Return on assets (%)	2.33	
	Shareholder return on equity (%)	3.87	
	Ratio in paid-in capital (%)	Operating gain (loss)	6.89
		Gain (loss) before tax	5.95
	Net profit rate (%)	7.23	
	Earnings per share (NTD)	0.56	

#### 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 and the work environment. In 2022, the old galvanizing furnace equipment, the smoke tube boilers, were replaced; new galvanized furnace tripods were made; update and modification of tubing machines and API small-to-medium-sized equipment continued; and crane tracks were overhauled, among others.

#### V. Impacts from External Competition, Regulatory Environment and Overall Operational Setting:

1. Last year for the sake of inhibiting inflation, interest rates were increased one after another in major economies. Manufacturing activities in respective countries obviously slowed down. There were other variables such as the persistent Russia-Ukraine war and the resurgence of the US-China tech war. All deepened concerns about the global economic outlook. Therefore, it is consistently believed by major international forecast institutes that the global economic and trade will grow at a slower pace this year compared to last year to further impact the performance of Taiwan in imports/exports and investments. Fortunately, impact from the local pandemic have gradually died down and the government is significantly opening up in terms of related anti-pandemic measures. Both domestic consumption and the performance of related sectors have turned better to support the economy in shifting from exports to domestic demand.
2. The Russia-Ukraine war has persisted, which is enlarging the gap in the supply of steel. The existing demand from Europe and Turkey, among others,

in particular, will have to be purchased from other regions to increase the supply stress in Asia. In addition, the strong earthquake in the southern part of Turkey partially obstructed the production and transport of major local steel plants, which may reduce the quantity of steel materials exported as they may be supplied first to meet the after-math construction demand and it is expected to drive up the demand for steel in Europe. Mainland China, on the other hand, for the sake of consolidating the carbon neutralization goal, also introduces strict measures to control the production and distribution of steel, which further tightens the supply of steel around the world. In addition, steel plants in Japan and Korea of Northeast Asia followed one another and eliminated obsolete blast furnaces. It is expected that the supply of steel around the world will continue to be tense.

3. The World Steel Association (worldsteel) forecasts that the global demand for steel in 2023 will grow by 2.3% to reach 1.8223 billion tons. In addition, the US reached the steel tariff quota agreements with Europe, Japan and the UK. International trade in steel is slowly returning to normal.
4. In terms of the demand for steel, the economic policy for the industry was set as “maximization of domestic demand” after the 20th National Congress of the Chinese Communist Party (CCP) in order to reinforce the supportive force for investments in the manufacturing sector and to expedite the deployment of novel infrastructures while at the same time introducing respective policies to boost the housing market so that the demand for steel may be catalyzed. The demand for respective major steel on the international market is steadily returning and the outlook remains optimal. Domestically, it is expected that the demand for steel to support public constructions and the construction of factories and offices will still grow steadily in 2023.
5. Domestic urban planning and the green energy facilities such as offshore wind power and solar photoelectricity to be set up are expected to drive investments in related sectors. As the global economy starts to regress and the stress of inflation and rate hike persists, whether or not domestic willingness to make investments and the timeline will be delayed or reduced as such will be a variable for the future.

## VI. Overview of 2023 Business Plan:

For 2023, sales of steel pipes are estimated to be 48,459 tons, a decrease of approximately 2% from the 49,397 tons in 2022 and those of circulating products are expected to be 3,600 tons, an increase of 36% from the 2,640 tons in 2022. (This is the 2023 annual budget approved by the Board of Directors on November 11, 2022.)

The International Monetary Fund (IMF) forecasts that the latest global economic growth rate this year is 2.8% and it is also forecast by the Directorate General of Budget, Accounting and Statistics that the Taiwan economic growth rate will be 2.12%. It is expected that Mainland China will introduce multiple policies to

boost the economy. In addition, the lifting of border restrictions in Taiwan, Japan, and Korea will expedite the resumption of economic and social activities in respective countries and it is in favor of activating the international trade momentum. As far as the steel industry is concerned, iron ore and coal mine prices have been reaching new heights since January. Correspondingly, prices of hot-rolling raw materials surge quickly. Therefore, it is promising that prices of steel will continue to climb.

For the steel pipes exported by the Company, the steel industry still has to deal with the high tariff barrier set under the US “Section 232” for the time being and to compete with the tariff-free low-price steel from Korea, resulting in fierce competition over purchase orders on the export market. Meanwhile, the demand on the market in the US is weak and export customers are yet to finish lowering their inventory levels. In other words, order-taking depends on how customers’ inventory levels are lowered. In terms of the domestic sale of steel pipes, as the pandemic stabilizes, the Executive Yuan approved the “Future International Commercial Port Development and Construction Program”, which is expected to drive public and private investments worth NTD 320 billion. Returning Taiwanese businesses and expansion of technology plants also contributed to the constant release of demand from constructions of factories and offices. Domestic investments and purchasing power are climbing steadily and it is expected that the demand for galvanized steel will continue to grow.

To sum up, given the persistently stable pandemic and the continuously rising prices of steel in addition to the steady order-taking status of steel pipes, we are cautious and optimistic about this year’s operation.

## Two. Company Profile

### I. Date Established

Established on January 15, 1966.

### II. Company History

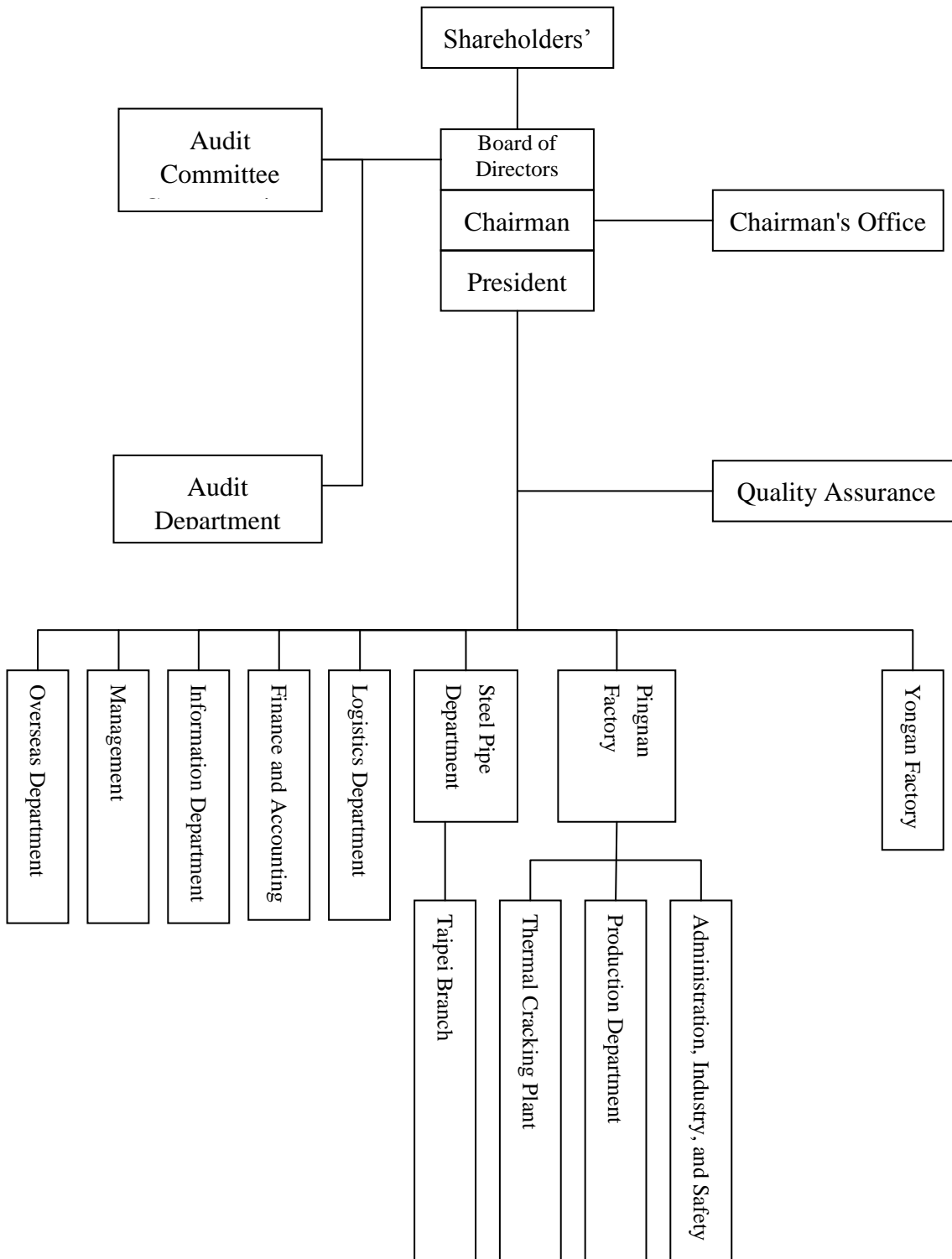
- January 1966: The Company was founded in Kaohsiung City with capital of NTD 800,000. It mainly produced steel pipes, steel plates and tinplate. Mr. Lu Te-Hsing was elected Chairman at this time.
- June 1968: Won CNS mark for galvanized steel from the Central Bureau of Standards of the Ministry of Economic Affairs.
- February 1975: Merged with Kao Hsing Iron & Steel Company with capital of NTD 200 million.
- June 1975: The trial 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 vehicle.
- 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 was completed and officially joined the cold-rolled steel coil production.
- July 1985: Large-scale SAW submerged arc welding equipment was added to produce 18"-60" steel pipes.
- January 1988: Yongan Factory purchased six-stage 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 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.
- May 2023: Treasury share capital reduction of NTD 100,000 thousand, bringing paid-in capital after the capital reduction to NTD 1,908,522,930.

# Three. Corporate Governance Report

## I. Organization System

Organizational Chart



## Scope of Operations of Respective Departments

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 of Directors 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 kept in books since 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.

Overseas 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 in June 2021 and in August 2018, all machinery and electrical equipment in the Yongan Factory were disposed of and all of the above equipment was completely dismantled in August 2019.



## II. Profile of directors, the President, Vice Presidents, Assistant Vice Presidents, and department and branch officers

### Director

#### 1. Profile of Directors

April 22, 2023

Job Title (Note 1)	Nationality or place of registration	Name	Gender Age (Note 2)	Appointment date	Term of office	Initial date of inauguration (Note 3)	Shares held at the time of appointment		Number of shares currently held		Number of shares currently held by spouse and minor children		Shares held in the name(s) of others		Main 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	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership			Title	Name	Relationship with the Company	
Chairman	Taiwan	Lu Tai Rong	Male 61~70 years old	08/26/2021	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	08/26/2021	3 years	1980.6.30	121,621,629,995	0.063.13	121,621,629,995	0.063.13	-	-	-	-	Tokai University	1. President of the Company 2. Director, Xiechang Steel Company				
Director Representative	Taiwan	Huida Investment Co., Ltd. Huang Li-Chun	Male 61~70 years old	08/26/2021	3 years	2008.6.25	40,999,312,222,343	20.41-	40,999,312,222,343	20.41-	5,785,926	2.88	-	-	Mechanical Engineering, Chung Yuan Christian University	1. Chairman, Huida Investment Co., Ltd. 2. Vice President, Kao Hsing Smelting & Chemical Fiber Co., LTD.				
Director Representative	Taiwan	You Chang Co., Ltd. Wu Hsien-Ming	Male 61~70 years old	08/26/2021	3 years	2011.9.27	380,000,38,000	0.190.02	380,000,38,000	0.190.02	-	-	-	-	Faculty of Law, National Taiwan University	Lawyer				
Director Representative	Taiwan	You Chang Co., Ltd. Lin Tzu-Hui	Male 61~70 years old	08/26/2021	3 years	2012.9.24	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	08/26/2021	3 years	1980.6.30	138,040,199,418	0.070.10	138,040,107,418	0.070.05	-	-	-	-	Waseda University	Former Vice Chairman of the Company				

Independent Director	Taiwan	Lin Hsien-Lang	Male 71~80 years old	08/26/2021	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	08/26/2021	3 years	2015.6.23	-	-	-	-	-	-	-	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	08/26/2021	3 years	2015.6.23	-	-	-	-	-	-	-	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 include the actual age and it may be expressed in ranges, such as 41~50 years old or 51~60 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 President 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 Corporate Shareholders

April 22, 2023

Name of institutional shareholder	Major Shareholders of Institutional Shareholders (Shareholding ratio contributions of the ten
1. Huida Investment Co., Ltd.	Lu Tai-Rong (13%), Liao Ying-Chiung (11%), Lu Ho-Lin (11%), Lu Ho-Ching (10%), Lu Ho-Lin Trust Property
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 Professionalism of Directors and Supervisors and Independence of Independent Directors:

April 22, 2023

Terms Name	Professionalism and experience (Note 1)	Independence (Note 2)	Number of other public companies concurrently served as an independent director
Lu Tai-Rong Director	With 5 years as a leader in the Board of Directors and experience in the steel industry and none of the conditions under Article 30 of the Company Act	-	0
Sheng Lu Rong Feng Director	With 5 years of experience in corporate administration and in the steel industry and none of the conditions under Article 30 of the Company Act	-	0
Huang Li-Chun Director	With 5 years of experience in corporate administration and in the steel industry and none of the conditions under Article 30 of the Company Act	-	0
Wu Hsien-Ming Director	With 5 years as a leader in the Board of Directors, an attorney and experienced in corporate administration and none of the conditions under Article 30 of the Company Act	-	0
Lin Tzu-Hui Director	With 5 years of experience in financial/accounting administration and in the steel industry and none of the conditions under Article 30 of the Company Act	-	0
Lu En-Chang Director	With 5 years of experience in corporate administration and in the steel industry and none of the conditions under Article 30 of the Company Act	-	0

Terms Name	Professionalism and experience (Note 1)	Independence (Note 2)	Number of other public companies concurrently served as an independent director
Lin Hsien- Lang Independ ent Director	With 5 years working as a CPA and president of KPMG Taiwan and none of the conditions under Article 30 of the Company Act	Independence is fulfilled and none of the following conditions: 1. Including, without limitation, the person, the spouse, or a relative within the second degree of kinship serving as the director, supervisor, or employee of the Company or any of its affiliates. 2. The number of shares held and the shareholding ratio of the spouse, or a relative within the second degree of kinship (or anyone else whose name is used). 3. Serving as a director, supervisor, or employee of a company related to the Company in a specific way. 4. The amount of rewards received for commercial, legal, financial, or accounting services provided to the Company or its affiliates over the most recent 2 years.	0
Chen Chi- Hsiung Independ ent Director	Retired as judge president of the Kaohsiung Branch of the Taiwan High Court and none of the conditions under Article 30 of the Company Act	Independence is fulfilled and none of the following conditions: 1. Including, without limitation, the person, the spouse, or a relative within the second degree of kinship serving as the director, supervisor, or employee of the Company or any of its affiliates. 2. The number of shares held and the shareholding ratio of the spouse, or a relative within the second degree of kinship (or anyone else whose name is used). 3. Serving as a director, supervisor, or employee of a company related to the	0

Terms Name	Professionalism and experience (Note 1)	Independence (Note 2)	Number of other public companies concurrently served as an independent director
		Company in a specific way. 4. The amount of rewards received for commercial, legal, financial, or accounting services provided to the Company or its affiliates over the most recent 2 years.	
Wu Hsiao- Yen Independent Director	With at least 5 years working as attorney and head of the Kaohsiung Branch of KPMG Taiwan and None of the conditions under Article 30 of the Company Act.	Independence is fulfilled and none of the following conditions: 1. Including, without limitation, the person, the spouse, or a relative within the second degree of kinship serving as the director, supervisor, or employee of the Company or any of its affiliates. 2. The number of shares held and the shareholding ratio of the spouse, or a relative within the second degree of kinship (or anyone else whose name is used). 3. Serving as a director, supervisor, or employee of a company related to the Company in a specific way. 4. The amount of rewards received for commercial, legal, financial, or accounting services provided to the Company or its affiliates over the most recent 2 years.	1

Note 1: Professionalism and experience: Specify the professionalism and experience of individual directors and supervisors. For those who are Audit Committee members with accounting or financial expertise, for example, the accounting or financial background and work experience shall be specified. Meanwhile, presence or not of the conditions under Article 30 of the Company Act shall be indicated.

Note 2: For independent directors, the status of independence shall be specified, including, without limitation, whether or not the independent director himself/herself, his/her spouse, or a relative within the second degree of kinship is serving as the director, supervisor of, or working for the Company or any of its affiliates, the number and weight of shares the independent director himself/herself, his/her spouse or a relative within the

second degree of kinship holds, whether or not the independent director himself/herself, his/her spouse or a relative within the second degree of kinship is serving as the director, supervisor of or working for a company in a specific relationship with the Company (refer to the requirements in Article 3 Paragraph 1 Sub-paragraphs 5-8 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies and the amount of rewards received for corporate commerce, legal affairs, financial affairs and accounting services provided over the past two years to the Company or any of its affiliates.

## 5. Diversification and Independence of Board of Directors:

### Diversification of Board of Directors:

1. As is required by the Company's "Procedure for Election of Directors," diversification shall be taken into consideration for the composition of the for Election of Directors Board of Directors and a suitable diversification policy is prepared reflective of its function, operational pattern, and developmental demand. It shall include, without limitation, the following two major criteria:
  - (1) Basic requirements and values: gender, age, nationality, and culture, etc.
  - (2) Professional knowledge and skills: A professional background (e.g., law, accounting, industry, finance, marketing, technology), professional skills and industry experience.
2. All board members are being required to possess the knowledge, skills and characters needed to perform their duties. The capabilities expected of them as a whole must include the following:
  - (1) Operating judgment
  - (2) Accounting and financial analysis
  - (2) Operations and management
  - (4) Crisis management
  - (5) Industrial knowledge
  - (6) International market views
  - (7) Leadership
  - (8) Decision-making

The Company's Board of Directors of the 21st intake consists of 9 members in total, including 3 independent directors and 3 of them are also employees, accounting for 33.3%. One female independent director to achieve the goal of gender equality.

The members of the Board of Directors have quite enriched administration experience. Each of them specializes in related fields and possesses the professional knowledge, skills, and attainments required for the duties they perform. Among the Top 8 core items, at least one-third of the members are capable of related operations.

### Independence of Board of Directors:

The Company's Board of Directors of the 21st intake consists of 9 members in total, including 3 independent directors, accounting for 33.3%, in order to ensure the independent nature of the Board of Directors. No directors are found with the conditions specified in Article 26-3 Paragraphs 3 and 4 of the Securities and Exchange Act and the directors are not each other's spouse or one another's relative within the second degree of kinship.



Profile of the President, Vice President, Assistant Vice President, and Respective Department and Branch Officers

April 22, 2023

Job Title (Note 1)	Nationality	Name	Gender	Date assumed office	Number of shares held		Spouse and minor children holding shares		Shares held in the name(s) of others		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	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership			Job Title	Name	Relationship with the Company	
President	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	-	-	-	
Steel pipes factory Factory head	Taiwan	Chang Yin- Deng	Male	08/13/2021	-	-	-	-	-	-	Department of Mechanical Engineering, National Taipei Institute of Technology National Pingtung University of Science and Technology Master in Advanced Business Administration Vice Factory Head, Steel Pipes 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	-	-	-	
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: It shall include the profile of the President, Vice Presidents, Assistant Vice Presidents, and respective department and branch

officers and those ranking equivalent to President, Vice President, and Assistant Vice President; all shall be disclosed.

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 President 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.).

### III. Remuneration Paid to Directors, President and Vice- President in the Most Recent Year

April 22, 2023

#### 1. Remuneration to directors (including independent directors)

Unit: NTD thousand

Job Title	Name	Remuneration to directors								Ratio of the total amount of A, B, C and D vs. net profit after tax		Remuneration from concurrently serving as employee								Ratio of the sum of A, B, C, D, E, F and G to net gains (losses) after tax		Remuneration received from investee companies outside of subsidiaries
		Remuneration (A)		Retirement pension (B)		Director's remuneration (C)		Business execution expenses (D)				Salary, bonuses, and special expenses (E)		Retirement and pension (F)		Remuneration to employees (G)						
		The Company	All companies included in the financial report	The Company	All companies included in the financial report	The Company	All companies included in the financial report	The Company	All companies included in the financial report	The Company	All companies included in the financial report	The Company (Note 2)	All companies included in the financial report (Note 2)	The Company (Note 2)	All companies included in the financial report (Note 2)	The Company		All companies included in the financial report		The Company	All companies included in the financial report	
Chairman	Lu Tai Rong	-	-	-	-	-	-	280	280			2,610	2,610	-	-	4	-	-	-			40
Director	Pro Imp'lex Company Limited Sheng Lu Rong Feng	-	-	-	-	-	-	280	280			2,480	2,480	-	-	4	-	-	-			-
Director	Huida Investment Co., Ltd. Huang Li-Chun	-	-	-	-	-	-	880	880			-	-	-	-	-	-	-	-			-
Director	You Chang Co., Ltd. Wu Hsien-Ming	-	-	-	-	-	-	280	280	3.87%	3.87%	-	-	-	-	-	-	-	-	9.17%	9.17%	-
Director	You Chang Co., Ltd. Lin Tzu-Hui	-	-	-	-	-	-	280	280			844	844	-	-	4	-	-	-			-
Director	Hong Well Company Limited Lu En-Chang	-	-	-	-	-	-	280	280			-	-	-	-	-	-	-	-			-
Independent Director	Lin Hsien-Lang	318	318	-	-	-	-	400	400			-	-	-	-	-	-	-	-			-
Independent Director	Chen Chi-Hsiung	270	270	-	-	-	-	400	400			-	-	-	-	-	-	-	-			-
Independent Director	Wu Hsiao-Yen	270	270	-	-	-	-	400	400			-	-	-	-	-	-	-	-			-

Note 1: The Company provides automobiles for management personnel. In 2022, the undiscounted balance of such automobile equipment was NTD 939,154. (Cost of NTD 11,270,000 minus accumulated depreciation of NTD 10,330,846). 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 2022 consolidated statements are not applicable; the net profit after tax for 2022 was NTD 112,184 thousand.

## 2. Remuneration Paid to President and Vice-President

April 22, 2023

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 (%)		Remuneration received from investee companies outside of subsidiaries
		The Company	All companies included in the financial report	The Company	All companies included in the financial report	The Company	All companies included in the financial report	The Company		All companies included in the financial report		The Company	All companies included in the financial report	
								Cash dividends amount	Stock dividend amount	Cash dividend amount	Stock dividend amount			
Director and President	Sheng Lu Rong Feng	2,281	2,281	0	0	198	198	4	0	0	0	2.21%	2.21%	0

Note 1: One car is provided in 2022, and the undiscounted balance of such automobile equipment is NTD 469,577. (Cost of NTD 5,635,000 minus accumulated depreciation of NTD 5,165,423).

2. Vice President of the Company (vacancy).

3. Remuneration to Top 5 officers with the highest remuneration of the Company (the name and how the remuneration is paid shall be disclosed separately) (Note 1)

Job Title	Name	Salary (A) (Note 2)		Retirement pension (B)		Bonuses and special expenses (C) (Note 3)		Employee compensation amount (D) (Note 4)				Ratio of the sum and of A, B, C, and D to net gains after tax (%) (Note 6)		Claim of remuneration from re- investees other than subsidiaries or the parent company (Note 7)
		The Compa ny	All companies included in the financial report (Note 5)	The Compa ny	All companies included in the financial report (Note 5)	The Compa ny	All companies included in the financial report (Note 5)	The Company		All companies included in the financial report (Note 5)		The Compa ny	All companies included in the financial report	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Sheng Lu Rong Feng	2,281	2,281	0	0	198	198	4	0	4	0	2.21	2.21	280
Chief Corporate Governance Officer	Lin Tzu- Hui	776	776	0	0	68	68	4	0	4	0	0.76	0.76	280
Manager, Finance and Accounting Department	Chao Hui-Mei	1,269	1,269	0	0	69	69	4	0	4	0	1.2	1.2	None

Note 1: 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 is also one of the department heads mentioned above, this table and the table (1-1) above should be completed.

Note 2: The salary, differential pay, and severance pay of the Top 5 department heads with the highest remuneration in the past year.

Note 3: The various types of bonuses, rewards, transportation, special expenditure, various allowances, dormitory, and company cars, among other supplies in kind paid to Top 5 department heads with the highest remuneration in the past year and other rewards. When houses, automobiles, and other transportation tools or expenses that are specific to individuals are provided, the nature and cost of the assets provided, the actual or market-value-based rental, the cost of gasoline, and other payments shall be disclosed. If a driver is assigned, too, please also indicate in the note related compensation payable by the Company to the driver, which, however, is not included as part of the remuneration. In addition, the value of compensation recognized according to IFRS 2 “share-based payment”, including employee stock option certificate, restricted employee shares, and shares subscribed upon increased capital in cash, shall be included in the calculation of remuneration, too.

Note 4: Employee remuneration (including stock and cash) distributed to Top 5 department heads with the highest remuneration in the past year. If it is impossible to estimate the value planned to be distributed this year, follow the actual value distributed last year and calculate proportionally and Table 1-3 shall be completed, too.

Note 5: The total value of the various types of remunerations paid to Top 5 department heads with the highest remuneration of the Company by all companies (including the Company) included in the Consolidated Statement shall be disclosed.

Note 6: Net gains after tax refers to that shown in the parent company-only or individual financial statement of the past year.

Note 7: a. For this field, the value of related remuneration from re-investees other than the subsidiaries or the parent company that the Top 5 department heads with the highest remuneration of the Company received shall be specified. (If none, indicate “N/A”.)

b. Remuneration is the compensation, rewards (including employees, directors, and supervisors), and payments from performing tasks received by the Company’s Top

5 department heads with the highest remuneration of the Company for serving as director, supervisor or manager in a re-invested business other than the subsidiaries or the parent company.

\* The remuneration disclosed herein differs from the idea of income as indicated in the Income Tax Act. Therefore, this table is meant for information disclosure only, not for taxation.

4. Names of managers assigned with employee remuneration and the distribution:

	Job Title	Name	Stock amount	Cash amount	Total	Ratio of sum to net gains after tax (%)
Manager	President	Sheng Lu Rong Feng	0	4	4	0
Manager	Chief Corporate Governance Officer	Lin Tzu-Hui	0	4	4	0
Manager	Manager, Finance and Accounting Department	Chao Hui-Mei	0	4	4	0

5. Separately compare the analysis of total remuneration payment over the most recent two years by the Company and all companies included in the consolidated financial statements to the Company's directors and President 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 remuneration was determined, and their association with operating performance and future risk:

Units: NTD Thousand, %

Year	Net profit or loss after tax	Remuneration to directors		Ratio of remuneration to directors to gains or losses after tax		Remuneration to the President		Ratio of remuneration to the President to gains or losses after tax	
		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
2022	112,184	10,282	10,282	9.17%	9.17%	2,763	2,763	2.46%	2.46%
2021	42,117	10,078	10,078	23.93%	23.93%	2,611	2,611	6.20%	6.20%

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

The Company pays remuneration 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 remuneration.

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) Remuneration to managers

- a. The remuneration to managers is determined reflective of the overall market positioning and the survey of salaries in respective

sectors as well as the fulfillment of goals and contribution of managers as a whole.

- b. The remuneration to managers includes basic salary, additional pays for high-ranking officers, various allowances, prizes, year-end bonus and remuneration to employees.
- c. The personal salary and compensation of managers are based on the Company's Employee Salary Policy and the Compensation and Remuneration Committee periodically evaluates the legitimacy of the salary and compensation.

(2) Remuneration to directors:

- a. As is required by the Articles of Incorporation, up to 5% of the annual profit may be set aside to be the remuneration to directors for the year and such remuneration is to be assigned reflective of the performance evaluation results of the respective directors.
- b. In addition, as is required by the Articles of Incorporation 21: 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.

It was decided in the general shareholders' meeting of 1995 that the Board of Directors is authorized to make a decision over the monthly salary paid to each executive director and supervisor that is within the limit of NTD 280 thousand.

The transportation for each director each month is NTD 20 thousand and that for each independent director is NTD 30 thousand; for each Board of Directors meeting attended, it is NTD 10 thousand per person.

In the event that the directors and independent directors also serve as members of respective functional committees of the Company, the compensation for each functional committee member at a fixed amount may be paid on a monthly basis and the transportation for each meeting actually attended applies.

Independent directors are paid compensation at a fixed amount on a monthly basis, but they are not entitled to the distribution of earnings.

Over the most recent two years, the total remuneration paid to the Company's directors and President only covered the fixed remuneration such as transportation and the monthly fixed-amount compensation, excluding variable remuneration relevant to performance.



## IV. Corporate Governance Status

### Information on the operations of the Board of Directors

1. The Board of Directors met 4 times in total in 2022 and the attendance of directors in the meetings is as follows:

Job Title	Name		Actual attendance (seated) frequency	Attendance by proxy Frequency	Actual attendance (seated) rate (%)	Remarks
Chairman	Lu Tai-Rong		4	-	100%	Re-elected on 8/26/2021 Re-elected
Director	Pro Imp'ex Company Limited	Sheng Lu Rong Feng	3	1	75%	Re-elected on 8/26/2021 Re-elected
Director	Huida Investment Co., Ltd.	Huang Li-Chun	4	-	100%	Re-elected on 8/26/2021 Re-elected
Director	You Chang Co., Ltd.	Wu Hsien-Ming	3	1	75%	Re-elected on 8/26/2021 Re-elected
Director		Lin Tzu-Hui	4	-	100%	Re-elected on 8/26/2021 Re-elected
Director	Hong Well Company Limited	Lu En-Chang	4	-	100%	Re-elected on 8/26/2021 Re-elected
Independent Director	Lin Hsien-Lang		4	-	100%	Re-elected on 8/26/2021 Re-elected
Independent Director	Chen Chi-Hsiung		4	-	100%	Re-elected on 8/26/2021 Re-elected
Independent Director	Wu Hsiao-Yen		4	-	100%	Re-elected on 8/26/2021 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:

Date of Board of Directors Meeting Term	Proposal content	Board resolution results	Audit Committee resolution results
3/10/2022 4th meeting of the Board of Directors of the 21st intake	Matters for Acknowledgment and Discussion, Proposal 1: Distribution method of remuneration to the employees and that to the directors for 2021	It was approved by all attending directors.	3/10/2021 5th meeting of the Compensation and Remuneration Committee of the 3rd intake: it was approved by all attending members
	Matters for Acknowledgment and Discussion, Proposal 2: The Company's 2021 Business Report and Financial Statements	It was approved and acknowledged as is by all attending directors.	3/10/2022 12th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 3: Preparation of the Company's 2021 Earnings Distribution Statement	It was approved and acknowledged as is by all attending directors.	3/10/2022 12th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 4: Assessment of the independence of new CPAs upon expiration of current ones.	It was approved by all attending directors.	3/10/2022 12th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 5: intended issuance of the Company's 2021 Internal Control System Declaration	It was approved by all attending directors.	3/10/2022 12th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 6: proposed amendment to part of the provisions of the "Procedures for Acquiring or	It was approved by all attending directors.	3/10/2022 12th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all

Date of Board of Directors Meeting Term	Proposal content	Board resolution results	Audit Committee resolution results
	Disposing of Assets”		the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 7: Proposed amendment to part of the provisions of the “Operating Procedures for Endorsements/Guarantees”	It was approved by all attending directors.	3/10/2022 12th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
05/10/2022 5th meeting of the Board of Directors of the 21st intake	Matters for Acknowledgment and Discussion, Proposal 1: The Company's Financial Statements for the First Quarter of 2022	It was approved and acknowledged as is by all attending directors.	5/10/2022 5th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 2: Amendments to the Company’s “Stock Services Internal Control System”	It was approved by all attending directors.	5/10/2022 5th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.
8/9/2022 6th meeting of the Board of Directors of the 21st intake	Matters for Acknowledgment and Discussion, Proposal 1: The Company's Financial Statements for 2nd Quarter of 2022	It was approved and acknowledged as is by all attending directors.	8/9/2022 6th meeting of the Audit Committee of the 2nd intake: after the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors
11/11/2022 7th meeting of the Board of Directors of the 21st intake	Matters for Acknowledgment and Discussion, Proposal 1: The Company's Financial Statements for 3rd Quarter of 2022	It was approved and acknowledged as is by all attending directors.	11/11/2022 7th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is.
	Matters for Acknowledgment and Discussion, Proposal 4: 2023 Audit Plan	It was approved by all attending directors.	11/11/2022 7th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is.

Date of Board of Directors Meeting Term	Proposal content	Board resolution results	Audit Committee resolution results
	Matters for Acknowledgment and Discussion, Proposal 7: Intended return of held shares of How Weih Holding (Cayman) Co. Ltd. to be directly held shares of How Weih Electronics Technology (Huizhou) Co., Ltd., a second-tier subsidiary in Mainland China	It was approved by all attending directors.	11/11/2022 7th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is.
	Matters for Acknowledgment and Discussion, Proposal 8: Intended sale of the Company's land in Lot 2 of Hsindian section.	All attending directors approved it following amendment: The Chairman is authorized to sell it at NTD 850 thousand, exclusive, per ping (1 ping = 3.305785 m <sup>2</sup> ) before January 6, 2023.	11/11/2022 7th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved as is.
3/7/2023 8th meeting of the Board of Directors of the 21st intake	Matters for Acknowledgment and Discussion, Proposal 1: Distribution method of remuneration to employees and that to directors for 2022	It was approved by all attending directors.	3/7/2023 5th meeting of the Compensation and Remuneration Committee of the 5th intake: after the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 2: The Company's 2022 Business Report and Financial Statements	It was approved and acknowledged as is by all attending directors.	3/7/2023 8th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 3: Preparation of the Company's 2022 Earnings Distribution Statement	It was approved and acknowledged as is by all attending directors.	3/7/2023 8th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 4: Assessment of the independence of CPAs.	It was approved by all attending directors.	3/7/2023 8th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.

Date of Board of Directors Meeting Term	Proposal content	Board resolution results	Audit Committee resolution results
	Matters for Acknowledgment and Discussion, Proposal 5: Intended issuance of the Company's 2022 Internal Control System Declaration	It was approved by all attending directors.	3/7/2023 8th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 6: Amendments to the Company's "Stock Services Internal Control System"	It was approved by all attending directors.	3/7/2023 8th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.
	Matters for Acknowledgment and Discussion, Proposal 7: Intended buyback of treasury stock for the 7th time	All attending directors approved it following the amendment: The lowest buy-back price was amended to be NTD 13.5 and the buyback price range was NTD 13.5 to NTD 27.	3/7/2023 8th meeting of the Audit Committee of the 2nd intake: After the presiding chair consulted all the members present, the proposal was approved 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.

II. 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: None.

III. According to the Company’s “Board of Directors Performance Evaluation Method,” the Company shall conduct the Board performance evaluation for once per. In 2022, the evaluation was conducted in the form of the questionnaire completed by all directors.

Implementation of Board of Directors evaluations in 2022

Evaluation cycle	Evaluation period	Scope of evaluation	Method of evaluation	Contents of evaluation
Once per year	01/01/2022 ~ 12/31/2022	Board of Directors Performance Evaluation	Board’s Internal Self-Evaluation	A. Involvement in corporate operation B. Improved decision-making quality of the Board of Directors C. Composition and structure of Board of Directors D. Election and continuing education of directors E. Internal control
Once per year	01/01/2022 ~ 12/31/2022	Individual director’s performance evaluation	Members of Board of Directors Self-assessment	A. Alignment with the goals and mission of the Company B. Awareness of duties as a director C. Involvement in corporate operation D. Management of internal relationship and communication E. Professionalism and continuing education of directors F. Internal control
Evaluation cycle	Evaluation period	Scope of evaluation	Method of evaluation	Contents of evaluation

Once per year	01/01/2022 ~ 12/31/2022	Audit Committee Performance Evaluation	Audit Committee's Internal Self- Evaluation	A. Involvement in corporate operation B. Awareness of the duties of the functional committee C. Improved decision- making quality of the functional committee. D. Composition and member election of the functional committee E. Internal control
Once per year	01/01/2022 ~ 12/31/2022	Compensation and Remuneration Committee Performance Evaluation	Compensation and Remuneration Committee's Internal Self- Evaluation	A. Involvement in corporate operation B. Awareness of the duties of the functional committee C. Improved decision- making quality of the functional committee. D. Composition and member election of the functional committee

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 the most recent year will be carried out.

1. 6/27/2018 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. 11/7/2019 Established the “Board of Directors Performance Evaluation Method” and implemented the same since 2020; the 2022 Board of Directors performance

evaluation results were already reported during the 8th meeting of the Board of Directors of the 21st intake on March 7, 2023.

5. 3/11/2021 It was approved to set up the corporate governance officer during the 13th meeting of the Board of Directors of the 20th intake.

6. 11/11/2022 It was approved to set up the ESG Sustainability Report Promotion Committee during the 7th meeting of the Board of Directors of the 21st intake.

Information on the operations of the Audit Committee:

The Company established the Audit Committee on June 27, 2018. The Audit Committee of the 2nd intake met 4 times in total in 2022. Attendance of independent directors is as follows:

Job Title	Name	Actual attendance (seated) frequency	Attendance by proxy Frequency	Actual attendance (seated) rate (%)	Remarks
Convener	Lin Hsien-Lang	4	-	100%	Independent Director Re-elected on 8/26/2021 Re-elected
Member	Chen Chi-Hsiung	4	-	100%	Independent Director Re-elected on 8/26/2021 Re-elected
Member	Wu Hsiao-Yen	4	-	100%	Independent Director Re-elected on 8/26/2021 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:

Audit Committee Date Term	Proposal content	Audit Committee resolution results	How the Company addressed opinions from the Audit Committee (decisions made by the Board of Directors)
3/10/2022 The 4 <sup>th</sup> meeting of the second intake	Matters for Acknowledgment and Discussion, Proposal 1: The Company's 2021 Business Report and Financial Statements	After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.	It was approved and acknowledged as is by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 2: The Company’s 2021 Earnings Distribution Proposal	After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.	It was approved and acknowledged as is by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 3: Assessment of the independence of new CPAs upon expiration of current ones.	After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 4: Intended issuance of 2021 Internal Control System Declaration	After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 5: Amendment to the “Procedures for Acquiring or Disposing of Assets”	After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.	Approved by all directors present.
	Matters for Acknowledgment and Discussion, Proposal 6: Amendment to the “Operating Procedures for Endorsements and Guarantees”	After the presiding chair consulted all the members present, the proposal was approved and reported to the Board of Directors.	Approved by all directors present.
05/10/2022 The 5 <sup>th</sup> meeting of the second	Matters for Acknowledgment and Discussion, Proposal 1: The Company's Financial Statements for the First	After the presiding chair consulted all the members present, the	It was approved and acknowledged as is by all attending directors.

Audit Committee Date Term	Proposal content	Audit Committee resolution results	How the Company addressed opinions from the Audit Committee (decisions made by the Board of Directors)
intake	Quarter of 2022	proposal was approved as is and reported to the Board of Directors.	
	Matters for Acknowledgment and Discussion, Proposal 2: Amendments to the Company's "Stock Services Internal Control System"	After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.	It was approved by all attending directors.
8/9/2022 The 6 <sup>th</sup> meeting of the second intake	Matters for Acknowledgment and Discussion, Proposal 1: The Company's Financial Statements for 2nd Quarter of 2022	After the presiding chair consulted all the members present, the proposal was approved as is and reported to the Board of Directors.	It was approved and acknowledged as is by all attending directors.
11/11/2022 The 7 <sup>th</sup> meeting of the second intake	Matters for Acknowledgment and Discussion, Proposal 1: The Company's Financial Statements for 3rd Quarter of 2022	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved and acknowledged as is by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 2: 2023 Audit Plan	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 3: Adjustment of investment framework - Switch of shares held of How Weih Electronics Technology (Huizhou) Co., Ltd., through How Weih Holding (Cayman) Co. Ltd. to be directly held	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 4: Intended sale of the Company's land in Lot 2 of Hsindian section.	After the presiding chair consulted all the members present, the proposal was approved as is.	All attending directors approved it following amendment: The Chairman is authorized to sell it at NTD 850 thousand, exclusive, per ping (1 ping = 3.305785 m <sup>2</sup> ) before January 6, 2023.
	Matters for Acknowledgment and Discussion, Proposal 5: Intended preparation of general principles for the policy on advance approval of non-confirmatory service of the Company	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved by all attending directors.
3/7/2023 The 8 <sup>th</sup> meeting of the second	Matters for Acknowledgment and Discussion, Proposal 1: The Company's 2022 Business Report and Financial	After the presiding chair consulted all the members present, the proposal was	It was approved and acknowledged as is by all attending directors.

Audit Committee Date Term	Proposal content	Audit Committee resolution results	How the Company addressed opinions from the Audit Committee (decisions made by the Board of Directors)
intake	Statements	approved as is.	
	Matters for Acknowledgment and Discussion, Proposal 2: Preparation of the Company's 2022 Earnings Distribution Statement	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved and acknowledged as is by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 3: Assessment of the independence of CPAs.	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 4: Intended issuance of the Company's 2022 Internal Control System Declaration	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 5: Amendments to the Company's "Stock Services Internal Control System"	After the presiding chair consulted all the members present, the proposal was approved as is.	It was approved by all attending directors.
	Matters for Acknowledgment and Discussion, Proposal 6: Intended buyback of treasury stock for the 7th time	After the presiding chair consulted all the members present, the proposal was approved as is.	All attending directors approved it following amendment: The lowest buy-back price was amended to be NTD 13.5 and the buyback price range was NTD 13.5 to NTD 27.

(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 of Directors 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 of Directors meetings and communicate and discuss matters related to financial reports alone prior to the meetings.

IV. Highlights of Tasks Performed by the Audit Committee Throughout 2022:

1. Review of the adequacy of the annual financial report and financial statements for respective quarters
2. Review of Business Report and distribution of earnings
3. Review of the independence of CPAs
4. Review of revisions made to the internal control system
5. Review of annual audit plan
6. Evaluation of the effectiveness of the internal control system
7. Review of major asset transactions and major investments.

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.	There are no major deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX-Listed Companies
II. The equity structure and shareholders' equity of the Company				
Does the Company have internal operating procedures in place to deal with shareholder recommendations, doubts, disputes and litigation matters according to the procedures?	✓		Instructs relevant departments to deal with issues such as uncertainties, disputes and litigation concerning shareholder recommendations.	There are no major deviations from the requirements in Article 13 of the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies.
Does the Company have a list of the major shareholders who actually control the Company, and the ultimate controllers of the major shareholders?	✓		The stock affairs unit shall maintain an understanding of equity changes among major shareholders.	There are no major deviations from the requirements in Article 19 of the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies.
Has the Company established and implemented the risk management, control and prevention mechanisms for affiliated companies?	✓		The Board of Directors has approved and implemented the "Supervision and Management Measures for Subsidiary Companies".	There are no major deviations from the requirements in Article 14 of the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies.

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
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 and implemented the "Management Procedures for Preventing Against Insider Trading.".	There are no major deviations from the requirements in TWSE/TPEX-Listed Companies
<p>III. Composition and Duties of the Board of Directors</p> <p>Has the Board developed its policies in diversity relevant to the composition of the members and has it properly pursued these policies?</p> <p>Has the Company voluntarily set up other functional committees other than the Compensation and Remuneration Committee and the Audit Committee according to law?</p>	✓	<p>✓</p> <p>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.</p> <p>✓ A Compensation and Remuneration Committee has been established in accordance with the regulations, and on 8/26/2021 independent directors were elected during the shareholders' meeting and the Audit Committee was established.</p>	<p>There are no major deviations from the requirements in TWSE/TPEX-Listed Companies</p> <p>There are no major deviations from the requirements in TWSE/TPEX-Listed Companies</p>	

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
Has the Company formulated the Board of Directors performance assessment and evaluation method, conduct performance evaluation annually and regularly, and report the results of the performance evaluation to the Board of Directors, and apply it to individual directors' remuneration and nomination renewal?	✓		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 evaluation results will be reported to the Board of Directors. This shall also serve as reference for individual directors' remuneration and nomination for renewal.	There are no major deviations from the requirements in TWSE/TPEX-Listed Companies
Has the Company assessed the independence status of the CPAs at regular intervals?	✓		<ol style="list-style-type: none"> <li>1. Independence of CPAs is evaluated once a year.</li> <li>2. CPAs issue the Independence Declaration.</li> <li>3. The independence of CPAs delegated by the Company for 2023 is evaluated with reference to the assessment items defined under Article 47 of the Certified Public Accountant Act and "Integrity, Objectivity and Independence" set forth in The Bulletin of Norm of Professional Ethics for Certified Public Accountant No. 10. After the evaluation report was brought</li> </ol>	There are no major deviations from the requirements in TWSE/TPEX-Listed Companies

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
			<p>forth in the 8th meeting of the Audit Committee of the 2nd intake for discussion and in the 8th meeting of the Board of Directors of the 21st intake on March 7, 2023.</p> <p>4. Evaluation criteria for the independence of CPAs:</p> <p>(1) No absence of replacement for seven years has occurred as of the latest certification.</p> <p>(2) There is no material financial interest relationship with the authorizer.</p> <p>(3) Any inappropriate relationship with the Company is avoided.</p> <p>(4) The CPA shall have his/her assistants precisely adhere to honesty, fairness and independence.</p> <p>(5) No audits and certification may be done on the financial statements for the two years prior to practice.</p> <p>(6) The name of the CPA may not be used by any other person.</p>	



Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
			<p>(7) The CPA does not hold shares of the Company and its affiliates.</p> <p>(8) There are no money borrowings with the Company and its affiliates.</p> <p>(9) There are no joint investments or sharing of interests with the Company or its affiliates.</p> <p>(10) The CPA is not working part-time on a regular basis for the Company or its affiliates and receiving fixed salaries.</p> <p>The CPA is not involved in the managerial functions such as decision-making of the Company or its affiliates.</p> <p>The CPA is not running other businesses that may result in loss of independence at the same time.</p> <p>The CPA is not a spouse, lineal relative, relative by marriage, or relative by blood</p>	

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
			<p>within the second degree of kinship of the management of the Company.</p> <p>The CPA is not collecting any commission that has to do with business operation.</p> <p>There have been no disciplines or conditions that undermine the principle of independence, so far.</p> <p>CPAs Hsu Chen-Lung and Chen Yung-Hsiang of KPMG Taiwan are not found with any of the above-mentioned violations of independence as CPAs.</p>	
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	✓		<p>The Company has someone from the Chairman's Office to also handle corporate governance related matters. For detailed information and contact method, please visit <a href="http://www.khc.com.tw">http://www.khc.com.tw</a></p> <p>3/11/2021 13th meeting of the Board of Directors of the 20th intake Approved the setup of the corporate governance officer to take</p>	There are no major deviations from the requirements in TWSE/TPEX-Listed Companies

Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
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 of Directors meetings and shareholders' meetings)?			charge of corporate governance-related matters.	
Evaluation item	Operational status			Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and causes thereof:
	Yes	No	Summary Description	
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?	✓		A special area for stakeholders has been set up on the Company's website and the relevant departments have been instructed to handle it. The stakeholder area includes stakeholder needs and expectations (shareholder, employee, customer, third-party, community and government). Shareholders can communicate with the Company through the toll free shareholder hotline and through email.	There are no major deviations from the requirements in Article 51 of the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies.
VI. Has the Company appointed a professional share registration and investors service agent for handling		✓	Stock services self-administered.	There are no major deviations from the requirements in TWSE/TPEX-Listed

matters pertaining to the Shareholders Meeting?			Companies
<p>VII. Disclosure of Information</p> <p>Has the Company installed a website for the disclosure of information on financial position and operation, as well as corporate governance?</p> <p>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 Company, the implementation of the spokesman system, and videotaping institutional investor conferences)?</p> <p>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>	<p>✓</p> <p>✓</p> <p>✓</p>	<p><a href="http://www.khc.com.tw">http://www.khc.com.tw</a></p> <p>There is a special area for investors, regularly updating financial, business, and other information for investors' reference.</p> <p>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 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>There are no major deviations from the requirements in Article 56 of the Corporate Governance Best-Practice Principles for TWSE/TPEX-listed Companies.</p> <p>There are no major deviations from the requirements in TWSE/TPEX-Listed Companies</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</p>	<p>✓</p>	<p>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.</p> <p>2. Establish a dedicated</p>	<p>There are no major deviations from the requirements in TWSE/TPEX-Listed Companies</p>

<p>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>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.</p> <p>3. The Company's website has a dedicated area to respond to interested parties, who can get into direct contact and communicate via telephone, fax, and email.</p>	
<p>Evaluation item</p>	<p>Operational status</p>		<p>Deviation from Corporate Governance Best-Practice Principles for TWSE/TPEx-Listed Companies and causes thereof:</p>
	<p>Yes</p>	<p>No</p>	

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?

Preparation of financial statements, annual reports and meeting handbooks in English as required began in 2020.

Important news started to be released concurrently in Chinese and in English in 2022.

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

9.2.1 The Sustainability Report is prepared for the first time and hence filing will be completed by the end of September 2023.

Continuing Education of Directors in 2022:

Name	Date	Organizer	Course title	Hours
Chairman Lu Tai Rong	12/01/2022	Securities and Futures Institute	ENRESTEC - Analysis of Highlights of Corporate Governance Directors and Supervisors Should Pay Attention to	3 hours
Chairman Lu Tai Rong	12/01/2022	Securities and Futures Institute	ENRESTEC - Analysis of Practical Examples for Breach of Trust and Special Breach of Trust Offense Committed by Directors and Supervisors to Sustain	3 hours
Director Huang Li-Chun	04/22/2022	Taiwan Institute for Sustainable Energy	Taishin 30 Sustainable Net Zero Summit - Serious Net Zero Accommodates Sustainable 2030	3 hours
Director Huang Li-Chun	10/12/2022	Securities and Futures Institute	2022 Promotional Workshop on Compliance with Law and Regulations Governing Equity Trading of Insiders	3 hours

Director Lin Tzu-Hui	12/01/2022	Securities and Futures Institute	ENRESTEC - Analysis of Highlights of Corporate Governance Directors and Supervisors Should Pay Attention to	3 hours
Director Lin Tzu-Hui	12/01/2022	Securities and Futures Institute	ENRESTEC - Analysis of Practical Examples for Breach of Trust and Special Breach of Trust Offense Committed by Directors and Supervisors to Sustain	3 hours
Director Lin Tzu-Hui	10/28/2022	Securities and Futures Institute	2022 Communication Seminar on Prevention Against Insider Trading	3 hours

Name	Date	Organizer	Course title	Hours
Director Lin Tzu-Hui	10/07/2022	Taiwan Stock Exchange	Release of Reference Guide to Functions of Independent Directors and Audit Committee and Director/Supervisor Communication Seminar	3 hours
Director Lin Tzu-Hui	07/27/2022	Taiwan Stock Exchange	Sustainable Development Roadmap Industrial Topic Communication Seminar	2 hours
Lin Hsien-Lang Independent Director	12/22/2022	Taiwan Corporate Governance Association	Origin of, Prevention Against, and Director Duties in Management Disputes	2 hours
Lin Hsien-Lang Independent Director	03/31/2022	Taiwan Corporate Governance Association	Introduction to Sustainable Operation Development Roadmap	2 hours
Lin Hsien-Lang Independent Director	03/09/2022	Leadership Academy of KPMG Taiwan	“Seeing Digital New Taiwan” Activated Again in New Reality	3 hours
Lin Hsien-Lang Independent Director	02/25/2022	Taiwan Corporate Governance Association Social Gathering of Directors and Supervisors	2022 Global and Taiwan Economic Outlooks	1 hours
Chen Chi-Hsiung Independent Director	10/05/2022	Securities and Futures Institute	2022 Promotional Workshop on Compliance with Law and Regulations Governing Equity Trading of Insiders	3 hours

Chen Chi-Hsiung Independent Director	11/14/2022	Taiwan Stock Exchange	2022 Cathay Sustainable Finance and Climate Change Summit	9 hours
Wu Hsiao-Yen Independent Director	11/22/2022	Ernst and Young	2022 Independent Director Elite Academy - Unit Program	3 hours
Wu Hsiao-Yen Independent Director	10/26/2022	TIRI Taiwan Investor Relations Institute	Digital Era Competitive Strategy - Decisive Power for Dynamic Competition	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	
<p>The implementation of risk management policies and risk measurement standards and the implementation of customer policies:</p> <ol style="list-style-type: none"> <li>1. The annual budget is sent to the Board of Directors for deliberation, and the budget and cash flow are controlled.</li> <li>2. Board of Directors meetings, report business, financial and audit reports.</li> <li>3. Review customer sales credit limits every year and instruct relevant departments to control them.</li> <li>4. In order to reduce the credit risk of accounts receivable, most of the Company's customer's open letters of credit before shipment.</li> </ol> <p>The Company's purchase of insurance for directors and supervisors:</p> <p>The Company has purchased liability insurance for directors:</p> <ol style="list-style-type: none"> <li>1. Insurance company: Shin Kong Insurance Co., Ltd. Shin Kong liability insurance for directors, supervisors and managers</li> <li>2. Insured period: August 22, 2022 - August 22, 2023</li> <li>3. Insured amount: USD 3,000,000 (accumulated liability for compensation during the insurance period).</li> </ol>				



## 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 Compensation and Remuneration Committee, it shall disclose the composition, responsibilities and operation thereof:

1. Information of Compensation and Remuneration Committee Members

April 22, 2023

Status (Note 1)		Name	Terms	Professionalism and experience (Note 2)	Independence (Note 3)	Number concurrently serving as members of the Compensation and Remuneration Committees of other publicly issued companies
Independent Director Convener	Lin Hsien- Lang	Please refer to Annex 1 on Pages 14 and 15: Profile of Directors for related information				0
Independent Director	Chen Chi- Hsiung					0
Independent Director	Wu Hsiao- Yen					1

## 2. Information on the operation of the Compensation and Remuneration Committee

There are 3 members of the Compensation and Remuneration Committee of the Company.

Current (5th) term of membership: August 26, 2021 to August 25, 2024. In 2022, the Compensation and Remuneration Committee met twice and the qualifications and attendance of members in meetings 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 on August 26, 2021
Member	Wu Hsiao-Yen	2	-	100%	Re-elected on August 26, 2021
Member	Chen Chi-Hsiung	2	-	100%	Re-elected on August 26, 2021

Other matters to be recorded:

- I. If the Board of Directors does not adopt or amend the recommendations of the Compensation and 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 Compensation and Remuneration Committee should be stated. (If the remuneration approved by the Board of Directors exceeds the recommendation of the Compensation and Remuneration Committee, the differences and reasons should be stated): None.
- II. On resolutions of the Compensation and 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 Compensation and 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 Compensation and Remuneration Committee during the term of service and the actual number of attendances.
- (B) Before the end of the year, if the Compensation and Remuneration Committee is re-elected, the new and old Compensation and 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 Compensation and Remuneration Committee during the term of service and the actual number of attendances.

As is required by the Company's Compensation and Remuneration Committee Organizational Procedures:

1. The Committee meets twice a year.
2. Periodically reflects upon the Company's directors and managers performance evaluation criteria, annual and long-term performance goals and the policy, system, criteria and structure of compensation and remuneration and disclose details about the performance evaluation criteria in the annual report.

Compensation and Remuneration Committee meetings called for:

Date of Compensation and Remuneration Committee Term	Proposal content	Decision made by the Compensation and Remuneration Committee	How the Company addressed opinions from the Compensation and Remuneration Committee (decisions made by the Board of Directors)
3/10/2022 No. 3 of the 5th intake	Matters for Discussion: Distribution method of remuneration to employees and that to directors for 2021	It was approved by all attending members.	It was approved by all attending directors.
6/23/2022 No. 4 of the 5th intake	Matters for Discussion: Review of the current policies, Systems, criteria, and structure of the compensation and Remuneration for directors and managers	It was approved by all attending members.	Enforce according to the details of the decision
3/7/2023 No. 5 of the 5th intake	Matters for Discussion: Distribution method of remuneration to employees and that to directors for 2022	It was approved by all attending members.	It was approved by all attending directors.

Implementation Status of Sustainable Development and Deviations from the Sustainable Development Best Practice Principles for TWSE/TPEX-Listed Companies and Reasons:

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons						
	Yes	No	Summary Description							
I. Does the Company have the governance framework in place to help promote sustainable developments and have a unit that specializes (or is involved) in promoting sustainable developments and have the Board of Directors to empower high-ranking management to take care of it and report the progress to the Board of Directors?	✓		<p>1. The Company approved the setup of the ESG Sustainability Report Promotion Committee during the 7th meeting of the Board of Directors of the 21st intake on November 11, 2022. The President serves as the convenor and it consists of the governance, economy, society, and environment task forces and the heads of respective departments and related staff.</p> <p>2. It is expected that the Sustainability Report will be prepared for 2023 and will be certified.</p>							
II. Does the Company perform risk assessments when dealing with environmental, social, and corporate governance-related issues that concern the Company’s operations according to the	✓		<table border="1"> <thead> <tr> <th>Type of Risk</th> <th>Explanation</th> <th>Risk Management Strategy (Countermeasure)</th> </tr> </thead> <tbody> <tr> <td>Sustainable Environment</td> <td>Constantly increased greenhouse gas emissions</td> <td>In response to the regulatory requirements for the management of greenhouse gases in Taiwan, the Company must enhance its equipment energy efficiency and come up with solutions to effectively reduce greenhouse gases. If the goals cannot be fulfilled, the operational cost can be increased due to</td> </tr> </tbody> </table>	Type of Risk	Explanation	Risk Management Strategy (Countermeasure)	Sustainable Environment	Constantly increased greenhouse gas emissions	In response to the regulatory requirements for the management of greenhouse gases in Taiwan, the Company must enhance its equipment energy efficiency and come up with solutions to effectively reduce greenhouse gases. If the goals cannot be fulfilled, the operational cost can be increased due to	It is determined for the time being reflective of the status in the preparation of the ESG Sustainability Report
Type of Risk	Explanation	Risk Management Strategy (Countermeasure)								
Sustainable Environment	Constantly increased greenhouse gas emissions	In response to the regulatory requirements for the management of greenhouse gases in Taiwan, the Company must enhance its equipment energy efficiency and come up with solutions to effectively reduce greenhouse gases. If the goals cannot be fulfilled, the operational cost can be increased due to								

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
materiality principle and define related risk management policies or strategies?				<p>potential impacts such as carbon tax and carbon trading and operations may be met with difficulties.</p> <p>Countermeasures: Add the regulations governing greenhouse gas inventory checks and the operating standards to the environmental management system and define reduction measures over the short term (annual reduction goal of 1%); build ISO 14064-certified more effective greenhouse gas reduction measures for the mid-term; and consolidate effective enforcement of ISO 14064 for the long-term in order to constantly improve and achieve the greenhouse gas reduction requirements of the government.</p>
			Ineffective energy conservation	<p>When effective energy conservation and carbon reduction is impossible (energy conservation by 1% as required by the Bureau of Energy and the amount of greenhouse gas to be reduced as required by the Environmental Protection Administration), there may be underlying penalties and increased operating cost as a result of carbon tax and carbon trading and operations may be met with difficulties.</p> <p>Countermeasures: Short-term 1. Reinforce energy efficiency audits (air leakage, lights and fans and air-conditioners left open when not in use), 2. Define energy conservation measures and solutions, 3. Form the Energy Conservation and</p>

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
			<p>Carbon Reduction Committee to meet and discuss the issue periodically, and 4. Eliminate high energy-consuming equipment in the field and replace with highly-efficient energy-conservation equipment; build ISO 14064-certified more effective greenhouse gas reduction measures for the mid-term; and consolidate effective enforcement of ISO 14064 for the long-term in order to constantly improve and achieve the greenhouse gas reduction requirements of the government.</p> <p>Constantly increased amount of waste water discharged</p> <p>Increased amount of waste processed/reduced recovery rate</p> <p>Shortage of water and electricity</p> <p>Typhoons, floods</p>	
			<p>Recycling/Reutilization of process waste water</p> <p>Reinforce machinery equipment and pipeline auto checkpoints to prevent against oil leakage and sludge; maintain classification/recycling equipment for trash (to recycle water and zinc); and strengthen auto checkpoints and restore and increase the recovery rate</p> <p>Factories: 1. Ground water may be used in case of water shortage 2. There are three motors to support emergency power supply in case of electricity shortage Main office: 1 power generator</p> <p>The Company has formed the typhoon/storm emergency response group to cope with typhoons and floods.</p>	



Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons						
	Yes	No	Summary Description							
			<table border="1"> <tr> <td></td> <td>Violation of Environmental Protection Laws</td> <td>Factories are equipped with ISO14001-certified environmental protection management systems and continue to effectively enforce, improve and define environment, safety and health policies in compliance with regulatory requirements regarding environmental protection.</td> </tr> <tr> <td>Employees</td> <td>Occupational hazards (including impacts of COVID-19)</td> <td> <p>I. 1. Factories are equipped with ISO 45001/CNS 45001-certified occupational safety management systems and continue to improve and effectively enforce them. 2. Define environment, safety, and health policies in compliance with regulatory requirements in order to prevent against occurrence of occupational hazards. 3. The production unit implements the PDCA continuous improvement management plan, reports the implementation status at the monthly industrial safety meeting, and requires units with deficiencies to propose corrective and preventive measures. By doing so, it helps 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.</p> <p>3. Dangerous machinery and equipment are inspected and qualified as required so that they can run safely to protect the safety of employees and ensure smooth</p> </td> </tr> </table>		Violation of Environmental Protection Laws	Factories are equipped with ISO14001-certified environmental protection management systems and continue to effectively enforce, improve and define environment, safety and health policies in compliance with regulatory requirements regarding environmental protection.	Employees	Occupational hazards (including impacts of COVID-19)	<p>I. 1. Factories are equipped with ISO 45001/CNS 45001-certified occupational safety management systems and continue to improve and effectively enforce them. 2. Define environment, safety, and health policies in compliance with regulatory requirements in order to prevent against occurrence of occupational hazards. 3. The production unit implements the PDCA continuous improvement management plan, reports the implementation status at the monthly industrial safety meeting, and requires units with deficiencies to propose corrective and preventive measures. By doing so, it helps 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.</p> <p>3. Dangerous machinery and equipment are inspected and qualified as required so that they can run safely to protect the safety of employees and ensure smooth</p>	
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Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
			<p>production.</p> <p>4. All dangerous machinery and equipment operators possess qualified operator licenses and abide by regulatory requirements. They attend trainings periodically in order to fulfill suitability requirements and for improved awareness; it helps boost safe operations and increase the production volume.</p> <p>5. The Company offers zero industrial hazard prize as the incentive for its employees.</p> <p>II. In response to COVID-19, for the sake of protecting the health of employees, anyone accessing factories needs to have his/her temperature checked at the security’s office by the gate and 75% alcohol and masks are available, too. Meanwhile, employees are encouraged to get vaccinated. Janitors disinfect the environment periodically and enforces the anti-pandemic policy of the Central Epidemic Command Center.</p>	
			<p>Overwork (working long hours)</p> <p>The enforcement rules against disease triggered by abnormal workload in compliance with the ISO 45001 management system are followed. Employees are not allowed to (1) work overtime consisting of more than 100 hours within a month, (2) work overtime consisting of more than 80 hours on average per month over a period of 2 to 6 months and (3) work overtime consisting of more than 45 hours on average per</p>	

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons												
	Yes	No	Summary Description													
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Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
				<p>3. Basically, governmental laws and regulations are followed in this regard; therefore, insufficient transparency is relatively less likely to impact corporate operations.</p> <p>Reduced competitive advantages on the market</p> <p>We are factories for the production and manufacture of steel pipes, with the liquefied petroleum gas combustion and carbon emissions ratio of the Pingnan Factory up to 80%. No alternatives for carbon reduction are available at the moment. For the time being, it does not affect the market competitive advantages of the Company yet.</p> <p>Incurred information security incident</p> <p>1. Report and rehearse information security incidents/enforce educational trainings on a yearly basis. 2. Control over software/hardware such as documentation of the original copies of software/related information and specifications of hardware used. 3. No significant information security events have occurred so far.</p> <p>Product accountability (being recalled/going off the shelf)</p> <p>Kao Hsing Chang has been in the steel pipe sector for more than 50 years and is now a benchmark brand. Recalls and going off the shelf have not occurred; it is steadily working towards sustainable developments.</p>

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
			<p>Supply chain disruption</p> <ol style="list-style-type: none"> <li>1. There are primarily at least 2 raw material suppliers.</li> <li>2. Production and distribution meetings and discussions about raw material scheduling take place once a month in order to resolve the issue of unsteady deliveries of raw materials.</li> <li>3. In case of urgent materials, frequently follow up with suppliers and maintain optimum interactions.</li> <li>4. Evaluate suppliers periodically on a year basis.</li> <li>5. Address abnormalities found with raw materials, if any, right away and file a complaint with the specific supplier.</li> </ol>	
<p>III. Environmental Issues</p> <p>Has the Company established an appropriate environmental management system relevant with the specific characteristics of its industry?</p>	✓		ISO14001-certified environmental management system.	No major deviations.

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
Is the Company committed to improving the efficiency of utilizing various resources and using recycled materials with low impacts on the environment?	✓		We are committed to reducing the amount of residues in the process and recycling and reusing resources in the factories.	No major deviations.
Does the Company evaluate potential risks and opportunities now and in the future brought about by climate change for the corporation and adopt related responsive measures?	✓		<p>1. By identifying climate change, it does not aim at precise forecasting; instead, it is to explore and understand potential material risks and to accordingly reinforce risk identification and measure through periodical monitoring of related laws and regulations, guidelines and publications in order to reinforce the integrity of identification.</p> <p>It will serve as reference for the Company during the decision-making process.</p> <p>Events associated with extreme weather: Damaged assets Or supply chain disruption</p> <p>Transformation: Gradually shift to support the improvement and innovation of low-carbon and high-performance technologies, which will impact the competitive advantages, production and distribution costs of the organization.</p> <p>2. Continue to pay attention to international climate change related agreements and laws, and proactively prepare energy-saving, carbon-reduction and greenhouse gas reduction measures.</p>	No major deviations.

Action item	Implementation status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
Does the Company tally the total greenhouse gas emissions, water consumption and waste generated over the past two years and are greenhouse gas reduction, water reduction or other waste management policies in place?	✓		<ol style="list-style-type: none"> <li>1. Inventory checks for Scope 1 and Scope 2 of the Company’s greenhouse gas emissions will be completed in 2023 and certified in 2024. They were already presented during the 5th meeting of the Board of Directors of the 21st intake on May 10, 2022 and the progress will be controlled on a quarterly basis.</li> <li>2. The factory water is recycled after treatment in the Pingnan Industrial Park. The water consumption is calculated every six months.</li> <li>3. The weight of waste is filed per occurrence on a monthly basis.</li> </ol>	No major deviations.
Evaluation item	Operational status			The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
IV. Social Issues Has the Company established related policies and procedures in accordance with applicable legal rules and the International Convention on Human Rights?	✓		The company has the “Work Rules” formulated for the compliance of the employees in accordance with the Labor Standards Act and other relevant laws and regulations. An industrial labor union is organized to protect the legitimate rights and interests of employees and	No major deviations.

<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>✓</p>	<p>uphold the non-discriminatory employment policy.</p> <p>1. The “Employee Welfare Committee” is organized in accordance with the laws and regulations to handle employee welfare-related matters.</p> <p>2. The company’s salary and remuneration policies are linked to the employee performance evaluation system. Employees’ salary is adjusted once in every two-year according to the performance evaluation results. The employee remuneration will be distributed for an amount not less than 0.5% of the earnings, if any, in accordance with the Articles of Incorporation.</p>	<p>No major deviations.</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>Regular health inspections and work safety education and training are held for employees and they have passed ISO14001, ISO45001 and CNS45001 and other occupational safety management system certifications</p>	<p>No major deviations.</p>
<p>Has the Company provided effective training in career planning for employees?</p>	<p>✓</p>	<p>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>	<p>No major deviations.</p>
<p>Does the Company comply with laws and international standards concerning customer health and safety, customer</p>	<p>✓</p>	<p>Comply with the relevant laws and regulations such as fair trade, and also collect information on major international</p>	<p>No major deviations.</p>



<p>privacy, marketing and labeling of products and services and define related policies and complaint-filing procedures to protect the rights of consumers or customers?</p> <p>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>	✓	<p>environmental protection regulations to grasp trends and responses.</p> <p>Carry out customer satisfaction surveys and provide complaints 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>	No major deviations.
Evaluation item	Operational status		The deviation from the “Corporate Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	
<p>V. Does the Company prepare the Sustainability Report or other reports disclosing non-financial information of the Company by referring to international general principles or guidelines in the preparation of reports? Has the preliminary report obtained the confidence or assurance opinion of the third-party verification unit?</p>		✓	<p>The Sustainability Report is prepared for the first time this year and hence filing will be completed by the end of September 2023.</p>
<p>VI. If the Company has established its own sustainable development principles according to the Sustainable Development Best Practice Principles for TWSE/TPEX-Listed Companies, please describe the differences between its implementation and the established principles: They are yet to be defined.</p>			

VII. Other Important Information to Help Understand Implementation Status in the Promotion of Sustainable Developments:

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.

Fulfillment of Ethical Corporate Governance, the Deviations from the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and Reasons:

Evaluation item	Operational status			The deviation from the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	Summary Description	
I. Formulation of ethical management policy and plans				
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?		✓	The “Code of Ethical Conduct” for directors, managers and all employees of the Company is prepared. It clearly defines the Company’s policy on ethical corporate management and the commitment that members of the Board of Directors and the management shall proactively enforce this Operating policy while performing their duties	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 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/TPEX-Listed Companies?"	✓		While engaging themselves in business activities, staff of the Company may not, directly or indirectly, offer, promise, request or accept any unjustified interest or be found with any other unethical behavior that is against integrity, is illegal or Violates the entrusted duties for the sake of obtaining or maintaining personal interests.	None.
Does the Company specify the operating procedures, behavior	✓		Prevention of conflicts of interest: Company personnel shall	None.

<p>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>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 of kinship to obtain improper benefits while in office. The Company and affiliates 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 or not they have a potential conflict of interest with the Company.</p>	
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Evaluation item	Operational status		The deviation from the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons
	Yes	No	
<p>II. Implementation of Ethical Corporate Management 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?</p>	✓	<p>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.</p>	None.

<p>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>	<p>✓</p>	<p>Ethics and integrity are the most important core values of the Company's culture. Under the supervision of the Board of Directors, the Company's managers shall be responsible for the completeness, accuracy and timeliness of all information disclosed by the Company.</p>	<p>None.</p>
<p>Has the Company developed a policy to prevent conflicts of interest, provided a proper presentation channel, and put such policy in place?</p>	<p>✓</p>	<p>Encourage the reporting of any illegal acts or violations of the Code of Ethical 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>	<p>None.</p>

<p>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?</p> <p>Does the Company hold education training in ethical corporate management inside and outside the Company on a regular basis?</p>	<p>✓</p> <p>✓</p>		<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 hand it to independent directors for review.</p> <p>The personnel unit organizes relevant education, training, and communications every year.</p>	<p>None.</p> <p>None.</p>
<p>Evaluation item</p>	<p>Ye s</p>	<p>No</p>	<p>Operational status</p> <p>Summary Description</p>	<p>The deviation from the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and the reasons</p>
<p>III. Operation of the Company's reporting system</p> <p>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> <p>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?</p>	<p>✓</p>	<p>✓</p>	<p>The Company incorporates ethical corporate management as part of its employee evaluation and human resources policies, and there is a system of rewards, punishments and appeals in place.</p> <p>To be established</p>	<p>None.</p> <p>None.</p>

<p>Has the Company taken measures to protect whistle-blowers from retaliation due to reporting?</p>	<p>✓</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>IV. Strengthening information disclosure 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>	<p>✓</p>	<p>Company website: <a href="http://www.khc.com.tw">http://www.khc.com.tw</a>; ethical policies are disclosed by the annual report, internal regulations, and so on.</p>	<p>None.</p>
<p>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/TPEX-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.</p>			
<p>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.</p>			

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 7, 2023

For the Company's internal control system of 2022, it is hereby declared as follows according to self-assessment findings:

- 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, 2022 (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 7, 2023. Among the 9 directors present, none presented objections and all agreed to the content of this statement and hereby declaration.

Chairman: Lu Tai-Rong



President: 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 2022 shareholders' meeting (6/23/2022):

- (1)Voted on acknowledgment of the 2021 Business Report and Financial Statements
- (2)Voted on acknowledgment of the 2021 Earnings Distribution Proposal
- (3)Voted to pass the amendment to the "Procedures for Acquiring or Disposing of Assets"
- (4)Voted to pass the amendment to the "Operational Procedures for Endorsements and Guarantees"

Implementation of the resolutions reached in the shareholders' meeting of 2022:

- (1)Voted on acknowledgment of the 2021 Business Report and Financial Statements: it was approved as is.
- (2)Voted on acknowledgment of the 2021 Earnings Distribution Proposal: No dividends would be distributed; it was approved as is.
- (3)Voted to pass the amendment to the "Procedures for Acquiring or Disposing of Assets;" the post-amended procedures are to be followed.
- (4)Voted to pass the amendment to the "Operating Procedures for Endorsements and Guarantees;" the post-amended procedures are to be followed.

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 2022

Item	Important resolutions
1. The 4th meeting of the Board of Directors of the 21st intake (03/10/2022)	<ol style="list-style-type: none"> <li>1. Discussion of distribution of 2021 remuneration to employees and that to directors</li> <li>2. Acknowledgment of 2021 Business Report and Financial Statements</li> <li>3. Acknowledgment of 2021 Earnings Distribution Proposal</li> <li>4. Approval of the assessment of independence of CPAs upon replacement at the end of tenure</li> <li>5. Approval of the 2021 Internal Control Declaration</li> <li>6. Approval of the amendment to the "Procedures for Acquiring or Disposing of Assets"</li> <li>7. Approval of the amendment to the "Operating Procedures for Endorsements and Guarantees"</li> <li>8. Approval of convention of the general shareholders' meeting on June 23, 2022 and the agenda thereof</li> <li>9. Approval of the procedure for shareholders holding at least 1% of shares to make proposals.</li> </ol>
2. The 5th meeting of the Board of Directors of the 21st intake (05/10/2022)	<ol style="list-style-type: none"> <li>1. Acknowledgment of financial statements for the first quarter of 2022</li> <li>2. Amendment of the "Stock Services Internal Control System"</li> </ol>
3. The 6th meeting of the Board of Directors of the 21st intake (08/09/2022)	<ol style="list-style-type: none"> <li>1. Acknowledgment of financial statements for the second quarter of 2022</li> <li>2. Acquisition of individual securities with a trading value of at least NTD 100 million; it is intended to add: TSMC (2330), Yageo (2327), and Jamicon (2375) - the price per share and the upper limit of shares held</li> <li>3. Addition of borrowings from financial institutions to meet operational demand</li> <li>4. Addition of borrowings from financial institutions to meet the demand for capital increase of Smartway Ark Alliance Co., Ltd.</li> </ol>
4. The 7th meeting of the Board of Directors of the 21st intake (11/11/2022)	<ol style="list-style-type: none"> <li>1. Acknowledgment of financial statements for the third quarter of 2022</li> <li>2. Approval of 2023 budget</li> <li>3. Approval of borrowings from financial institutions in 2023</li> <li>4. Approval of the 2023 Audit Plan</li> <li>5. Amended the "Rules of Procedure for the Board of Directors"</li> <li>6. Preparation of the "Operating Procedure for Handling Major Internal Information"</li> <li>7. Adjustment of investment framework - Switch of shares held of How Weih Electronics Technology (Huizhou) Co., Ltd., through</li> </ol>

Item	Important resolutions
	How Weih Holding (Cayman) Co. Ltd. to be directly held 8. Intended sale of the Company's land in Lot 2 of Hsindian section 9. Intended setup of the ESG Sustainability Report Promotion Committee 10. Intended preparation of general principles for the policy on advance approval of non-confirmatory service of the Company
5. The 8th meeting of the Board of Directors of the 21st intake (03/07/2023)	1. Discussion of distribution of 2022 remuneration to employees and that to directors 2. Acknowledgment of 2022 Business Report and Financial Statements 3. Acknowledgment of 2022 Earnings Distribution Proposal 4. Approval of CPA independence assessment 5. Approval of 2022 Internal Control Declaration 6. Approval of the amendment to the "Stock Services Internal Control System" 7. Intended buyback of treasury stock for the 7th time 8. Approval of convention of the general shareholders' meeting on June 20, 2023 and the agenda thereof 9. Approval of the procedure for shareholders holding at least 1% of shares to make proposals.

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, President, accounting officer, financial officer, internal audit officer, and R&D officer in the most recent year and up to the date of publication of the Annual Report: none.

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

May 19, 2023

Job Title	Name	Date of assuming office	Date of resignation or removal from office	Cause of resignation or removal from office
-	-	-	-	-

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

## V. Information on Public Expenditure on CPAs

Currency: NTD thousand

Accounting firm name	Accountant name	Accountant audit period	Audit fees	Non-audit fees	Total	Remarks
KPMG Taiwan	Hsu Chen-Lung	2022	1,680	95	1,775	Attestation of business tax-related matters
	Chen Yung-Hsiang	2022				

Please clarify in substantial terms the nature of service involved in non-audit public expenditure: (such as taxation attestation, verification, or other financial advisory services)

Note: If any CPA or the accounting firm is replaced for the Company this year, the inspection periods shall be listed separately. In addition, the reason for the replacement shall be indicated in the remark column and information on audit and non-audit public expenditure shall be disclosed. Not audit expenditure and nature of the service provided shall be noted.

## VI. Changes in Accountant Information

### Information about changes of CPAs

About the former accountant

Date of replacement	1/1/2022		
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	None	
	Voluntary termination of appointment		
	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	<p>It is handled in accordance with the KPMG Taiwan (2022) Kao-Zi-No. 0056L letter dated March 2, 2022 from KPMG Taiwan: In compliance with Auditing Standard 46 and the requirements of applicable laws and regulations of the competent securities authority and to meet the needs of risk control of KPMG Taiwan, rotations shall take place for those having attested a specific public company for 7 years in a row.</p> <p>The Company's CPAs, effective 2022, will change from Chen Kuo-Tsung and Hsu Chen-Lung to Hsu Chen-Lung and Chen Yung-Hsiang.</p>
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About successor accountants

Firm name	KPMG Taiwan
Accountant name	Hsu Chen-Lung, Chen Yung-Hsiang
Date of appointment	1/1/2022
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, President, 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	2022		From the current year up to April 22	
		Increase (decrease) in equity	Increase (decrease) in the number of pledged shares	Increase (decrease) in equity	Increase (decrease) in the number of pledged shares
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	-	-	-	-
	Lin Tzu-Hui	-	-	-	-
Director	Hong Well Company Limited	-	-	-	-
	Lu En-Chang	(50,000)	-	(5,000)	-
Independent Director	Lin Hsien-Lang	-	-	-	-
Independent Director	Chen Chi-Hsiung	-	-	-	-
Independent Director	Wu Hsiao-Yen	-	-	-	-
President	Sheng Lu Rong Feng	-	-	-	-
Chief Corporate Governance Officer	Lin Tzu-Hui	-	-	-	-
Financial and Accounting Manager	Chao Hui-Mei	-	-	-	-
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)	Transactio n date	Trade counterparty	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	Type 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	Cause for change in pledge	Date of change	Counterpart y of transaction	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	Sharehol ding ratio	Pledged ratio	loan (redempti on) amount
-	-	-	-	-	-	-	-	-

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

April 22, 2023

Sequence	Name	Number of shares personally held		Spouse and minor children holding shares		Total shares held in the name(s) of others		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	Percentage of ownership	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership	Designation (or name)	Relationship with the Company	
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	10,634,000	5.29	-	-	-	-			
6	Kao Hsing Chang Iron & Steel Corp.	10,000,000	4.98	-	-	-	-			Treasury stock
7	Qiangyi Investment Co., Ltd. Representative: Lu Ho-Lin	7,546,283	3.76	-	-	-	-			
8	Sheng Lu Rong Feng	6,293,995	3.13	-	-	-	-	Director and President		
9	Yang Yen-Ju	6,053,477	3.01	27,551,329	13.72	-	-			

10	Lu Ho-Ching	5,785,926	2.88	22,343	-	-	-			
11	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%	7,578,229	39.89%	14,858,229	78.20%
Sunward Refractories Co., Ltd.	4,588,600	20.00%	-	-	4,588,600	20.00%
Smartway Ark Alliance Co., Ltd.	9,900,000	45.00%	-	-	9,900,000	45.00%

Note 1: Investment using the equity method.

## Four. Status of Fundraising

### I. Capital and Shares

#### Sources of equity

Year and Month	Issue Price (NTD)	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
1966.01	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
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

Year and Month	Issue Price (NTD)	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
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
1991.01	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
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
2023.05	10.00	580,000	5,800,000	190,852	1,908,522	Treasury stock capital reduction worth NTD 100,000 thousand (2023.5.17 MOEA Jingshou Shangzi No. 11230084810)	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 share

April 22, 2023

Shares Type	Approved share capital					Remarks
	Outstanding shares			Unissued shares	Total	
	Already listed on main board (OTC market)	Not yet listed on main board (OTC market)	Total			
Registered stock Common stock	200,852,293	0	200,852,293	379,147,707	580,000,000	

Information on shelf registration: None

## Shareholder structure

April 22, 2023

Shareholder structure	Government agency	Financial institution	Other juridical person	Individual	Foreign institutions and foreign individuals	Total
Quantity						
Number of individuals	-	2	33	17,310	33	17,378
Number of shares held	-	712	96,410,290	89,888,563	14,552,728	200,852,293
Percentage of shareholding (%)	-	0	48	44.75	7.25	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 22, 2023

Shareholding class	Number of shareholders	Number of shares held	Percentage of shareholding (%)
1 ~ 999	12,832	2,877,392	1.43
1,000 ~ 5,000	3,744	7,383,114	3.68
5,001 ~ 10,000	468	3,678,399	1.83
10,001 ~ 15,000	116	1,466,027	0.73
15,001 ~ 20,000	63	1,184,104	0.59
20,001 ~ 30,000	48	1,217,116	0.61
30,001 ~ 40,000	21	748,869	0.37
40,001 ~ 50,000	13	600,698	0.30
50,001 ~ 100,000	25	1,681,091	0.84
100,001 ~ 200,000	15	2,045,559	1.02
200,001 ~ 400,000	8	2,286,804	1.14
400,001 ~ 600,000	4	2,149,001	1.07
600,001 ~ 800,000	2	1,384,227	0.69
800,001 ~ 1,000,000	1	1,000,000	0.50
1000001 and above	18	171,149,892	85.21
Total	17,378	200,852,293	100

Preferred shares: None.

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

April 22, 2023; Unit: Share

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.		10,634,000	5.29%
Kao Hsing Chang Iron & Steel Corp.		10,000,000	4.98%
Qiangyi Investment Co., Ltd.		7,546,283	3.76%
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		From the current year up March 31	
		2021	2022		
Market price per share	High	29.65	21.75	20.8	
	Low	12.65	15.2	17.85	
	Average	19.45	17.61	19.65	
Net value per share	Before distribution	14.79	14.02	15.16	
	After distribution	-	-	-	
Earnings per share	Weighted average number of shares	200,852,293 shares	200,852,293 shares	200,852,293 shares	
	Earnings per share	0.21	0.56	0.3	
Dividend per share	Cash dividend		-	0.5	-
	Free Stock	Stock dividends from retained earnings	-	-	-
		Additional paid in capital	-	-	-
	Accumulated unpaid dividends		-	-	-
Return on investment analysis	P/E ratio		92	31	-
	Price to dividend ratio		-	35	-
	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:

The Company approved through the 8th meeting of its Board of Directors of the 21st intake the intended allocation of 2022 earnings available for distribution to be the cash bonus for shareholders worth NTD 100,426,147 and cash per share of NTD 0.5. The record date for the current cash dividends is to be approved through the shareholders' meeting and the Chairman is authorized to decide it. Cash dividends are distributed to NTD (chopped off unconditionally to the nearest integer) and the remaining odd lots are listed as part of other income of the Company. If the payout ratio for shareholders changes because of subsequent buyback of the Company's shares or assignment, conversion and cancellation of treasury stock shares that impacted the number of outstanding shares, the Board of Directors is authorized to adjust it.

3. Expected major changes to the dividend policy, if any: None.

Impacts of free share assignment intended through the current shareholders' meeting on the Company's operational performance and earnings per share: not applicable.

#### 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:

The net profit before tax that has been audited by CPAs for 2022 came to NTD 119,559,122 (with the estimated remuneration to employees worth NTD 683,200 already deducted); no remuneration to directors will be distributed. For the remuneration to employees, 0.5% is set aside as required by the Articles of Incorporation and is to be distributed in cash.

Remuneration to employees: Rationale for legislation under Article 235-1 of the Company Act: By profitability, it means the profit before tax where the remuneration to

employees is yet to be deducted. It is calculated as follows:

Lower limit of remuneration to employees = (NTD 119,559,122 + NTD 683,200) × 0.5% = NTD 601,212

It is intended to distribute the amount estimated in the financial report, that is, NTD683,200 and hence the accounting process does not show any difference.

3. Remuneration distribution approved by the Board of Directors:

Approved by all attending directors in the 8th meeting of the Board of Directors of the 21st intake on March 7, 2023: The remuneration to employees worth NTD 683,200 of 2022 will be distributed in cash and no remuneration to directors will be distributed.

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:

The remuneration to employees of 2022 will actually be distributed in cash worth NTD 683,200 and no remuneration to distributors will be distributed, which does not differ from what is recognized.

Buyback of the Company's shares:

It was approved during the 8th meeting of the Board of Directors of the 21st intake on March 7, 2023 that the Company's shares will be bought back from the centralized market for securities.

**Buyback of the Company's shares (completed)**

May 19, 2023

Buyback No.	7
Purpose of buyback	To protect the Company's credit and shareholder's equity
Buyback period	3/9/2023 ~ 4/14/2023
Buyback price range	NTD 13.5 to NTD 27
Type and quantity of shares already bought back	10,000,000 common stock shares
Value of shares already bought back	NTD 199,906,204
Number of shares bought back/Number of shares expected to be bought back (%)	100%
Quantity of shares already written off and assigned	10,000,000 shares
Cumulative quantity of shares of the Company held	0
Ratio of the total number of shares in the Company to the total number of outstanding shares (%)	0%

## II. Handling of corporate bonds

Corporate bonds shall include those yet to be paid back and those in process. Disclose applicable matters and their impacts on shareholder equity as required by Article 248 of the Company Act. Any privately placed corporate bonds shall be prominently identified as such: None.

Preferred stock shall include both the outstanding one and the one in process. Disclose also applicable issue criteria, impacts on shareholder equity, and matters specified under Article 157 of the Company Act. Any privately placed preferred shares shall be prominently identified as such: None.

Global depository receipts shall include those already issued and yet to be completely redeemed and those in process. Disclose also the date of issue, the total amount issued, the rights and obligations of holders of global depository receipts, among others. Any privately placed global depository receipts shall be prominently identified as such: None.

Employee stock warrants shall show the following:

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.

Restricted Stock Awards (RSAs) shall show the following:

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.

Issuance of new shares in connection with mergers or acquisitions or with acquisitions of

shares of other companies shall show the following:

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 implementation status of fund utilization plan shall show the following:

Description of the plan: 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.

Implementation status: With respect to funds usage under the plans referred to in the preceding sub-paragraph, 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

#### Scope of Operation

##### 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	
		2022	2021
Steel pipes	Galvanized steel pipe, black steel pipe, API steel pipe, PE coated pipe, submerged arc welding straight seam steel pipe	96%	86%
Logistics and circulating products	Cold rolled steel coil, hot rolled steel coil, galvanized steel coil	3%	12%
Others	Zinc products and film, etc.	1%	2%

### 3. 2022 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 and the work environment. In 2022, the old galvanizing furnace equipment, the smoke tube boilers, were replaced; new galvanized furnace tripods were made; update and modification of tubing machines and API small-to-medium-sized equipment continued; and crane tracks were overhauled, among others.

## Industry Overview

### 1. Current Status and Development of the Industry:

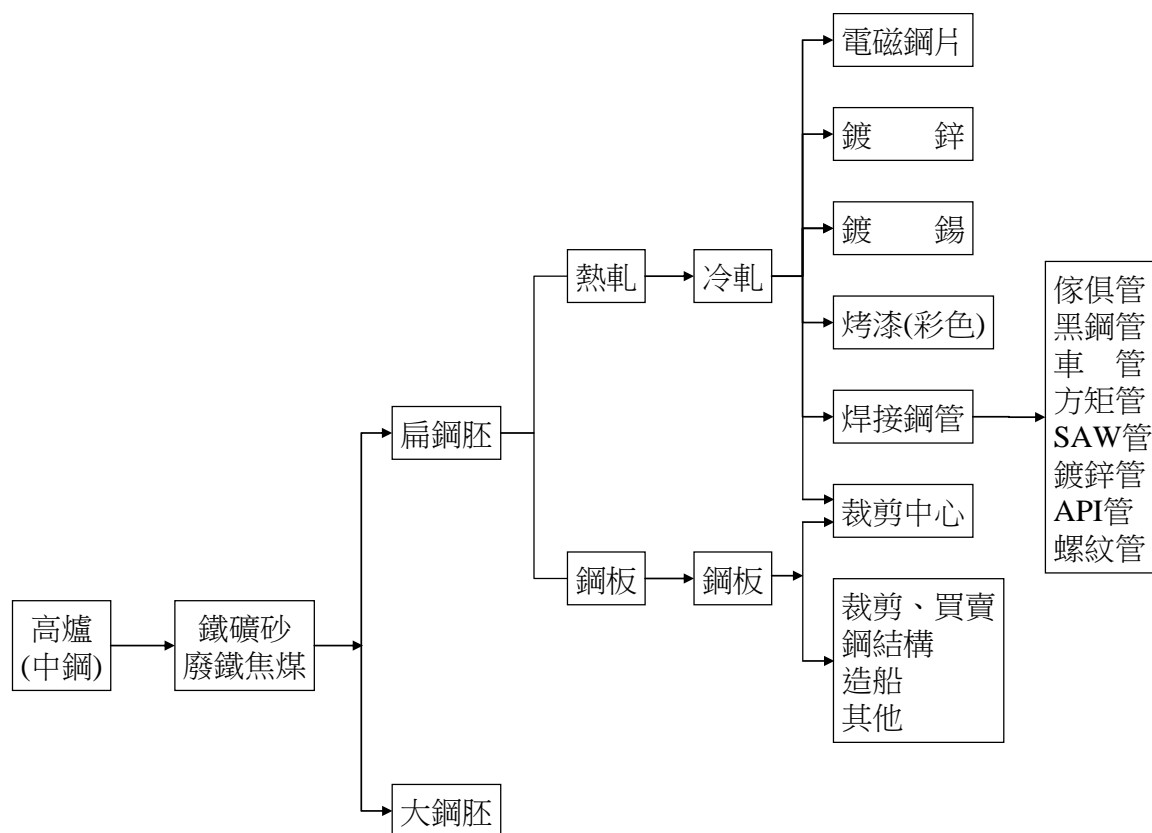
Steel pipes, by the manufacturing process, are divided into welded ones and seamless ones. Steel pipe manufacturers in our country are pro-actively expanding export markets for petroleum pipes, which is conducive to the gradual increase in the exports of steel pipes.

Steel pipes are the important downstream application sector for hot-rolled and cold-rolled steel products. Black steel pipes and galvanized steel pipes, in particular, are mainly supplied to the construction sector. Cold-rolled steel pipes are supplied to metal furniture and cycling sectors while hot-rolled ones to sporting goods and automobile sectors.

In the second half of 2022, the demand on the primary market and in the downstream dropped suddenly and quotations of raw materials were sluggish, so the performance of the steel industry appeared to be slow throughout the year. As the price of steel continued to rise later and expansion of electronics factories went on, it helped the steel market to remain balanced between supply and demand and the falling stream on the primary market in terms of steel quotations slowed down.

The main product of the Company to be sold domestically, the galvanized steel pipe, benefits from the persistent promotion of infrastructures by the government and the surge in constructions and purchase orders from factories as returning of Taiwanese businesses is gradually becoming a reality. For the exports market, for the time being, the steel industry still has to deal with the high tariff barrier set under the US “Section 232” for the time being and to compete with the tariff-free low-price steel from Korea, resulting in fierce competition over purchase orders on the export market. Meanwhile, the demand on the market in the US is weak and export customers are yet to finish lowering their inventory levels. In other words, export order-taking depends on how customers’ inventory levels are lowered.

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



TC	EN
高爐 (中鋼)	shaft furnace (China Steel)
鐵礦砂	Iron sand
廢鐵焦煤	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	Cutting, trading
鋼結構	Steel structure
造船	Shipbuilding
其他	Others
傢俱管	Furniture pipe
黑鋼管	Black steel pipe
車管	Car pipe
方矩管	Square pipe
SAW管	SAW pipe
API管	API pipe
螺紋管	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. In terms of export sales, the steel industry remains facing the high tariff barrier

imposed by the United States with “Section 232” currently and is competing against South Korea that is sheltered under the tariff-free umbrella, resulting in severe competition for sales in the export market. In addition, the overall market demand in the United States is sluggish and the foreign customers are still struggling in reducing inventory level, which is critical to the future sales.

C. Domestic steel pipe market demand: Both sales and profitability grew compared to before as a result of returning Taiwanese businesses and the expansion of electronics factories that brought about an increasing number of purchase orders.

#### 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. 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

In the second half of 2022, the demand on the primary market and in the downstream dropped suddenly and quotations of raw materials were sluggish, so the performance of the steel industry appeared to be slow throughout the year. As the price of steel continued to rise later and expansion of electronics factories went on, it helped the steel market to remain balanced between supply and demand and the falling stream on the primary market in terms of steel quotations slowed down.

The World Steel Association (worldsteel) forecasts that the global demand for steel in 2023 will grow by 1% to reach 1.8147 billion tons. In addition, the US reached the steel tariff quota agreements with Europe, Japan and the UK. International trade in steel is slowly returning to normal.

In terms of the demand for steel, the economic policy for the industry was set as “maximization of domestic demand” after the 20th National Congress of the Chinese Communist Party (CCP) in order to reinforce the supportive force for investments in the manufacturing sector and to expedite the deployment of novel infrastructures while at the same time introducing respective policies to boost the housing market so that the demand for steel may be catalyzed. The demand for respective major steel on the international market is steadily returning and the outlook remains optimal. Domestically, it is expected that the demand for steel to support public constructions and the construction of factories and offices will still grow steadily in 2023.

In terms of the sales of steel pipes, for the time being, as far as exports are concerned, the steel industry still has to deal with the high tariff barrier set under the US “Section 232” and to compete with the tariff-free low-price steel from Korea, resulting in fierce competition over purchase orders on the export market. Meanwhile, the demand on the market in the US is weak and export customers are yet to finish lowering their inventory levels. In other words, export order-taking depends on how customers’ inventory levels are lowered. For the domestic sale of steel pipes, on the other hand, despite the delay in private constructions, governmental infrastructures and returning Taiwanese businesses as well as continued investments of domestic heavyweight electronics manufacturers in expansion of their facilities, the demand for galvanized steel pipes on the domestic market surged to favor the order-taking status.

## 1. Supply and demand status of major domestic steel products

Unit: Tons

Steel products	Item	2018	2019	2020	2021	2022
Hot rolled	Production	17,462,050	16,132,687	15,672,283	16,447,419	14,733,471
	Domestic sales	6,269,780	5,384,679	5,367,466	6,270,901	4,879,181
	Inventory	1,107,527	1,099,124	1,202,487	1,267,641	1,080,518
Cold rolled	Production	4,439,007	4,104,638	3,949,606	4,290,528	3,086,327
	Domestic sales	1,313,614	1,204,616	1,107,561	1,216,221	819,723
	Inventory	231,269	254,367	190,647	233,862	205,479
Welded steel pipe	Production	1,025,244	946,223	788,826	759,365	821,426
	Domestic sales	612,685	616,982	609,551	540,454	449,652
	Inventory	71,028	77,381	58,584	66,368	49,254

Source: Taiwan Steel &amp; 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
2021	759,365	63,977	225,981	597,361	139%
2022	821,426	44,248	388,817	476,857	172%

Source: Taiwan Steel &amp; Iron Industries Association

## 3. Main domestic steel product market (2022) Unit: Factory price NTD/ton; Steel pipe NTD/kg

Steel products	Q1	Q2	Q3	Q4
Hot rolled	24,000 ~ 29,000	25,000 ~ 29,000	20,150 ~ 25,816	19,350 ~ 21,816
Black steel pipe (BS)	30.8 ~ 32.6	34.4 ~ 36.0	28.5 ~ 32.7	27.5 ~ 28.5
Galvanized steel pipe (BS)	42.9 ~ 48.3	50.7 ~ 53.4	46.1 ~ 50.6	45.8 ~ 47.3

Source: Taiwan Steel &amp; Iron Industries Association



#### 4. Main product sales areas of the Company

Unit: NTD Thousand

Item \ Year	2021		2022	
	Subtotal	Total	Subtotal	Total
Taiwan		1,448,453		1,557,333
Hong Kong - mainland China	-		-	
America	61,086		657,960	
Northeast Asia	1,085		761	
Southeast Asia	-		-	
Other regions	-		-	
Operating income from exports		62,171		658,721
Net operating income		1,550,624		2,216,054

#### 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	2022 ratio	2022 (A)	2021 (B)	(A) - (B)	Growth (%)
Oil pipeline	11.96%	86,783	34,564	44,219	127.93%
Furniture pipe	8.01%	58,149	80,738	(22,589)	(27.98)%
Square pipe	11.45%	83,093	93,906	(10,813)	(11.51)%
Mechanical pipe	1.29%	12,976	11,877	1,099	9.25%
Black pipe	36.7%	266,296	261,775	4,521	1.73%
Galvanized pipe	21.21%	153,890	184,335	(30,445)	(16.52)%
Other pipes	8.88%	64,404	64,404	0	0%
Total	100%	725,591	731,609	(6,018)	(0.82)%

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 2022 was approximately 449,000 tons per year.

Kao Hsing Chang: Sales volume is about 34,000 tons per year and market share is 7.57%.

Market share of galvanized steel pipe is about 11.7%.

The Company's 2023 business target is approximately 52,059 tons (including the 3600 tons in circulation and at logistics), in which steel pipes will account for 48,459 tons, a

year-on-year decrease of around 2%.

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-5L 52" large pipes. Completed the development of API 5CT oil well casing and was authorized by the American Petroleum Institute.

The API oil pipeline produced by the Company is an American Petroleum Institute (API) authorized 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 API 5CT 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

The brand has a good reputation, strict quality control, and has passed ISO 9001, CNS, API and ISO 14001, ISO45001 & CNS45001 certifications.

- ② Offer complete sizes, great flexibility in ordering, prepare materials in advance, map out production plans, shorten delivery periods, and strengthen customer service.
- ③ 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.

④ There are many land assets and some are located in the best areas of Kaohsiung City.

Unfavorable factors for development prospects

High product homogeneity and oversupply has led to fierce market competition.

Orders cannot be made in large quantities, and there are many models and batch numbers, and production costs are increasing.

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.

The steel industry features large investment, slow recovery and difficult recruitment and cultivation of professional and technical personnel.

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.

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.

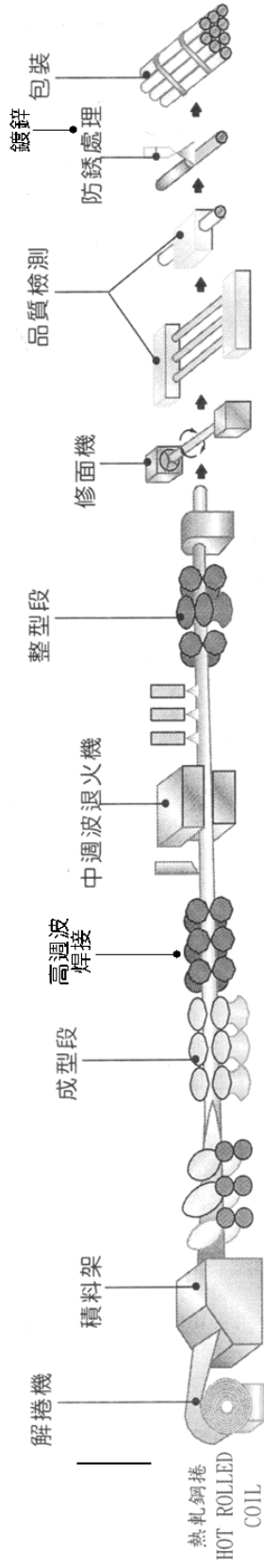
Important purpose and production processes of main products:

#### 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 Rack Shaping Part High-Frequency Welding Intermediate-Frequency Annealing Forming Part Refacing  
Machine Quality Detection Antirust 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 over the most recent two years

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

Unit: NTD Thousand

Item	2021				2022				2023 up to the end of the first quarter			
	Title	Amount	Ratio to net purchases throughout the year (%)	Relationship with the issuer	Title	Amount	Ratio to net purchases throughout the year (%)	Relationship with the issuer	Title	Amount	Ratio to net purchases for the current year up to the end of the first quarter (%)	Relationship with the issuer
1	Shang Chen	529,043	46	-	China Steel	912,506	69	-	China Steel	129,008	75	-
2	China Steel	512,921	45	-	Shang Chen	312,711	24	-	Shang Chen	33,567	19	-
3	Cheng Heng	97,127	8	-	Hyosung	48,735	4	-	Hyosung	9,720	5	-
	Others	3,250	1		Others	48,697	3		Others	239	1	
	Net purchases	1,142,341	100		Net purchases	1,322,649	100		Net purchases	172,534	100	

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

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

Unit: NTD Thousand

Item	2021				2022				2023 up to the end of the first quarter			
	Title	Amount	Ratio to net sales throughout the year (%)	Relationship with the issuer	Title	Amount	Ratio to net sales throughout the year (%)	Relationship with the issuer	Title	Amount	Ratio to net sales for the current year up to the end of the first quarter (%)	Relationship with the issuer
1	Customer A	395,054	25	-	Customer A	613,502	28	-	Customer A	97,182	23	-
2	Customer B	227,016	15	-	Customer C	218,536	10	-	Customer C	58,962	9	-
3	Customer C	185,756	12	-	Customer B	175,974	8	-	Customer B	37,606	9	-
4	Others	742,798	48		Others	1,208,042	54		Others	237,893	54	
	Net sales amount	1,550,624	100		Net sales amount	2,216,054	100		Net sales amount	431,643	100	

Reasons for increase or decrease: The increase in sales of 2022 was mainly the result of the rising steel prices and increase in market demand.

Production volume/value of the most recent two years:

Capacity output: Tons Output value: NTD thousand

Production value Major products	Year	2022			2021		
		Capacity	Yield	Production value	Capacity	Yield	Production value
Steel pipes		72,000	49,870	1,664,281	72,000	33,234	1,017,910
Others		-	368	27,067	-	457	27,293
Total		72,000	50,238	1,691,348	72,000	33,691	1,045,203

Sales volume/value of the most recent two years:

Volume: Tons Value: NTD thousand

Sales Volume/value Major products	Year	2022				2021			
		Domestic sales		Exports		Domestic sales		Exports	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Steel pipes		33,840	1,436,822	15,557	658,721	33,266	1,236,978	2,152	62,171
Circulating steel products		2,640	59,573	—	—	7,914	192,278	—	—
Others		382	60,938	—	—	447	59,197	—	—
Total		36,862	1,557,333	15,557	658,721	41,627	1,488,453	2,152	62,171



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

Year		2021	2022	Current year as of May 19, 2023
Number of employees	Headquarters	47	49	48
	Yongan Factory	3	3	3
	Pingnan Factory	155	167	156
	Total	205	219	207
Average age		48	46	47
Average years of service		18	16	17
Education distribution ratio	Ph.D.	0	0	0
	Master's degree	3	2	2
	College and university	97	99	95
	High school	94	107	99
	Below high school	11	11	11

#### IV. Environmental expenditure information

##### 1. Pollution losses of the most recent two years Unit: NTD

	2021	2022
Pollution status (type, degree) (Including occupational safety and health penalties by the Ministry of Labor Affairs)	Violation of the requirement in Article 6 Paragraph 1 of the Occupational Safety and Health Act	Violation of the requirement in Article 6 Paragraph 1 of the Occupational Safety and Health Act
Explanation	Failure to use the safety loading/unloading equipment, which led to the tally clerk falling off the finished steel pipes from a height of 1.7 meters and suffering mild injuries (10/5/2021).	7/14/2022 Employee Chen Chia-Ming accidentally had his right leg stepping into the chromate pond while trying to get across the isolation railing with the surfboard to place water that keeps off splashing; as a result, he suffered 20% Degrees 2 to 3 scalds to varied extents in his right leg and was sent to the Burn Unit of the Navy General Hospital in an emergency vehicle right away.
Compensated party or sanctioned unit	Occupational Safety and Health Administration, Ministry of Labor	Occupational Safety and Health Administration, Ministry of Labor
The amount of compensation or sanctions	Fined NTD 60 thousand	Fined NTD 80 thousand
Other losses	None	None

2. As of the publication date of the Annual Report in 2023, 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 by performing hazard identification risk assessment and enforcing risk management in the workplace.
3. Implement automatic inspections, strengthen employee safety observation and analysis, and education and training on safety operating standards.
4. Have related staff to attend industrial safety, environmental protection, and fire prevention courses and help acquire licenses.
5. Reinforce industrial safety inspections in the field, demand immediate correction of industrial safety deficiencies and submit corrective and preventive measures.
6. Hire occupational therapy doctors and nurses to be based on site and provide employees with health consultation so that health promotion may be enforced among employees.
7. Set the occupational safety goals and enforce high-risk control in an effort to eliminate hazards and reduce occupational safety and health risk to a minimum and evaluate occupational safety and health opportunities; reinforce engineering control and consistently enforce safety operating standards in order to protect the safety and health of employees; confirm the adequacy and effective enforcement of the occupational safety and health system according to the management cycle that consists of planning, implementation, and monitoring/review, and adoption of corrective measures and continue to improve safety and health performance.

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, and introduce improvement programs and set target management plans for major environmental consideration projects.
4. In response to global climate change and warming issues, as is required for disclosure of information on environmental safety in the ESG Sustainability Report, create the greenhouse gas inventory check and spontaneous reduction promotion committee and its organization, add the regulations governing greenhouse gas spontaneous inventory checks and the operating standards and enforce energy conservation and carbon reduction to protect the Earth.

2. Estimated environmental capital expenditure in the next three years

	<u>2023</u>	<u>2024</u>	<u>2025</u>
Pollution prevention equipment or expenditures to be purchased	1. Resin replacement. 2. Renovation of washing tower. 3. Replacement of two cloth pipes (400 pcs). 4. Renovation of the chromate pond. 5. Elimination and replacement of air compressors with energy-saving variable-frequency air compressors (x2) 6. Replacement of high energy-	1. Resin replacement. 2. Renovation of washing tower. 3. Replacement of two cloth pipes (400 pcs). 4. Elimination and replacement of air compressors with energy-saving variable-frequency air compressors (x1) 5. Replacement of high energy-	1. Replacement of two cloth pipes (400 pcs). 2. Elimination and replacement of air compressors with energy-saving variable-frequency air compressors (x1) 3. Replacement of high energy-

	consuming lights to electricity-saving LED ones.	consuming lights are electricity-saving LED ones.	consuming lights are electricity-saving LED ones.
Expected improvements	<ol style="list-style-type: none"> <li>1. Maintain water and waste water treatment efficiency.</li> <li>2. Improve the working environment in the pickling area.</li> <li>3. Improve the air pollution of the working environment and reduce the number of particulate matters discharged and air pollution charge.</li> <li>4. Prevent against soil pollution.</li> <li>5. Conserve energy and reduce carbon emissions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Maintain water and waste water treatment efficiency.</li> <li>2. Improve the working environment in the pickling area.</li> <li>3. Improve the air pollution of the working environment and reduce the number of particulate matters discharged and air pollution charge.</li> <li>4. Conserve energy and reduce carbon emissions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Improve the working environment in the pickling area.</li> <li>2. Improve the air pollution of the working environment and reduce the number of particulate matters discharged and air pollution charge.</li> <li>3. Conserve energy and reduce carbon emissions.</li> </ol>
Amount	Approximately NTD 10 million	Approximately NTD 7.4 million	Approximately NTD 5 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 Spring Festival, Dragon Boat Festival, Mid-Autumn Festival gift money

Employee marriage stipend

Funeral stipend for employees and parents

Employee group accident insurance, hospitalization allowance

### 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. Collective Agreement

The company had a collective agreement signed with the Labor Union on January 8, 2016 in order to stabilize labor-management relations, promote labor-management harmony, and improve labor welfare. The said collective agreement was renewed on May 1, 2019 for the first time and on May 1, 2022 for the second time. The collective agreement is valid for 3 years from the contract signing date to April 30, 2025.

#### 5. Other important agreements

The company formulates the “Work Rules” for the compliance of the employees. The labor-management meetings are held regularly with the labor union to maintain a harmonious labor-management relationship, exercise team spirit, improve work efficiency, increase profits, and share due rights and obligations.

#### Losses due to labor disputes in the last three years

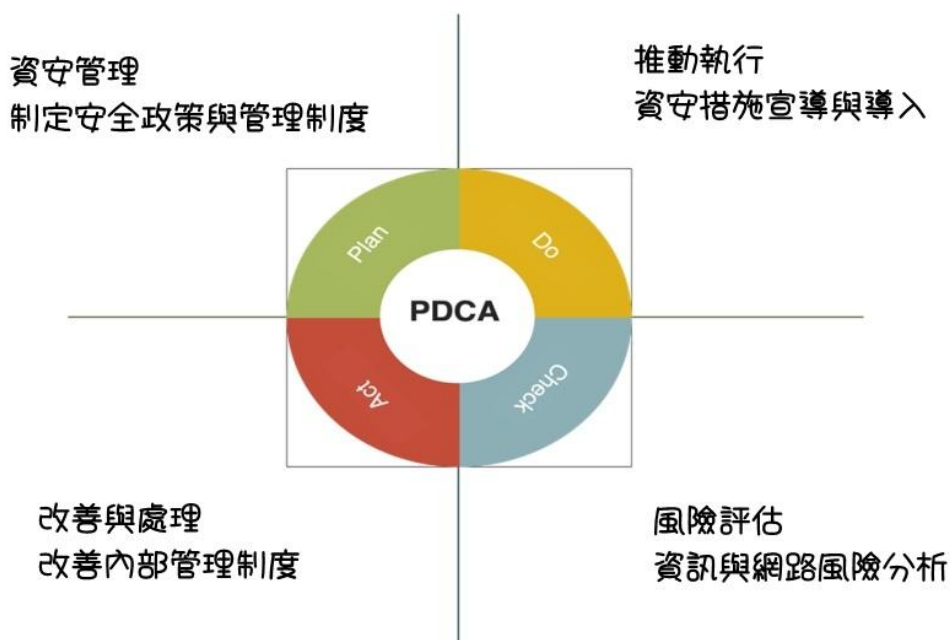
	<u>2020</u>	<u>2021</u>	<u>2022</u>
1. Status of labor disputes	None	None	None
2. Amount of loss that has occurred	-	-	-
3. Estimated possible future loss	-	-	-
4. The Company’s countermeasures	The Company upholds the business philosophy of "righteousness, diligence, and thrift" and maintains a harmonious 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.		

## VI. Information and Communication Security Management

### Information security Risk Management Structure

In terms of information security management, the Company has set up a network and system safety system and has the “computer information security policy” in place and reflects upon them once a year. In order to reinforce the Company’s information security management and to ensure data, system, and network safety, the Information Security Officer and information security staff are in place; management over the use of computer information is enforced; and effective utilization of computer resources is protected to hopefully facilitate smooth IT operations as a whole.

For the operational model, PDCA is adopted to ensure achievement of reliability goals and persistent improvements.



Information security management: Define the security policy and the management system.	Implementation and enforcement: communicate and introduce information security measures
Improvement and management: improve the internal management system	Risk assessment: Information and cyber risk analysis

### Information and Communication Security Policy

The information and communication security policy covers the following. Related units and staff define applicable management regulations or implementation plans according to their



responsibilities and periodically evaluate the implementation efficacy.

- Staff management and IT security educational training
- Computer system security management
- Network system security management
- IT system access control
- System development and safety maintenance and management
- Classification and management of information assets
- Sustainable operation planning for the business
- Emergency response plan and planning and management of the reporting mechanism

#### Substantial management solutions

The information security management solutions are enforced as required by the Company's Specifications. Besides periodic general control over IT operations and internal audits of information and communication security inspections, the CPAs audit the IT setting and operations on a yearly basis as well.

- Host Room Access Control Regulations
- Applicable Requirements for Open Network Access
- Database Backup Regulations
- Regulations Governing the Rehearsal of Recovery Tests of Primary Systems
- Email Management and Use Regulations
- Information System Management Regulations
- Information Security Reports Handling Procedure
- Personal Data Management Regulations
- System Access Set Management Regulations

#### Devotion of information security resources and major events

The Company spares no effort to invest in IT systems primarily to enhance management and competitive advantages. Budget continues to be planned for the configuration and maintenance of information security-related equipment (including the update of the firewall, the update of invasion detection, the update of the anti-virus software and virus signature, etc.).

Users rely on IT systems more and more at present. Remote backup and update of the data backup mechanism and equipment have continued to be reinforced for the past few years in order to ensure non-interruption of system service.

Losses due to material information and communication security incidents over the most recent year up to the date the Annual Report was printed, their possible impact and countermeasures: none.

## VII. Important Contracts

Contract nature	Parties	Contract start and end date	Main content	Restriction clause
Purchase contract	China Steel Corporation	01/01/2022 ~ 12/31/2022	Hot rolled steel products	-
Purchase contract	Sorin Corporation	01/01/2022 ~ 12/31/2022	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)					Financial Information of Current Year as of March 31, 2023
		2018	2019	2020	2021	2022	
Current assets		1,522,992	1,401,772	1,597,660	2,228,510	2,205,712	2,170,689
Property, plant and equipment		1,626,992	1,578,543	1,539,887	1,519,830	1,514,042	1,514,870
Intangible assets		-	-	-	-	-	-
Other assets		2,084,862	2,181,147	3,524,647	3,578,540	3,540,064	3,647,334
Total assets		5,234,846	5,161,462	6,662,194	7,326,880	7,259,818	7,332,893
Current liabilities	Before distribution	2,612,379	2,463,006	2,931,970	3,399,559	3,532,687	3,423,653
	After distribution	2,612,379	2,463,006	2,931,970	3,399,559	註2	
Non-current liabilities		254,845	253,787	958,066	957,680	911,501	864,621
Total liabilities	Before distribution	2,867,224	2,716,793	3,890,036	4,357,239	4,444,188	4,288,274
	After distribution	2,867,224	2,716,793	3,890,036	4,357,239	註2	
Equity interest attributable to owner of the parent company		2,367,622	2,444,669	2,772,158	2,969,641	2,815,630	3,044,619
Share capital		2,008,523	2,008,523	2,008,523	2,008,523	2,008,523	2,008,523
Capital surplus		75,159	75,159	75,159	75,159	75,159	75,159
Retained earnings	Before distribution	558,117	442,196	444,762	674,974	809,216	890,262
	After distribution	558,117	442,196	444,762	674,974	註2	
Other equity interest		(274,177)	(81,209)	243,714	210,985	(77,268)	146,313
Treasury stock		0	0	0	0	0	(75,638)
Non-controlling interest		0	0	0	0	0	0
Total equity	Before distribution	2,367,622	2,444,669	2,772,158	2,969,641	2,815,630	3,044,619
	After distribution	2,367,622	2,444,669	2,772,158	2,969,641	註2	

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)					Financial Information of Current Year as of March 31, 2023
	2018	2019	2020	2021	2022	
Operating income	1,413,110	1,142,137	962,510	1,550,624	2,216,054	431,643
Operating margin	(21,455)	(4,328)	22,021	194,573	327,131	73,010
Operating profit and loss	(164,220)	(123,293)	(68,622)	96,962	138,474	39,667
Non-operating revenue and expenses	24,243	(813)	37,537	(34,393)	(18,915)	12,847
Net profit before tax	(139,977)	(124,106)	(31,085)	62,569	119,559	52,514
Profit from continuing operations	(139,977)	(124,106)	(31,085)	42,117	112,184	60,664
Profit or loss from discontinued operations	0	0	0	0	0	0
Net profit (loss) for the period	(176,411)	(124,106)	(32,794)	42,117	112,184	60,664
Other combined gains or losses for the period (Net value after tax)	(126,882)	201,153	360,283	155,366	(266,195)	243,963
Total combined gains or losses for the period	(303,293)	77,047	327,489	197,483	(154,011)	304,627
Net profit attributable to owner of the parent company	(176,411)	(124,106)	(32,794)	42,117	112,184	60,664
Net profit attributable to non-controlling interest	0	0	0	0	0	0
Total combined gains or losses attributable to owners of the parent company	(303,293)	77,047	327,489	197,483	(154,011)	304,627
Total combined gains or losses attributable to non-controlling interests	0	0	0	0	0	0
Earnings and losses per share	(0.88)	(0.62)	(0.16)	0.21	0.56	0.3

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

CPA name and audit opinions for the most recent five years

Year	Names of CPAs	Accountant's audit opinion	Reason for changing accountants
2018	Chen Kuo-Tsung, Yang Po-Jen	Unqualified opinion	Note
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	
2022	Hsu Chen-Lung, Chen Yung-Hsiang	Unqualified opinion	

Note: In 2022, 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 Chen Kuo-Tsung and Hsu Chen-Lung to Hsu Chen-Lung and Chen Yung-Hsiang.

## II. Financial analysis for the last five years

### Financial analysis

Year Analysis item		Financial analysis for the last five years (Note 1)					Current year as of March 31, 2023
		2018	2019	2020	2021	2022	
Financial structure (%)	Debt to asset ratio	55	53	58	59	61	58
	The ratio of long-term funds to property, plant, and equipment	146	155	180	241	246	243
Solvency (%)	Current ratio	58	57	54	66	62	63
	Quick ratio	36	35	38	44	37	39
	Interest coverage ratio	(226)	(174)	25	211	264	341
Operating ability	Accounts receivable turnover (times)	22	18	10	15	22	16
	Average cash collection days	16	21	35	24	17	23
	Inventory turnover (times)	3	2	2	2	3	2
	Payables turnover	29	28	30	24	28	25
	Average sales days	138	172	197	164	145	186
	Turnover rate of property, plant and equipment (times)	0.86	0.72	0.62	1.02	1.46	1.12
	Total asset turnover rate (times)	0.26	0.22	0.14	0.21	0.3	0.24
Profitability	Return on assets (%)	(2.66)	(1.69)	0	1.24	2.33	1.07
	Return on equity (%)	(7.02)	(5.15)	(1.25)	1.46	3.87	2.07
	Net profit before tax to paid-in capital ratio (%)	(7)	(6)	(2)	3	5.95	2.61
	Net profit rate (%)	(12)	(11)	(3)	4	7.23	14.05
	Earnings per share (NTD)	(0.88)	(0.61)	(0.16)	0.21	0.56	0.3
Cash flows	Cash flow adequacy ratio (%)	(5.81)	(2.44)	2.5	(3.19)	3.52	1.22
	Cash flow adequacy ratio (%)	(110)	(116)	(44)	(34)	(7.94)	(8)
	Cash reinvestment ratio (%)	(3)	(1)	1	(1)	1.7	0.56
Leverage	Operating leverage	(0.93)	(0.73)	(1.88)	3	2.48	2
	Financial leverage	0.79	0.73	0.62	2.39	2.12	2
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

Liabilities to assets ratio = total liabilities/total assets.

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

2. Solvency

Current ratio = current assets/current liabilities.

Quick ratio = (current assets-inventory-prepaid expenses) / current liabilities.

Interest coverage ratio = net profit before income tax and interest expense/interest expense in the current period.

3. Operating ability

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.

Average cash collection days=365/receivable turnover rate.

Inventory turnover rate = cost of goods sold / average inventory value.

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.

Average sales days = 365 / inventory turnover rate.

Turnover rate of property, plant, and equipment = net sales/average net property, plant, and equipment.

Total asset turnover ratio = net sales/total assets.

4. Profitability

Return on assets = [after-tax profit and loss + interest expense × (1-tax rate) ]/average total assets.

Return on equity = profit and loss after tax/average net equity.

Net profit rate = after-tax profit and loss/net sales.

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

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

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)

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:

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

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



Explanation of reasons for changes in various financial ratios of the most recent two years:

Item	2022	2021	Rate of change % increase (decrease)	Explanation
Gross profit margin	14.76%	12.55%	17.61	Analysis of gross profit margin changes
Inventory turnover	2.51%	2.22%	13.06	Analysis of changes in inventory turnover rate
Accounts receivable turnover	21.73%	15.37%	41.38	Analysis of changes in accounts receivable turnover rate

Analysis of gross profit margin changes:

	Net operating income	Operating cost	Operating margin	Gross profit margin (%)
2021	1,550,624	1,356,051	194,573	12.55
2022	2,216,054	1,888,923	327,131	14.76
Explanation of major changes in gross profit margin:				
Both the price and volume rose for the period.				

Analysis of changes in inventory turnover rate:

	Inventory turnover (times)	Average sales days
2021	2.22	164
2022	2.51	145
Explanation of changes in inventory turnover rate:		
Sales for the period increased compared to those for the previous period.		

Analysis of changes in accounts receivable turnover rate:

	Accounts receivable turnover (times)	Average cash collection days
2021	15.37	24
2022	21.73	17
Explanation of major changes in accounts receivable turnover rate:		
The amount of sales for the period is greater than 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 2022 business report, financial statements and earnings distribution proposal, among which the financial statements were audited by the CPAs of KPMG Taiwan and an audit report was issued accordingly.

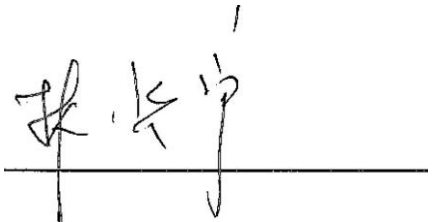
The above-mentioned Business Report, financial statements and earnings distribution proposal have been reviewed by the Audit Committee and no inconsistency has been found. This report is issued in accordance with relevant provisions of the Securities and Exchange Act and the Company Act.

As above

The Company's **2023** General Shareholders' Meeting

Kao Hsing Chang Iron & Steel Corp.

Convener of Audit Committee:

A handwritten signature in black ink, consisting of stylized Chinese characters, is written over a horizontal line. The signature appears to be '林長宇' (Lin Changyu).

March 7, 2023

## **Independent Auditor's Report**

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

### **Audit opinion**

We have audited the balance sheets as of December 31, 2022 and 2021, and the statements of comprehensive income, changes in equity and cash flows for the years of 2021 and 2020, and the notes to the individual financial reports, including a summary of significant accounting policies.

In our opinion, the above individual financial reports present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for audit opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities in the Audit of individual financial report. 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 matters are those matters that, in our professional judgment, were of the most significance in our audit of the individual financial report of Kao Hsing Chang Iron & Steel Corp for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The accountants judge that the key audit items that should be communicated in the audit report are as follows:

#### **Inventory valuation**

Please refer to Note 4(7) Inventory of the individual financial report for the accounting policy of the inventory evaluation; please refer to Note 5 of the individual financial report for the accounting estimates and assumptions uncertainties of the inventory evaluation; please refer to Note 6(6) Inventory of the individual financial report for the disclosure of inventory evaluation.

#### Explanation of the Key Audit Matters:

The main inventory of Kao Hsing Chang Iron and Steel Corporation, Ltd. is various steel pipes and hot rolled coils, which are measured at the lower of cost and net realizable value. Because the global steel market is affected by changes in raw material prices, the sales demand and prices of related products may fluctuate violently in a competitive and changing environment. Estimating the net realizable value of inventories depends on the subjective judgment of the management of Kao Hsing Chang Iron and Steel Corporation, Ltd. Therefore, there is a risk that the cost of inventory may exceed its net realizable value, which is a matter that we need to pay close attention to when auditing the 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 Management and Those Charged with Governance for the Consolidated Financial Statements.**

The responsibility of the management is to prepare individual financial reports that are properly expressed in accordance with the Financial Reporting Standards for Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, Interpretations and Interpretations that have been approved and issued by the Financial Supervisory Commission, and maintain the individual financial reports that are consistent with the individual financial reports. Necessary internal controls related to report preparation to ensure that individual financial report do not contain material misrepresentations caused by fraud or errors.

When preparing individual financial statements, the management's responsibilities also include evaluating Kao Hsing Chang Iron & Steel Corp.'s ability to continue operations and disclose related matters, and the adoption of the accounting foundation for continuing operations, unless management intends to liquidate Kao Hsing Chang Iron & Steel Corp. or cease operations, or there are no other practical solutions except for liquidation or suspension of business.

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

## **Auditors' responsibilities for audit the individual financial report**

Our objectives are to obtain reasonable assurance about whether the individual financial report as a whole is free from material misstatement, whether it is due to fraud errors, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of the Republic of China will always detect a material misstatement when it exists in the individual financial report. Misstatements can arise from fraud or error. If the individual amounts or aggregated figures that are misrepresented are reasonably expected to affect the economic decisions made by individual financial report users, they are considered to be material.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgement and maintain professional skepticism throughout the audit. We also exercise the following:

1. Identify and assess the risks of material misstatement of individual financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Because fraud may involve collusion, forgery, deliberate omission, false statement or violation of internal control, the risk of not detecting a major false expression caused by fraud is higher than that caused by error.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kao Hsing Chang Iron & Steel Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists and is related to events or conditions that may cast significant doubt on the Kao Hsing Chang Iron & Steel Corporation's ability to continue as a going concern. If the accountant believes that there are significant uncertainties in these events or circumstances, he must remind the users of individual financial reports in the audit report to pay attention to the relevant disclosures in the individual financial reports, or amend the audit opinions when such disclosures are inappropriate. The accountant's conclusion is based on the audit evidence obtained as of the date of the audit report. However, future events or circumstances may cause Kao Hsing Chang Iron & Steel Corp. to no longer have the ability to continue operations.

5. Evaluate the overall presentation, structure and content of the individual financial report, including the notes, and whether the individual financial report represents the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence for the financial information of the invested company adopting the equity method to express an opinion on the individual financial report. The accountant is responsible for the guidance, supervision and execution of audit cases, and is responsible for forming audit opinions for Kao Hsing Chang Iron & Steel Corp.

The matters communicated between the accountant and the governance unit include the planned audit scope and time, and major audit findings (including significant deficiencies in internal control identified during the audit process).

The accountant also provides the governance unit with a statement that the personnel of the accounting firm's affiliated firm subject to independence regulations have complied with the independence of the accountant's professional ethics and communicates with the governance unit all relationships that may be considered to affect the independence of the accountant and other matters (including related protective measures).

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual financial report for the year ended December 31, 2022 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Taiwan

Auditor:

Approval reference of  
the securities authority : Jing-Guan-Zheng-6-Character-  
No.0960069825  
Jing-Guan-Zhen-Shen-  
Character-No.1110338100  
March 7, 2023

**Kao Hsing Chang Iron & Steel Corp.**

**Balance Sheet**

**December 31, 2022 and 2021**

**Unit: NTD Thousand**

Assets		<u>2022.12.31</u>		<u>2021.12.31</u>	
		Amount	%	Amount	%
<b>Current assets:</b>					
1100	Cash and cash equivalents (note 6(1))	\$214,173	3	559,241	8
1120	Financial assets measured at fair value through other comprehensive income -- current (Note 6(2))	984,337	14	804,074	11
1151	Notes receivable (Note 6(4))	4,291	-	-	-
1152	Other notes receivable (Note 6(5))	200	-	200	-
1170	Net accounts receivable (Note 6(4))	103,257	1	96,357	1
1200	Other accounts receivable (Note 6(5) and 7)	8,611	-	28,623	-
130X	Inventories (Note 6(6))	738,2041	10	719,811	10
1460	Non-current Assets Held for Sale (Note 6 (7) and 8)	113,334	2	-	-
1476	Other financial assets – current (Note 6 (3) and 8)	20,023	-	-	-
1479	Other current assets – other (Note 6 (12))	<u>19,282</u>	-	<u>20,204</u>	-
	<b>Total current assets</b>	<u>2,205,712</u>	<u>30</u>	<u>2,228,510</u>	<u>30</u>
<b>Non-current assets:</b>					
1517	Financial assets measured at fair value through other comprehensive income – non-current (Note 6 (2))	955,656	13	973,059	13
1550	Investments accounted for using equity method (Note 6 (8) and 7)	512,824	7	448,777	6
1600	Property, plant and equipment (Note 6 (9) and 8)	1,514,042	21	1,519,830	21
1755	Right-of-use asset (Note 6 (10) and 7)	6,581	-	9,871	-
1760	Net Investment properties (Note 6 (11), 7 and 8)	2,027,466	28	2,141,002	30
1920	Refundable deposits (Note 6 (5), 7 and 9)	4,537	-	5,831	-
1995	Other non-current assets – others	<u>33,000</u>	-	-	-
	<b>Total non-current assets</b>	<u>5,054,106</u>	<u>70</u>	<u>5,098,370</u>	<u>70</u>
	<b>Total assets</b>	<u><b>\$7,259,818</b></u>	<u><b>100</b></u>	<u><b>7,326,880</b></u>	<u><b>100</b></u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao



**Kao Hsing Chang Iron & Steel Corp.**  
**Balance Sheet (continued)**  
**December 31, 2022 and 2021**

**Unit: NTD Thousand**

		<u>2022.12.31</u>		<u>2021.12.31</u>	
<b>Liabilities and equity</b>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Current liabilities:</b>					
210	Short-term borrowings (Note 6 (14) and 8)	\$3,205,071	4	3,232,341	44
211	Short-term notes and bills payable ((Note 6(13) and 8)	124,700	2	-	-
215	Notes payable	40,290	1	28,384	-
215	Other notes payable	11,433	-	12,878	-
217	Accounts payable	25,944	-	39,758	1
220	Other accounts payable	74,081	1	56,739	1
223	Current tax liabilities	10,387	-	22,161	-
230	Other current liabilities (Note 6 (15)(22))	8,223	-	7,298	-
232	Long-term liabilities, due within one year or one business cycle (Note 6 (16) and 8)	<u>32,558</u>	-	-	-
<b>Total current liabilities</b>		<u>3,532,687</u>	<u>4</u>	<u>3,399,559</u>	<u>46</u>
<b>Non-current liabilities:</b>					
254	Long-term borrowings (Note 6 (16) and 8)	667,442	9	700,000	10
257	Deferred tax liabilities (Note 6 (19))	210,632	3	210,632	3
264	Net defined benefit liabilities – non-current (Note 6 (18))	28,427	1	42,008	1
264	Guarantee deposits (Note 7)	<u>5,000</u>	-	<u>5,040</u>	-
<b>Total non-current liabilities</b>		<u>911,501</u>	<u>13</u>	<u>957,680</u>	<u>14</u>
<b>Total liabilities</b>		<u>4,444,188</u>	<u>6</u>	<u>4,357,239</u>	<u>60</u>
<b>Equity (Note 6 (20)):</b>					
310	Share capital	<u>2,008,523</u>	<u>2</u>	<u>2,008,523</u>	<u>27</u>
320	Capital surplus	<u>75,159</u>	<u>1</u>	<u>75,159</u>	<u>1</u>
330	Retained earnings:				
331	Statutory reserve	170,158	2	147,137	2
335	Unappropriated earnings	<u>639,058</u>	<u>9</u>	<u>527,837</u>	<u>7</u>
		<u>809,216</u>	<u>1</u>	<u>674,974</u>	<u>9</u>
340	Other equity interest	<u>(77,268)</u>	<u>(</u>	<u>210,985</u>	<u>3</u>
<b>Total equity</b>		<u>2,815,630</u>	<u>3</u>	<u>2,969,641</u>	<u>40</u>
<b>Total liabilities and equity</b>		<u>\$7,259,818</u>	<u>1</u>	<u>7,326,880</u>	<u>100</u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao

**Kao Hsing Chang Iron & Steel Corp.**  
**Statements of Comprehensive Income**  
**January 1 to December 31, 2022 and 2021**

Unit: NTD Thousand

		2022		2021	
		Amount	%	Amount	%
4000	<b>Operating revenue</b> (Note 6 (17)(22) and 7)	\$ 2,216,054	100	1,550,624	100
5000	<b>Operating costs</b> (Note 6 (6)(17)(18), 7 and 22)	<u>1,888,923</u>	<u>85</u>	<u>1,356,051</u>	<u>88</u>
5900	<b>Operating margin</b>	<u>327,131</u>	<u>15</u>	<u>194,573</u>	<u>12</u>
6000	<b>Operating expenses</b> (Note 6 (18)(23), 7 and 12):				
6100	Selling expenses	120,872	5	33,868	2
6200	Management expenses	<u>67,785</u>	<u>3</u>	<u>63,743</u>	<u>4</u>
	<b>Total operating expenses</b>	<u>188,657</u>	<u>8</u>	<u>97,611</u>	<u>6</u>
6900	<b>Operating profit</b>	<u>138,474</u>	<u>7</u>	<u>96,962</u>	<u>6</u>
	<b>Non-operating income and expenses:</b>				
7100	Interest income (Note 6 (24))	629	-	105	-
7010	Other income (Note 6 (2)(24))	49,889	2	40,281	3
7020	Other gains and losses (Note 6 (24))	6,276	-	(26,849)	(2)
7050	Finance costs (Note 6 (24))	(77,989)	(4)	(56,353)	(4)
7060	Share of profits (loss) of associates accounted for using equity method (Note 6 (8))	<u>2,280</u>	<u>-</u>	<u>8,423</u>	<u>1</u>
	<b>Total non-operating revenue and expenses,</b>	<u>(18,915)</u>	<u>(2)</u>	<u>(34,393)</u>	<u>(2)</u>
7900	<b>Net profit before tax</b>	119,559	5	62,569	4
7950	<b>less: income tax expense</b> (Note 6 (19))	<u>7,375</u>	<u>-</u>	<u>20,452</u>	<u>1</u>
	<b>Current net income</b>	<u>112,184</u>	<u>5</u>	<u>42,117</u>	<u>3</u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao

8300	<b>other</b>				
	<b>comprehensive</b>				
	<b>income:</b>				
8310	<b>Items not</b>				
	<b>reclassified</b>				
	<b>into profit</b>				
	<b>and loss</b>				
8311	Remeasurements	4,564	-	(6,840)	-
	from defined				
	benefit plans				
	(Note 6 (18))				
8316	Unrealized gains	(234,168)	(10)	161,638	10
	and losses on				
	equity				
	instrument				
	investments				
	measured at				
	fair value				
	through other				
	comprehensive				
	income				
8320	Share of other	(36,591)	(2)	568	-
	comprehensive				
	income				
	(loss) of				
	associates				
	accounted for				
	using equity				
	method – not				
	reclassified to				
	profit or loss				
	(Note 6 (8))				
8349	less: Income tax	-	-	-	-
	related to				
	components				
	not				
	reclassified				
	(Note 6 (19))				
	<b>Total of</b>	<u>(266,195)</u>	<u>(12)</u>	<u>155,366</u>	<u>10</u>
	<b>components</b>				
	<b>that will not</b>				
	<b>be</b>				
	<b>reclassified</b>				
	<b>to profit or</b>				
	<b>loss</b>				
8300	<b>Other</b>	<u>(266,195)</u>	<u>(12)</u>	<u>155,366</u>	<u>10</u>
	<b>comprehensive</b>				
	<b>income</b>				
	<b>for the</b>				
	<b>period (net</b>				
	<b>after tax)</b>				
	<b>Total</b>	<u><u>\$ (154,011)</u></u>	<u><u>(7)</u></u>	<u><u>197,483</u></u>	<u><u>13</u></u>
	<b>comprehensive</b>				
	<b>income</b>				
	<b>for the</b>				
	<b>period</b>				
	<b>Earnings per</b>				
	<b>share (Note</b>				
	<b>6 (21))</b>				
9750	<b>Basic earnings</b>		<u>\$ 0.56</u>		<u>0.21</u>
	<b>per share</b>				
9850	<b>Diluted earnings</b>		<u>\$ 0.56</u>		<u>0.21</u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao

per share

**(Please refer to the attached notes to financial statements)**

**Chairman: Tai-Rong Lu**

**Manager: Rong-Feng Shenglu**

**Accounting officer: Hueimei Chao**

**Kao Hsing Chang Iron & Steel Corp.**  
**Statement of Changes in Equity**  
**January 1 to December 31, 2022 and 2021**

Unit: NTD Thousand

	Share capital	Additional paid in capital	Statutory reserve	Retained earnings Special reserve	Unappropriated retained earnings	Other equity items Gain (loss) from unrealized valuation of financial assets measured at fair value through other comprehensive income	Total equity interest
<b>Balance on January 1, 2021</b>	<u>\$</u> <u>2,008,523</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	-	-	-	-	(6,840)	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)	-
<b>Balance on December 31, 2021</b>	<u>\$</u> <u>2,008,523</u>	<u>75,159</u>	<u>147,137</u>	<u>81,209</u>	<u>527,837</u>	<u>210,985</u>	<u>2,969,641</u>
Current net income					112,184		112,184
Other comprehensive income for the period	-	-	-	-	4,564	(270,759)	(266,195)
Total comprehensive income for the period	-	-	-	-	116,748	(270,759)	(154,011)
Earnings appropriation and distribution:							
Statutory surplus reserve			23,021		(23,021)		
Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	17,494	(17,494)	-
<b>Balance on December 31, 2022</b>	<u>\$</u> <u>2,008,523</u>	<u>75,159</u>	<u>170,158</u>	<u>81,209</u>	<u>639,058</u>	<u>(77,268)</u>	<u>2,815,630</u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao

**Kao Hsing Chang Iron & Steel Corp.**  
**Statement of Cash Flow**  
**January 1 to December 31, 2022 and 2021**

**Unit: NTD Thousand**

	<u>2022</u>	<u>2021</u>
<b>Cash flow from operating activities:</b>		
<b>Profit before tax for the current period</b>	\$ <u>119,559</u>	<u>62,569</u>
<b>Adjustments:</b>		
Income, expenses, and losses		
Depreciation	55,772	54,485
Interest expenses	73,039	56,353
Interest income	(629)	(105)
Dividend income	(44,786)	(31,710)
Share of benefits of associates accounted for using equity method	(2,200)	(8,402)
Loss (gain) on disposal of property, plant and equipment	892	30
Unrealized gains on foreign currency exchange	<u>          </u>	<u>(70)</u>
Total income, expenses, and losses	<u>82,508</u>	<u>71,061</u>
Changes in operating assets and liabilities:		
Net changes in assets related to business activities:		
Increase in bills receivable	(4,201)	-
(Increase) decrease in accounts receivable	(6,900)	8,960
Increase in other receivables	(465)	(531)
Increase in inventories	(18,793)	(251,559)
Decrease (increase) in other current assets	<u>922</u>	<u>(5,600)</u>
Total net changes in operating assets	<u>(29,437)</u>	<u>(248,770)</u>
Net changes in liabilities related to operating activities:		
Increase in notes payable	11,906	8,104
(Decrease) increase in accounts payable	(13,814)	18,025
Increase in other payable	9,566	8,315
Increase in other current liabilities	925	4,314
Decrease in net defined benefit liability	<u>(9,077)</u>	<u>(7,277)</u>
Total net changes in operating liabilities	<u>(434)</u>	<u>31,531</u>
Total net changes in assets and liabilities related to business activities	<u>(29,461)</u>	<u>(217,239)</u>
Total adjustment items	<u>52,947</u>	<u>(146,178)</u>
Cash inflow (outflow) generated from operations	172,506	(83,609)
Interest received	582	105
Dividends received	43,254	30,935
Interest paid	(72,645)	(55,990)
Income taxes refund (paid)	<u>(19,750)</u>	<u>2</u>
<b>Net cash inflow (outflow) from operating activities</b>	<u>124,508</u>	<u>(108,677)</u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao

	<u>47</u>	<u>557)</u>
<b>Cash flow from investing activities:</b>		
Acquisition of financial assets measured at fair value through other comprehensive income	(744	(2,2'
	317)	9,525)
Disposal of financial assets at fair value through other comprehensive income	374,4	2,304,
	34	661
Investments accounted for using equity method	(99,(	(45,2
	00)	00)
Increase in prepaid investment	(33,(	
	00)	-
Acquisition of property, plant and equipment	(43,.	(20,8
	27)	01)
Disposal of property, plant, and equipment	-	
Decrease in refundable deposits	1,294	3,636
Acquisition of investment real estate	(3,5(	
	7)	-
Increase in other financial assets	<u>(20,(</u>	<u>          </u>
	<u>23)</u>	<u>          </u>
<b>Net cash flows (used in) investing activities</b>	<u>(567</u>	<u>(17,.</u>
	<u>306)</u>	<u>66)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loan	5,206,	4,616,
	814	045
Decrease in short-term loan	(5,2:	(4,2(
	4,084)	6,357)
Increase in short-term notes and bills payable	230,(	
	00	-
Decrease in short-term notes and bills payable	(105	
	000)	-
Decrease in notes payable for refund of capital deduction	<u>(39)</u>	<u>(94)</u>
<b>Net cash flows from financing activities</b>	<u>97,69</u>	<u>409,5</u>
	<u>1</u>	<u>94</u>
<b>Increase (decrease) in current cash and cash equivalents</b>	(345	283,8
	068)	71
<b>Beginning cash and cash equivalent balance</b>	<u>559,2</u>	<u>275,3</u>
	<u>41</u>	<u>70</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>\$</u>	<u>559,2</u>
	<u>214,173</u>	<u>41</u>

(Please refer to the attached notes to financial statements)

Chairman: Tai-Rong Lu

Manager: Rong-Feng Shenglu

Accounting officer: Hueimei Chao

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

### Kao Hsing Chang Iron & Steel Corp. Notes to Financial Statements For the years ended December 31, 2022 and 2021 (Amounts in New Taiwan Dollars, Unless Specified Otherwise)

#### I. Company history

Kao Hsing Chang Iron & Steel Corp. (hereinafter referred to as “the Company”) was approved to be established in January 1966, and its registered address is No. 318, Zhonghua 1st Rd, Gushan District, Kaohsiung City. The main business is manufacturing, processing and trading of various steel pipes and hot rolled coil, manufacturing of metal building structures and components, leasing and parking lot operations, etc.

#### II. Financial statement approval date and procedures

This financial report has been approved and issued by the board of directors on March 7, 2023.

#### III. Application of new and amended standards and interpretations

- (1) The impact of adopting the newly issued and amended standards and interpretations which were recognized by FSC.

The Company started to apply the following newly amended International Financial Reporting Standards from January 1, 2022, and has no significant impact on financial reports.

- 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 2018–2020
- Amendments to IFRS 3 “References to the Conceptual Framework”

- (2) The impact of not yet adopting the IFRS approved by the FSC

The Company evaluated that the application of the following newly amended IFRS effective from January 1, 2023 would not have a material impact on the financial report.

- 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”

- (3) Newly issued and amended standards and interpretations not yet approved by FSC

The Company expects that the following newly issued and revised standards that have not yet



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

been approved will not have a material impact on financial reporting.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”
- Amendments to IFRS 17 “Insurance Contracts” and IFRS 17
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IFRS 16 “Regulations of Leaseback Transactions”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”

### IV. Summary of significant accounting policies

Below is a summary of significant accounting policies adopted for the preparation of financial statements. The following accounting policies have been applied consistently across all periods presented in this financial statement.

#### (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 of Evaluation

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

- (1) Financial assets measured at fair value through profit or loss
- (2) Financial assets measured at fair value through other comprehensive income, and
- (3) Net defined benefit liabilities (or assets) are the fair value of pension fund assets less the present value of defined benefit obligations.

##### 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

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

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 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.

Foreign currency exchange differences arising from conversion are normally recognized in profit or loss, but the following situations are recognized in other comprehensive income:

1. Equity instruments designated to be measured at fair value through other comprehensive income;
2. Financial liabilities that are designated as net investment hedging of foreign operating institutions, and are within the effective scope of hedging; or
3. Eligible cash flow hedges are within the effective scope of hedges.

### (IV) Standard for classifying 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. Expects to realize the asset during its normal business cycle, or intends to sell or consume it;
2. Asset that is held mainly for trading purposes
3. The asset is expected to be realized within twelve months after the reporting period; or
4. The asset is cash or a cash equivalent, unless there are other restrictions on exchanging the asset or using it to settle liabilities at least twelve months after the reporting period.

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. The liability is expected to be settled during the normal business cycle;
2. liability that is held mainly for trading purposes;
3. the liability is expected to be due and settled within twelve months after the reporting period; or
4. Liabilities without an unconditional right to defer settlement for at least twelve 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 or a cash equivalent

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

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

insignificant risk of changes in value. Time deposits that meet the above definition and are held for the purpose of satisfying short-term cash commitments rather than for investment or other purposes, are listed in the cash equivalent.

### (VI) Financial instrument

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 asset

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 measured 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

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

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 measured at fair value through profit or 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's expected losses for financial assets measured at amortized cost (including cash and cash equivalents, financial assets measured at amortized cost, notes

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

receivable and accounts receivable, other notes receivable, other account receivables, refundable deposits, and other financial assets) are recognized as allowance losses.

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
- 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.

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

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) Derecognition 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.

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

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 transaction

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 stocks

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. Any gain or loss on derecognition is also recognized in profit or loss.

#### (5) Derecognition 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

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

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) Offsetting 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) Inventories

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 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) Non-current Assets Held for Sale

Non-current assets, or disposal groups of assets and liabilities, are classified as held for sale when it is highly probable that they will recover their carrying amount through sale rather than continuing use. Assets or the components in the disposal groups are remeasured in accordance with the Company's accounting policies before they are initially classified to be sold. After being classified as held for sale, it is measured based at the lower of its book value and fair value less costs to sell. Impairment losses of any disposal group are first allocated to goodwill, and then allocated to the remaining assets and liabilities on a pro rata basis, but if the losses are not allocated to assets that are not within the scope of impairment of assets of IAS 36, the aforementioned items continue to be measured in accordance with the Company's accounting policies. The impairment losses recognized in the initial classification as held for sale and the gains and losses occurred in the subsequent re-measurement are recognized in profit or loss, but the recovery benefits cannot exceed the cumulative impairment loss recognized.

When intangible assets and property, plant and equipment are classified as held for sale, they are no longer depreciated or amortized. In addition, when an associate using the equity method for recognition is classified as held for sale, the equity method will cease to be used.

### (IX) Investments in Associates

Associated company is an entity in which the Company has significant influence over



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

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.

### (X) Investment Property

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 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.

### (XI) Property, Plant and Equipment

#### 1. Recognition and Measurement

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

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 cost

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

### 3. Depreciation

Depreciation is calculated as the asset's cost less its residual value and is recognized in profit or loss using the straight-line method over the estimated useful life of each component.

No depreciation is provided on land.

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

(1) Buildings	2–60 years
(2) Equipment	2–25 years
(3) Other equipment	2–25 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.

## (XII) Lease

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. 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

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

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 benefits, including substantial fixed benefits;
- (2) For variable lease payments that depend on an index or rate, the index or rate on the lease commencement date is used for the initial measurement;
- (3) The guaranteed amount of residual value expected to be paid; and
- (4) The exercise price or penalty payment when it is reasonably certain to exercise the call option or lease termination option.

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

- (1) Changes in the index or rate used to determine lease payments lead to changes in future lease payments;
- (2) Changes in the guaranteed amount of residual value expected to be paid;
- (3) Changes in the evaluation of the call option of the underlying asset;
- (4) A change in the estimate of whether to exercise the extension or termination of the option, which changes the estimation of the lease term;
- (5) Modification of the underlying assets, scope or other terms of the lease.

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 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. Lessor

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

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.

### (XIII) Impairment of non-financial assets

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) Recognition of income

#### 1. Revenue from Contracts with Customers

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

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) Sales of goods

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 for Contracts with Customers

### (1) Incremental costs of obtaining contracts

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 for fulfilling the contract

Costs incurred for fulfilling contracts with customers that do not fall within the scope of

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

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) Employees' benefits

#### 1. Defined contribution plans

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

#### 2. Defined benefit plans

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 for defined benefit plans are recognized in profit or 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

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

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. Not the assets or liabilities initially recognized in a transaction of business combination, and does not affect accounting profits and taxable income (losses) at the time of the transaction;
2. Due to the temporary differences on the equity arising from investment in subsidiaries, associates and joint venture, the Company can control the timing of the reversal of the temporary difference and it is very likely that the reversal will not occur in the foreseeable future; and
3. Taxable temporary differences arising from the original 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. Has the legally enforceable right to offset current income tax assets against current income tax liabilities; and
2. Deferred income tax assets and deferred income tax liabilities are related to one of the following taxpayers whose income tax is levied by the same tax authority:
  - (1) The same taxpayer; or
  - (2) Different taxpayers, but each tax payers intends to settle current income tax liabilities and assets on a net basis, or realize assets and settlement simultaneously, in each future period in which significant amounts of deferred income tax assets are expected to be recovered and deferred income tax liabilities are expected to be settled.

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

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 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 evaluation is mainly based on the demand for the product in a specific period in the future, so there may be major changes due to sales demand and prices. Please refer to Note 6 (6) for the details of inventory evaluation.

## VI. Notes to major accounts



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

### (I) Cash and cash equivalents

	<u>2022.12.31</u>	<u>2021.12.31</u>
Reserve cash	\$ 404,692	265,497
Demand deposit	187,209,078	540,294,852
Check deposit	<u>26,559,388</u>	<u>18,681,143</u>
Cash and cash equivalents presented in the cash flow statement	<u>\$ 214,173,158</u>	<u>559,241,492</u>

Please refer to Note 6 (25) for the exchange rate risk and sensitivity analysis and credit risk disclosure of the company's financial assets.

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

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Equity instruments at fair value through other comprehensive income:		
TWSE/TPEX listed shares:		
HIWIN	\$ 18,980,000	-
A CHEN STAINLESS PIPE CO., LTD.	-	13,875,000
Sino-American Silicon Products Inc.	13,950,000	-
China Steel Chemical	52,750,000	120,500,000
China Steel	-	14,140,000
ASE Technology Holding	75,120,000	53,250,000
GENIUS ELECTRONIC OPTICAL CO., LTD.	16,775,000	21,160,000
DELTA ELECTRONICS, INC.	28,650,000	41,250,000
Taiwan Semiconductor Manufacturing	156,975,000	49,200,000
Cleanaway Company Limited	54,000,000	23,350,000
ChainQui Construction Development	1,367,100	1,715,850
Asia Pacific Telecom	36,600,000	49,320,000
Asia Optical	18,150,000	14,085,000
VisEra Technologies Company Limited.	19,350,000	-
Universal Microwave Technology, Inc.	16,140,000	-
Eternal Materials	15,625,000	26,122,500
GUDENG PRECISION INDUSTRIAL CO., LTD.	26,500,000	32,400,000
Yageo	162,360,000	76,720,000
KAIMEI ELECTRONIC CORP.	48,150,000	80,800,000
China Airlines.	9,500,000	-
WALSIN LIHWA CORPORATION	9,440,000	-
CHPT	51,205,000	25,596,000
Episil Holding Inc.	16,920,000	14,300,000
Sunspring Metal	6,780,000	8,220,000
Zhen Ding Technology Holding Limited. -KY	4,200,000	30,150,000
Hon Hai Precision Industry	39,960,000	52,000,000
FOXCONN TECHNOLOGY CO., LTD.	20,760,000	25,960,000
NOVATEK MICROELECTRONICS CORP.	50,480,000	-
Win Semiconductors	<u>13,650,000</u>	<u>29,960,000</u>
Subtotal	<u>984,337,100</u>	<u>804,074,350</u>
Non-listed domestic and foreign companies:		
CSGT Metals	56,496,230	54,802,550
Universal Venture Capital Investment	10,990,000	10,778,424

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

KHH Arena Corporation	61,091,250	68,557,500
ENRESTEC	263,015,408	268,373,422
How Weih Holding	560,563,395	570,547,183
Southern Air Transport, Inc.	<u>3,500,000</u>	<u>-</u>
Subtotal	<u>955,656,283</u>	<u>973,059,079</u>
Total	<u><b>\$ 1,939,993,383</b></u>	<u><b>1,777,133,429</b></u>
	<u><b>111.12.31</b></u>	<u><b>110.12.31</b></u>
Current	\$ 984,337,100	804,074,350
Non-current	<u>955,656,283</u>	<u>973,059,079</u>
	<u><b>\$ 1,939,993,383</b></u>	<u><b>1,777,133,429</b></u>

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.

Due to the above equity instrument investments measured at fair value through other comprehensive income, the dividend income recognized for the year ended December 31, 2022 and 2021 is NT\$44,286,169 and NT\$31,209,496, respectively.

Due to investment strategy considerations for the year ended December 31, 2022 and 2021, the Company sold the equity instrument investment designated to be measured at fair value through other comprehensive profit and loss. The fair value at the time of disposal was NT\$352,877,571 and NT\$2,314,650,854 respectively. The accumulative disposal benefits were NT\$18,135,708 and NT\$170,935,739 respectively, so the aforementioned accumulated disposal interests have been transferred from other interests to retained earnings.

Please refer to Note 6 (25) for information on market risk

None of the above financial assets was pledged as collateral.

### (III) Other financial assets

	<u>2022.12.31</u>	<u>2021.12.31</u>
Restricted bank deposits	<u><b>\$ 20,022,848</b></u>	<u><b>-</b></u>

Please refer to Note 6 (25) for credit risk information.

Please refer to Note 8 for details of the above-mentioned financial assets as collaterals for short-term loans and financing amount.

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

### (IV) Notes Receivable and Accounts Receivable

	<u>2022.12.31</u>	<u>2021.12.31</u>
Notes receivable - arising from business activities	\$ 4,291,169	-
Accounts receivable - at cost after amortization	103,257,372	96,356,522
Less: loss provisions	-	-
	<u><b>\$ 107,548,541</b></u>	<u><b>96,356,522</b></u>

The Company adopted the simplified approach to estimate expected credit loss on all notes and accounts receivable, which involved measuring expected credit loss for the duration of its receivables. To facilitate this approach, notes and 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. The expected credit loss analysis of the Company's accounts receivable is as follows:

	<u>2022.12.31</u>		
	<u>Book value of notes and accounts receivable</u>	<u>Weighted average expected credit loss rate</u>	<u>Provision for expected credit loss over the remaining duration</u>
Not overdue	\$ 107,548,541	-	-
Overdue	-	-	-
	<u><b>\$ 107,548,541</b></u>		<u><b>-</b></u>
	<u>2021.12.31</u>		
	<u>Book amount of accounts receivable</u>	<u>Weighted average expected credit loss rate</u>	<u>Provision for expected credit loss over the remaining duration</u>
Not overdue	\$ 96,356,522	-	-
Overdue	-	-	-
	<u><b>\$ 96,356,522</b></u>		<u><b>-</b></u>

The Company's account receivable allowance loss changes statement is as follows:

	<u>2022</u>	<u>2021</u>
Opening balance	\$ -	-
Closing balance	<u><b>\$ -</b></u>	<u><b>-</b></u>

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

The Company does not hold any collateral over these balances.

### (V) Other accounts receivable and notes

1. other accounts receivable	<u>2022.12.31</u>	<u>2021.12.31</u>
Other receivables - proceeds from disposal of shares	\$ 4,766,316	26,322,345
Other receivables - purchase discounts	252,134	356,601
Other receivables - others	2,755,219	2,139,048
Other receivables – dividend income	1,307,500	275,000
Guarantee deposits paid	4,536,500	5,830,867
Less: loss provisions	<u>470,460</u>	<u>470,460</u>
	<u><b>\$ 13,147,209</b></u>	<u><b>34,453,401</b></u>
	<u>2022.12.31</u>	<u>2021.12.31</u>
Presented as net other receivables	\$ 8,610,709	28,622,534
Presented as guarantee deposits paid	<u>4,536,500</u>	<u>5,830,867</u>
	<u><b>\$ 13,147,209</b></u>	<u><b>34,453,401</b></u>

Others mainly comprise proceeds from the sale of scraps.

2. Other notes receivable	<u>2022.12.31</u>	<u>2021.12.31</u>
Other notes receivable - rent proceeds	\$ 200,000	200,000
Less: loss provisions	<u>-</u>	<u>-</u>
	<u><b>\$ 200,000</b></u>	<u><b>200,000</b></u>

Please refer to Note 6 (25) for other credit risk information.

### (VI) Inventory

	<u>2022.12.31</u>	<u>2021.12.31</u>
raw materials	\$ 396,910,877	335,657,133
Work-in-progress	104,184,469	139,636,706
Finished goods	235,410,049	232,918,709
Inventory in transit	1,586,388	11,293,208
Scraps	<u>112,492</u>	<u>305,692</u>
	<u><b>\$ 738,204,275</b></u>	<u><b>719,811,448</b></u>

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

Detailed breakdown of sales cost:

	<u>2022</u>	<u>2021</u>
Reclassified into sales costs and expenses	\$ 1,860,629,097	1,325,269,830
Inventory devaluation loss	10,488,997	1,641,231
Unallocated manufacturing overheads	34,194,019	38,837,082
revenue from sale of scraps	(28,680,589)	(19,989,924)
Others	(74,744)	124,624
lease cost	<u>12,366,414</u>	<u>10,168,173</u>
	<b><u>\$ 1,888,923,194</u></b>	<b><u>1,356,051,016</u></b>

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

### (VII) Non-current assets held for sale

On November 11, 2022, the Company decided to sell the investment property land at No. 2, Xinfeng Section, Sanmin District, Kaohsiung City, and signed a sales contract with the counterparty on December 26, 2022. The total transaction price is NT\$452,373,000. As of December 31, 2022, due to the transaction procedures of the land has not finished, the land transfer has not yet been completed.

The transfer of the above-mentioned assets from the investment property amounted to NT\$113,333,469, which was measured by the lower of the book value and the fair value less the cost of sale, and there was no impairment loss.

Please refer to Note 8 for the details of the Company's non-current assets held for sale as collaterals.

### (VIII) Investments accounted for using equity method

The Company holds 38.32% of the voting shares of KHC STEEL INTERNATIONAL CORP. Although the other 61.68% shares are not held by a specific shareholder, the Company still cannot obtain more than half of the seats of the directors of KHC STEEL INTERNATIONAL CORP., and failed to obtain more than half of the voting rights of shareholders presented at 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 other 54.21% shares are not held by a specific shareholder, the Company still cannot obtain more than half of the seats of the directors of HSIEH CHANG HSING TRADING CO., LTD., and failed to obtain more than half of the voting rights of shareholders presented at the shareholders' meeting. Therefore, it is determined that the Company has only a

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

significant influence on HSIEH CHANG HSING TRADING CO., LTD.

The company holds 20% of the voting shares of SUNWARD REFRACTORIES CO. LTD. The other 80% of the shares of SUNWARD REFRACTORIES CO. LTD. are held by a specific shareholder. The Company cannot obtain more than half of the seats of the directors of SUNWARD REFRACTORIES CO. LTD., and failed to obtain more than half of the voting rights of shareholders presented at the shareholders' meeting. Therefore, it is determined that the Company has only a significant influence on SUNWARD REFRACTORIES CO. LTD.

In the first quarter of 2022, the Company invested NT\$99,000,000 in Smartway Ark Alliance Co., Ltd., with a shareholding ratio of 45%. The other 55% of the shares of Smartway Ark Alliance Co., Ltd. are held by a specific shareholder. The Company cannot obtain more than half of the seats of the directors of Smartway Ark Alliance Co., Ltd., and failed to obtain more than half of the voting rights of shareholders presented at the shareholders' meeting. Therefore, it is determined that the Company has only a significant influence on Smartway Ark Alliance Co., Ltd.

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
KHC Steel International Corp.	\$ 128,274,407	141,629,586
Hsieh Chang Hsing Trading Co., Ltd.	212,975,236	238,042,155
Sunward Refractories Co., Ltd.	72,544,231	69,105,142
Smartway Ark Alliance Co., Ltd.	<u>99,030,271</u>	<u>-</u>
	<b><u>\$ 512,824,145</u></b>	<b><u>448,776,883</u></b>

### 1. Associates

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

	<u>2022</u>	<u>2021</u>
KHC Steel International Corp.	\$ (1,131,323)	(1,322,159)
Hsieh Chang Hsing Trading Co., Ltd.	(57,968)	(56,221)
Sunward Refractories Co., Ltd.	3,439,089	9,801,039
Smartway Ark Alliance Co., Ltd.	<u>30,271</u>	<u>-</u>
	<b><u>\$ 2,280,069</u></b>	<b><u>8,422,659</u></b>

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

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

	<u>2022</u>	<u>2021</u>
KHC Steel International Corp.	\$ (11,581,721)	(11,935,992)
Hsieh Chang Hsing Trading Co., Ltd.	(25,008,951)	12,504,476
Sunward Refractories Co., Ltd.	-	-
Smartway Ark Alliance Co., Ltd.	-	-
	<u>\$ (36,590,672)</u>	<u>568,484</u>

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

### (1) KHC STEEL INTERNATIONAL CORP.

	<u>2022.12.31</u>	<u>2021.12.31</u>
Current assets	\$ 18,288,474	34,898,141
Non-current assets	352,052,838	342,169,388
	<u>\$ 370,341,312</u>	<u>377,067,529</u>
Current liabilities	\$ 35,414,667	7,289,164
Non-current liabilities	181,323	181,323
	<u>\$ 35,595,990</u>	<u>7,470,487</u>
	<u>2022</u>	<u>2021</u>
Operating revenue	\$ -	-
Current net loss	\$ (2,952,304)	(3,450,310)
Other comprehensive income	(30,223,699)	(31,148,203)
Total comprehensive income	<u>\$ (33,176,003)</u>	<u>(34,598,513)</u>
	<u>2022</u>	<u>2021</u>
The Company's share of the net assets of associates, \$	141,629,586	130,888,282
at the beginning of the period		
Comprehensive profit and loss attributable to the	(12,713,044)	(13,258,151)
Company for the current period		
The share of equity instruments disposed of by	(642,135)	23,999,455
associates recognized in the current period		



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

Share of net assets attributable to the Company as of \$ 128,274,407 141,629,586  
the end of the period

(2) HSIEH CHANG HSING TRADING CO., LTD.

	<u>2022.12.31</u>	<u>2021.12.31</u>
Current assets	\$ 907,702	1,034,298
Non-current assets	<u>464,241,283</u>	<u>518,857,904</u>
	<u>\$ 465,148,985</u>	<u>519,892,202</u>
Current liabilities	\$ 36,000	36,000
Non-current liabilities	<u>-</u>	<u>-</u>
	<u>\$ 36,000</u>	<u>36,000</u>

	<u>2022</u>	<u>2021</u>
Operating revenue	<u>\$ -</u>	<u>-</u>
Current net loss	\$ (126,596)	(122,780)
Other comprehensive income	<u>(54,616,621)</u>	<u>27,308,310</u>
Total comprehensive income	<u>\$ (54,743,217)</u>	<u>27,185,530</u>

	<u>2022</u>	<u>2021</u>
The Company's share of the net assets of associates, \$	238,042,155	225,593,900
at the beginning of the period		
Comprehensive profit and loss attributable to the	<u>(25,066,919)</u>	<u>12,448,255</u>
Company for the current period		
Share of net assets attributable to the Company as of	<u>\$ 212,975,236</u>	<u>238,042,155</u>
the end of the period		

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

### (3) Summary of SUNWARD REFRACTORIES CO. LTD

	<u>2022.12.31</u>	<u>2021.12.31</u>
Current assets	\$ 264,259,355	326,739,094
Non-current assets	<u>176,599,483</u>	<u>190,287,229</u>
	<b><u>\$ 440,858,838</u></b>	<b><u>517,026,323</u></b>
Current liabilities	\$ 86,692,148	94,248,980
Non-current liabilities	<u>183,003,476</u>	<u>268,809,573</u>
	<b><u>\$ 269,695,624</u></b>	<b><u>363,058,553</u></b>
	<u>2022</u>	<u>2021</u>
Operating revenue	<b><u>\$ 444,622,246</u></b>	<b><u>335,676,746</u></b>
Current net income	\$ 17,195,444	49,005,193
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<b><u>\$ 17,195,444</u></b>	<b><u>49,005,193</u></b>
	<u>2022</u>	<u>2021</u>
The Company's share of the net assets of associates, \$	30,793,554	(24,207,485)
at the beginning of the period,		
Comprehensive profit and loss attributable to the	3,439,089	9,801,039
Company for the current period		
Capital increase for the associates for the current	<u>-</u>	<u>45,200,000</u>
period		
Share of net assets attributable to the Company as of	34,232,643	30,793,554
the end of the period		
Add: goodwill	<u>38,311,588</u>	<u>38,311,588</u>
Book value of net assets attributable to the Company	<b><u>\$ 72,544,231</u></b>	<b><u>69,105,142</u></b>
as of the end of the period		

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

### (4) Summary of Smartway Ark Alliance Co

	<u>2022.12.31</u>
Current assets	\$ 180,250,745
Non-current assets	<u>40,041,021</u>
	<u><b>\$ 220,291,766</b></u>
Current liabilities	\$ 186,662
Non-current liabilities	<u>37,836</u>
	<u><b>\$ 224,498</b></u>
	<u>2022</u>
Operating revenue	<u>\$ -</u>
Current net income	\$ 67,268
Other comprehensive income	<u>-</u>
Total comprehensive income	<u><b>\$ 67,268</b></u>
	<u>2022</u>
The Company's share of the net assets of associates, at the beginning of the period	\$ -
Comprehensive profit and loss attributable to the Company for the current period	30,271
Capital increase for the associates for the current period	<u>99,000,000</u>
Share of net assets attributable to the Company as of the end of the period	<u><b>\$ 99,030,271</b></u>

### 2. Guarantee

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

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

### (IX) 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, January 1, 2022	\$ 1,106,417,035	1,447,268,902	2,231,937,037	253,934,192	5,039,557,166
Additions	-	-	22,939,113	20,878,045	43,817,158
Disposals	-	-	(1,606,000)	-	(1,606,000)
Reclassification	-	-	14,941,551	(14,941,551)	-
Balance, December 31, 2022	<u>\$ 1,106,417,035</u>	<u>1,447,268,902</u>	<u>2,268,211,701</u>	<u>259,870,686</u>	<u>5,081,768,324</u>
Balance, 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, 12/31/2021	<u>\$ 1,106,417,035</u>	<u>1,447,268,902</u>	<u>2,231,937,037</u>	<u>253,934,192</u>	<u>5,039,557,166</u>
Accumulated depreciation and impairment:					
Balance, January 1, 2022	\$ -	1,141,415,402	2,140,329,004	237,982,817	3,519,727,223
Depreciation	-	17,848,966	27,039,167	3,824,483	48,712,616
Disposal	-	-	(713,776)	-	(713,776)
Balance, 12/31/2022	<u>\$ -</u>	<u>1,159,264,368</u>	<u>2,166,654,395</u>	<u>241,807,300</u>	<u>3,567,726,063</u>
Balance, 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
Disposal	-	-	(7,297,465)	(257,000)	(7,554,465)
Balance, December 31, 2021	<u>\$ -</u>	<u>1,141,415,402</u>	<u>2,140,329,004</u>	<u>237,982,817</u>	<u>3,519,727,223</u>
Book value:					
Balance, December 31, 2022	<u>\$ 1,106,417,035</u>	<u>288,004,534</u>	<u>101,557,306</u>	<u>18,063,386</u>	<u>1,514,042,261</u>
Balance, January 1, 2021	<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>
Balance, 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>

Please refer to note 8 for details of the Company's property, plant and equipment provided as collateral.

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

### (X) 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, January 1, 2022 (which is the balance on December 31)	<u>\$ 19,741,680</u>
Balance, January 1, 2021(which is the balance on December 31)	<u>\$ 19,741,680</u>
Accumulated depreciation and impairment losses:	
Balance, January 1, 2022	\$ 9,870,840
Provision for depreciation	<u>3,290,280</u>
Balance, December 31, 2022	<u>\$ 13,161,120</u>
Balance, January 1, 2021	\$ 6,580,560
Provision for depreciation	<u>3,290,280</u>
Balance, December 31, 2021	<u>\$ 9,870,840</u>
Book value:	
Balance, December 31, 2022	<u>\$ 6,580,560</u>
Balance, January 1, 2021	<u>\$ 13,161,120</u>
Balance, December 31, 2021	<u>\$ 9,870,840</u>

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

### (XI) Investment Property

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, January 1, 2022	\$ 2,122,918,103	25,004,535	2,147,922,638
Additions	-	3,566,980	3,566,980
Transferred to Non-current assets held for sale	(113,333,469)	-	(113,333,469)
Balance, December 31, 2022	<u>\$ 2,009,584,634</u>	<u>28,571,515</u>	<u>2,038,156,149</u>
Balance, January 1, 2021	<u>\$ 2,122,918,103</u>	<u>25,004,535</u>	<u>2,147,922,638</u>
Balance, December 31, 2021	<u>\$ 2,122,918,103</u>	<u>25,004,535</u>	<u>2,147,922,638</u>
Accumulated depreciation and impairment losses:			
Balance, January 1	\$ -	6,920,779	6,920,779
Depreciation	-	3,769,277	3,769,277
Balance, December 31, 2022	<u>\$ -</u>	<u>10,690,056</u>	<u>10,690,056</u>
Balance, January 1, 2021	\$ -	3,131,020	3,131,020
Depreciation	-	3,789,759	3,789,759
Balance, December 31, 2021	<u>\$ -</u>	<u>6,920,779</u>	<u>6,920,779</u>
Book value:			
Balance, December 31, 2022	<u>\$ 2,009,584,634</u>	<u>17,881,459</u>	<u>2,027,466,093</u>
Balance, January 1, 2021	<u>\$ 2,122,918,103</u>	<u>21,873,515</u>	<u>2,144,791,618</u>
Balance, December 31, 2021	<u>\$ 2,122,918,103</u>	<u>18,083,756</u>	<u>2,141,001,859</u>
Fair value:			
Balance, December 31, 2022			<u>\$ 5,017,475,405</u>
Balance, January 1, 2021			<u>\$ 4,457,572,250</u>
Balance, December 31, 2021			<u>\$ 5,628,807,971</u>

In order to revitalize assets and enrich working capital, the Company transferred land and improvements to non-current assets held for sale in December 2022. Please refer to note 6(7) for details.

The investment property includes providing land for lease as a parking lot, and no contingent rent is collected. Please refer to note 6 (17) for details (including rental income and direct operating expenses).

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

The company's investment property on December 31, 2022 and 2021 is measured at fair value based on repetition, and its fair value is evaluated by the Company using comparable property transaction information in similar locations. The input used in its fair value evaluation technique is level 3.

Please refer to Note 8 for the details of the Company's investment property provided as collateral.

### (XII) Other current assets

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Prepaid insurance premiums	\$ 161,897	107,956
Supplies inventory count	15,290,532	15,314,572
Prepaid purchases	9,742	5,829
Tax credit	-	4,524,673
Others	<u>3,819,675</u>	<u>250,864</u>
	<u><b>\$ 19,281,846</b></u>	<u><b>20,203,894</b></u>

### (XIII) Short term notes and bills payable

	<u>2022.12.31</u>
Commercial paper payable	\$ 125,000,000
Less: discount on short term notes and bills payable	<u>(300,028)</u>
Total	<u><b>\$ 124,699,972</b></u>

The issuance period of short-term notes and bills is within 60days, and the interest rate range on December 31, 2022 is 2.1480%–2.2537%. In addition, please refer to Note 6 (14) for the unused quota of short-term notes and bills payable is expressed in short-term loans. Please refer to Note 6 (25) for the details of the disclosure of interest rate risk and sensitivity analysis of the Company's financial liabilities.

Please refer to Note 8 for details of the Company's guarantee for the supply of short-term notes and bills by setting up mortgages with assets.

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

### (XIV) Short term loans

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Loans under L/C	\$ 395,071,179	722,340,870
Secured bank loan	<u>2,810,000,000</u>	<u>2,510,000,000</u>
Total	<u>\$ 3,205,071,179</u>	<u>3,232,340,870</u>
Unused limit	<u>\$ 999,928,821</u>	<u>217,659,130</u>
Interest rate range	<u>1.95%~2.51%</u>	<u>1.45%~1.92%</u>

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

### (XV) Other current liabilities

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Unearned revenues	\$ 190,475	190,475
Sales proceeds in advance - contractual liabilities	7,894,803	6,982,486
Others	<u>138,487</u>	<u>125,491</u>
	<u>\$ 8,223,765</u>	<u>7,298,452</u>

### (XVI) Long term loans

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Secured bank loan	\$ 700,000,000	700,000,000
Less: Portion due within one year	<u>(32,558,140)</u>	<u>-</u>
Total	<u>\$ 667,441,860</u>	<u>700,000,000</u>
Unused limit	<u>\$ 1,750,000,000</u>	<u>-</u>
Interest rate range	<u>2.43%</u>	<u>1.8%</u>

1. Please refer to Note 8 for details of the Company's assets pledged for bank loans.

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

### (XVII) Operating lease

#### 1. Lessee lease

The Company rents office space from related parties in the form of operating lease; please



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

refer to Note VII for details.

### 2. Lessor lease

The Company leased its investment properties and some equipment. Since almost all the risks and rewards attached to the ownership of the underlying assets have not been transferred, these lease contracts are classified as operating leases. Please refer to Note 6 (11) investment property for details.

The rental income generated from investment properties for the year ended December 31, 2022 and 2021 is NT\$33,996,955 and NT\$32,776,266 respectively, which are reported under operating income. The maintenance expenses of investment properties are NT\$12,366,414 and NT\$10,168,173 respectively, which are reported under operating costs.

## (XVIII) Employee benefits

### 1. Defined benefit plans

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Present value of defined benefit obligations	\$ 122,519,242	125,585,966
Fair value of plan assets	<u>(94,092,359)</u>	<u>(83,577,790)</u>
Net defined benefit liabilities	<u>\$ 28,426,883</u>	<u>42,008,176</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) Components 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.

As of the reporting date, the balance of the Company's special account for labor retirement reserves at Bank of Taiwan is NT\$95,913,914. Please visit the BLF website for more details such as fund yield and allocation of fund assets.

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

### (2) Changes in the present value of defined benefit obligations

The changes in the present value of the Company's defined benefit obligations for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Defined benefit obligations on January 1	\$ 125,585,966	126,725,675
Service cost and interest in the current period	1,606,908	1,587,224
Remeasurement of net defined benefit liabilities (assets)		
- Actuarial gains/losses due to adjustment by experience	10,582,788	5,218,094
- Actuarial gains/losses due to change of financial assumption	(8,176,348)	2,801,848
Amount of direct payment	<u>(7,080,072)</u>	<u>(10,746,875)</u>
Defined benefit obligations on December 31	<u>\$ 122,519,242</u>	<u>125,585,966</u>

### (3) Changes in fair value of plan assets

The changes in the fair value of the Company's defined benefit plans assets for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets on January 1	\$ 83,577,790	84,331,416
Remeasurement of net defined benefit liabilities (assets)		
- Return on plan assets (excluding current period interest)	6,971,028	1,178,969
Amount contributed to the plan	10,117,545	8,307,051
Expected return on plan assets	506,068	507,229
Benefits paid from plan	<u>(7,080,072)</u>	<u>(10,746,875)</u>
Fair value of plan assets on December 31	<u>\$ 94,092,359</u>	<u>83,577,790</u>

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

### (4) Expense recognized in profit or loss

The details of the Company's expenses reported for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Current period service costs	\$ 839,710	816,715
Net interest on net defined benefit liabilities	<u>261,130</u>	<u>263,280</u>
	<u><b>\$ 1,100,840</b></u>	<u><b>1,079,995</b></u>
Operating costs	\$ 937,721	915,763
Management expenses	<u>163,119</u>	<u>164,232</u>
	<u><b>\$ 1,100,840</b></u>	<u><b>1,079,995</b></u>

### (5) Remeasurement of net defined benefit liability recognized in other comprehensive profit or loss

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

	<u>2022</u>	<u>2021</u>
Accumulated balance on January 1	\$ (38,240,722)	(31,399,749)
Amount recognized in the current period	<u>4,564,588</u>	<u>(6,840,973)</u>
Accumulated balance on December 31	<u><b>\$ (33,676,134)</b></u>	<u><b>(38,240,722)</b></u>

### (6) Actuarial assumptions

The major actuarial assumptions used by the Company to determine the present value of the defined benefit obligations on the reporting date are as follows:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Discount rate	1.500%	0.625%
Future salary increase	1.000%	1.000%

The amount that the Company estimates to pay for the contribution to the defined benefit plan within one year after the reporting date of the year ended December 31, is NT\$472,404.

The weighted average duration of defined benefit plans is 9.86years.

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

### (7) sensitivity analysis

The impact of changes in the main actuarial assumptions adopted to the present value of the defined benefit obligation for the year ended December 31, 2022 and 2021 is as follows:

	<b>Effect of (gains) losses to defined benefit obligations</b>	
	<b>Increase</b>	<b>Decrease</b>
December 31, 2022		
Discount rate (change0.25%)	\$ (2,183,100)	2,248,943
Increase in the future salary (change0.25%)	2,167,872	(2,114,774)
December31, 2021		
Discount rate (change0.25%)	(2,523,203)	2,605,098
Increase in the future salary (change0.25%)	2,497,137	(2,431,489)

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 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 plans

The Company's defined contribution benefit plan is in accordance with the provisions of the Labor Pension Act, and is withheld to the labor pension individual account of the Bureau of Labor Insurance at a withholding rate of 6% of the monthly salary of the labor. 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.

The Company's pension expenses for the year ended December 31, 2022 and 2021 defined under the retirement pension method are NT\$4,831,625 and NT\$4,593,734, respectively, which have been withheld to the Bureau of Labor Insurance.

### 3. Short term employee benefits

Below are details of employee benefit liabilities:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Paid leave of absence (presented as other payables)	<u>\$ 7,490,200</u>	<u>6,513,878</u>

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

### (XIX) Income tax

#### 1. Income tax expense

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

	<u>2022</u>	<u>2021</u>
Current income tax expense – occurred at current period	\$ 8,515,815	20,452,288
Current income tax expense – Adjustment to the current income tax of the previous period	(1,140,269)	-
Deferred income tax expense	-	-
Income tax expense	<u>\$ 7,375,546</u>	<u>20,452,288</u>

For the year ended December 13, 2022 and 2021, the Company did not recognize income tax expenses for equity and other comprehensive profit or loss.

For the year ended December 13, 2022 and 2021, the adjustment to the relationship between the Company's income tax expenses and profit before tax is as follows:

	<u>2022</u>	<u>2021</u>
Net profit before tax	<u>\$ 119,559,122</u>	<u>62,568,800</u>
Income tax calculated by applying local tax rate of the country where the Company is located	\$ 23,911,824	12,513,760
Non-deductible expenses	1,160,941	1,485,234
Exempt income	(7,191,294)	(3,959,670)
Investment benefits effects recognized under the equity method	(456,013)	(1,684,531)
Tax losses on unrecognized deferred tax assets	(7,665,679)	(6,859,318)
Changes in temporary difference not recognized as deferred income tax asset	(9,759,779)	(1,495,475)
Prior period overestimate	(1,140,269)	-
Surtax on undistributed retained earnings	7,988,349	-
Basic income tax	<u>527,466</u>	<u>20,452,288</u>
Income tax expense	<u>\$ 7,375,546</u>	<u>20,452,288</u>

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

### 2. Deferred income tax assets and liabilities

#### (1) Unrecognized deferred tax assets

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

	<u>2022.12.31</u>	<u>2021.12.31</u>
Deductible temporary differences	\$ 375,473,120	424,272,014
Tax losses	<u>3,085,175,927</u>	<u>4,281,630,465</u>
	<u><b>\$ 3,460,649,047</b></u>	<u><b>4,705,902,479</b></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. As of December 31, 2022, the Company estimates the taxable income generated by the profit in the future year, and assessed the loss carryforwards and deductible temporary differences. It is not likely to be used to deduct the taxable income, so no deferred income tax assets are recognized. If there is an increase in taxable income arising from operating profits, it will be recognized as a deferred income tax asset.

On December 31, 2022, the tax losses that the Company did not recognize as deferred income tax assets, the deduction period is as follows:

<u>Year of loss</u>	<u>Losses not yet deducted</u>	<u>Final year available for deduction</u>
2013	\$ 629,483,443	2023
2014	408,627,324	2024
2015	413,721,031	2025
2016	417,474,366	2026
2017	318,954,784	2027
2018	529,810,099	2028
2019	214,044,806	2029
2020	153,060,074	2030
Total	<u><b>\$ 3,085,175,927</b></u>	

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

### (2) Recognized deferred income tax liabilities

The changes in the deferred income tax liabilities for the year ended December 31, 2022 and 2021 are:

	<u>Land value increment tax</u>
<b>Deferred income tax liabilities:</b>	
<b>Balance on January 1, 2022</b>	\$ 210,632,330
Debit (credit) to profit and loss	<u>-</u>
<b>Balance on December 31, 2022</b>	<u><b>\$ 210,632,330</b></u>
<b>Balance on January 1, 2021</b>	\$ 210,632,330
Debit (credit) to profit and loss	<u>-</u>
<b>Balance on December 31, 2021</b>	<u><b>\$ 210,632,330</b></u>

### 3. Assessment situation of income tax

The Company's profit-seeking enterprise income tax settlement declaration has been approved by the tax collection agency until the year ended December 31, 2020.

### (XX) Capital and other interests

#### 1. Capital of common shares

For the year ended December 31, 2022 and 2021, the Company's total capital of shares is NT\$5,800,000,000, and a par value of NT\$10 per share, with 580,000,000 shares. There are 200,852,2933 issued ordinary shares, and payment for all issued shares has been received.

#### 2. Paid-in capital

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

	<u>2022.12.31</u>	<u>2021.12.31</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, if the company has a surplus in the final accounts, it should first pay taxes and make up for accumulated losses, and then set aside 10% as the legal reserve. However, when the legal reserve amounts to the authorized capital,

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

this shall not apply. 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. The distribution of dividends to the shareholders will be distributed in cash dividends and stock dividends at an appropriate ratio. The cash dividends shall not be less than 50%.

### (1) Legal reserve

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

### (2) Special reserve

In accordance with the regulations of the Financial Supervisory Commission, the difference between the net deduction of other shareholders' equity recorded in the current year and the balance of the special surplus reserve reported in the prior period shall be supplemented as a special surplus reserve from the current profit and loss and the undistributed surplus of the previous period. The deduction amount of other shareholders' equity accumulated in the previous period shall be supplemented by the undistributed surplus of the previous period as a special surplus reserve, and shall not 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) Distribution of the surplus

The shareholders' meeting of the Company on June 23, 2022 and August 26, 2021, respectively, resolved the 2021 and 2020 profit distribution proposals, and no dividends were distributed.



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

### 4. Other equity (balance after tax)

	<b>Investments at fair value through other comprehensive income</b>
Balance on January 1, 2022	\$ 210,984,643
Unrealized gains (losses) on financial assets at fair value through other comprehensive income:	
The Company	(234,168,424)
Associated companies	(36,590,672)
Disposal of equity instruments at fair value through other comprehensive income:	
The Company	(18,135,708)
Associated companies	642,135
Balance on December 31, 2022	<b><u>\$ (77,268,026)</u></b>
Balance on 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 on December 31, 2021	<b><u>\$ 210,984,643</u></b>

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

### (XXI) Earnings per share

The calculation of the Company's basic earnings per share and diluted earnings per share for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
1. Basic earnings per share		
Net profit attributable to equity holders of ordinary shares of the Company	<u>\$ 112,183,576</u>	<u>42,116,512</u>
Weighted average number of outstanding common shares (unit:shares)	<u>200,852,293</u>	<u>200,852,293</u>
	<u>\$ 0.56</u>	<u>0.21</u>
2. Diluted earnings per share		
Net profit attributable to equity holders of ordinary shares of the Company.	<u>\$ 112,183,576</u>	<u>42,116,512</u>
Weighted average number of outstanding common shares (unit:shares)	200,852,293	200,852,293
Impact of employee stock compensation	38,275	16,441
Weighted average number of outstanding common shares (Unit: share) (after adjustment to the Dilutive potential ordinary shares)	<u>200,890,568</u>	<u>200,868,734</u>
	<u>\$ 0.56</u>	<u>0.21</u>

### (XXII) Revenue from Contracts with Customers

	<u>2022</u>	<u>2021</u>
Sale of merchandise	\$ 2,182,057,703	1,517,847,995
Rent income from investment property	33,996,955	32,776,266
	<u>\$ 2,216,054,658</u>	<u>1,550,624,261</u>

#### 1. Income segmentation

	<u>2022</u>		
	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Total</u>
Main regions and markets:			
Taiwan	\$ 1,463,757,977	93,575,250	1,557,333,227
North America	657,960,034	-	657,960,034
North-east Asia	761,397	-	761,397
Total	<u>\$ 2,122,479,408</u>	<u>93,575,250</u>	<u>2,216,054,658</u>
Key products/services:			
Steel pipes	\$ 2,122,406,313	-	2,122,406,313
Steel coils	-	59,573,475	59,573,475
Others	73,095	4,820	77,915
Rental income	-	33,996,955	33,996,955
Total	<u>\$ 2,122,479,408</u>	<u>93,575,250</u>	<u>2,216,054,658</u>

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

	2021		
	Steel Pipe Department	Others	Total
Main regions and markets:			
Taiwan	\$ 1,263,394,801	225,058,405	1,488,453,206
North America	61,086,427	-	61,086,427
North-east Asia	1,084,628	-	1,084,628
Total	<b><u>\$ 1,325,565,856</u></b>	<b><u>225,058,405</u></b>	<b><u>1,550,624,261</u></b>
Key products/services:			
Steel pipes	\$ 1,325,565,856	-	1,325,565,856
Steel coils	-	192,282,139	192,282,139
Rental income	-	32,776,266	32,776,266
Total	<b><u>\$ 1,325,565,856</u></b>	<b><u>225,058,405</u></b>	<b><u>1,550,624,261</u></b>
2. Balance of the contract			
	<b><u>2022.12.31</u></b>	<b><u>2021.12.31</u></b>	<b><u>2021.1.1</u></b>
Notes and account receivables	\$ 107,548,541	96,356,522	105,316,666
Less: loss provisions	-	-	-
Total	<b><u>\$ 107,548,541</u></b>	<b><u>96,356,522</u></b>	<b><u>105,316,666</u></b>
Contractual liabilities - sales proceeds in advance	<b><u>\$ 7,894,803</u></b>	<b><u>6,982,486</u></b>	<b><u>2,679,466</u></b>

Please refer to Note 6 (4), for the disclosure of accounts receivable and their impairment.

The balance of contract liabilities at the beginning of January 1, 2022 and 2021, and recognized as revenue would be NT\$6,956,164 and NT\$2,651,810, 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.

### (XXIII) Compensation and remuneration for employees and directors

According to the Company's Articles of Incorporation, if there is profit in the year, no less than 0.5% should be set aside as employees' compensation, and no more than 5% should be set aside as directors' remuneration. However, profits must first be taken to offset against cumulative losses if any.

The estimated amount of employees' compensation for the year ended December 31, 2022 and 2021 was NT\$683,200 and NT\$328,000 respectively, and the estimated amount of directors' remuneration was NT\$0. These were estimated based on the Company's net profit before tax, and before it deducted employees' compensation and director's remuneration during the period, multiplied by the distribution ratio of employees' compensation and directors' remuneration stipulated in the Company's Articles of Incorporation, and reported as operating expenses for the period.

Information about employees' compensation and directors' remuneration for the year ended December 31, 2022 and 2021 can be found at the MOPS. There is no difference between the

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

aforementioned amount of employees' compensation and directors' remuneration distributed by the resolution of the board of directors and the estimated amount in the Company's financial reports for the years ended December 31, 2022 and 2021.

### (XXIV) Non-operating income and expenses

#### 1. Interest income

The details of the Company's interest income for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest from bank deposits	\$ 597,763	74,251
Deposit imputation interest	31,200	31,200
	<u>\$ 628,963</u>	<u>105,451</u>

#### 2. Other income

The details of other income of the Company for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Rental income	\$ 228,868	228,868
Dividend income	44,286,169	31,209,496
Waste tire processing revenue	1,806,234	2,668,073
Other income - others	3,567,272	6,174,900
	<u>\$ 49,888,543</u>	<u>40,281,337</u>

#### 3. Other profits and losses

The details of other profits and losses of the Company for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Foreign currency exchange profits	\$ 7,769,283	823,503
Losses of disposal of property, plant, and equipment	(892,224)	(29,955)
Soil pollution remediation fee	-	(25,771,854)
Tax and others	(600,782)	(1,871,003)
	<u>\$ 6,276,277</u>	<u>(26,849,309)</u>

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

### 4. Financial costs

The details of the Company's financial costs for the year ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Interest expense - interest on bank borrowings	\$ (73,038,759)	(56,353,471)
Financing credit setting fee, etc.	(4,950,080)	-
	<u>\$ (77,988,839)</u>	<u>(56,353,471)</u>

### (XXV) Financial instruments

#### 1. Credit risk

##### (1) Risk exposure of credit risk

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

Please refer to Note 6 (4) for information on credit risk exposure of notes receivable and accounts receivable. Other financial assets measured at amortized cost are restricted bank deposits, other notes receivable, other account receivables and refundable deposits.

The table below shows the allowance loss for financial assets measured at the amortized cost and whether there is any credit impairment according to the 12-month expected credit losses or the expected credit loss during the duration.

		<u>2022.12.31</u>			
		<u>At cost after amortization</u>			
		<u>12-month</u>	<u>Expected</u>	<u>Expected</u>	
		<u>expected</u>	<u>losses</u>	<u>losses</u>	
		<u>losses</u>	<u>over</u>	<u>over</u>	
			<u>duration</u>	<u>duration</u>	
			<u>- not</u>	<u>-</u>	
			<u>impaired</u>	<u>impaired</u>	
					<u>Total</u>
Restricted	bank	\$ -	20,022,848	-	20,022,848
deposits					
Other notes	and	-	8,810,709	470,460	9,281,169
accounts	receivable				
Guarantee	deposits	4,536,500	-	-	4,536,500
paid					
Loss provisions		-	-	(470,460)	(470,460)

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

Cost after amortization	\$	<u>4,536,500</u>	<u>28,833,557</u>	<u>-</u>	<u>33,370,057</u>
Book value	\$	<u>4,536,500</u>	<u>28,833,557</u>	<u>-</u>	<u>33,370,057</u>
<b>2021.12.31</b>					
<b>At cost after amortization</b>					
		<b>12-month expected losses</b>	<b>Expected losses over duration - not impaired</b>	<b>Expected losses over duration - impaired</b>	<b>Total</b>
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	\$	<u>5,830,867</u>	<u>28,822,534</u>	<u>-</u>	<u>34,653,401</u>
Book value	\$	<u>5,830,867</u>	<u>28,822,534</u>	<u>-</u>	<u>34,653,401</u>

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

		<b>2022</b>			
		<b>12- month expected credit losses</b>	<b>Credit loss over duration - not credit- impaired</b>	<b>Credit loss over duration - credit- impaired</b>	<b>Total</b>
Opening balance	\$	-	-	470,460	470,460
Closing balance	\$	-	-	<u>470,460</u>	<u>470,460</u>
		<b>2021</b>			
		<b>12-month expected credit losses</b>	<b>Credit loss over duration - not credit- impaired</b>	<b>Credit loss over duration - credit- impaired</b>	<b>Total</b>
Opening balance	\$	-	-	470,460	470,460
Closing balance	\$	-	-	<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.

	Book value	Contractual cash flow	within 6 months	6-12 months	1-2 years	2-5 years	over 5 years
<b>December 31, 2022</b>							
Non-derivative instruments							
Short-term notes and bills payable	\$ 124,699,972	(125,000,000)	(125,000,000)	-	-	-	-
Short-term loans (floating rate)	3,205,071,179	(3,248,325,663)	(1,010,476,074)	(2,237,849,589)	-	-	-
Notes payable (non-interest bearing)	40,289,760	(40,289,760)	(40,289,760)	-	-	-	-
Other notes payable (non-interest bearing)	11,432,681	(11,432,681)	(11,432,681)	-	-	-	-
Accounts payable (non-interest bearing)	25,944,160	(25,944,160)	(25,944,160)	-	-	-	-
Other payables (non-interest bearing)	74,080,712	(74,080,712)	(74,040,712)	(40,000)	-	-	-
Guarantee deposits paid (non-interest bearing)	5,000,000	(5,000,000)	-	-	-	(5,000,000)	-
Long-term loan (floating rate)	700,000,000	(772,841,261)	(8,487,500)	(40,946,948)	(112,774,275)	(324,111,196)	(286,521,342)
	<b>\$ 4,186,518,464</b>	<b>(4,302,914,237)</b>	<b>(1,295,670,887)</b>	<b>(2,278,836,537)</b>	<b>(112,774,275)</b>	<b>(329,111,196)</b>	<b>(286,521,342)</b>
<b>December 31, 2021</b>							
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)
	<b>\$ 4,075,139,137</b>	<b>(4,170,245,345)</b>	<b>(1,380,713,226)</b>	<b>(2,030,464,110)</b>	<b>(45,084,884)</b>	<b>(326,373,260)</b>	<b>(387,609,865)</b>

The Company does not expect that the cash flow from maturity analysis will be significantly earlier, or the actual amount will be significantly different.

### 3. Exchange rate risk

#### (1) The exposure risk of exchange risk

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

	2022.12.31			2021.12.31		
	Foreign currency (NTD)	Exchange rate	NTD	Foreign currency (NTD)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 2,225,702.92	30.71	68,351,337	887,077.45	27.68	24,277,504
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	-	-	-	343,657.74	27.68	9,512,446

#### (2) 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. For the year ended December 31, 2022 and 2021, when the NT dollar depreciates or appreciates by 4% to the US dollar, and all other factors remain unchanged, the net profit after tax for the year

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

ended December 31, 2022 will decrease or increase NT\$2,187,242, and the net profit after tax for the year ended December 31, 2021 will decrease or increase NT\$472,482. The two-period analysis is based on the same basis. Since the Company's functional currency is NT dollars, the profits and losses (including realized and unrealized) from foreign currency exchange for the year of December 31, 2022 and 2021 are NT\$7,769,283 and NT\$823,503 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. The rate of change used by the Company's management when reporting interest rates internally is a 50 basis point increase or decrease in interest rates, which also represents management's assessment of the range of reasonably possible changes in interest rates.

If the interest rate increases or decreases by 50 basis points, and all other variables remain unchanged, the net profit after tax for the year ended December 31, 2022 will decrease or increase NT\$15,620,285, and the net profit after tax for the year ended December 31, 2021 will decrease or increase NT\$15,729,363, mainly due to the company's variable interest rate loans.

### 5. Other price risk

If the price of equity securities of domestic listed companies changes on the reporting date (the analysis across 2 periods uses the same basis, and assumes that other factors remain unchanged), the impact on the comprehensive profit and loss items is as follows:

Price of security on reporting date	2022		2021	
	Other comprehensive income after tax	After-tax profit/loss	Other comprehensive income after tax	After-tax profit/loss
Rise10%	\$ 98,433,710	-	80,407,435	-
Drop10%	\$ (98,433,710)	-	(80,407,435)	-

### 6. Information of fair value

#### (1) Types and fair values of financial instruments





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

- (2) When the Company measures its assets and liabilities, we tried our best to use inputs which are observable in the market. 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: Other than quoted prices included in level 1, the inputs to the asset or liability are directly (that is, prices) or indirectly (that is, derived from prices) observable.

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

- (3) Fair value evaluation techniques for financial instruments that are 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) Fair value evaluation techniques for financial instruments that are 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

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

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) Transfer between level 1 and level 2.

For the year ended December 31, 2022 and 2021, the Company evaluated the level of the fair value of financial instruments, and there were no transfers.

(6) Schedule of changes for level 3.

	<b>At fair value through other comprehensive income</b>	
	<b>Equity instruments without open quotation</b>	
<b>Balance on January 1, 2022</b>	\$	973,059,079
Recognized in other comprehensive income		(20,902,796)
Purchase		3,500,000
<b>Balance on December 31, 2022</b>	<b>\$</b>	<b>955,656,283</b>
<b>Balance on January 1, 2021</b>	\$	982,020,430
Recognized in other comprehensive income		(8,961,351)
<b>Balance on December 31, 2021</b>	<b>\$</b>	<b>973,059,079</b>

(7) Quantitative information for fair value measurement of material unobservable inputs (level 3)

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 due to lack of marketability (both are 17.5% on 2022.12.31 and 2021.12.31)	• The higher discount for lack of liquidity, the lower the fair value

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

(8) For the fair value measurement of level 3, the sensitivity analysis of fair value to reasonably 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	Up or down Changes	Fair value changes reflected in other comprehensive income	
			Favorable variation	Adverse variation
<b>Financial assets measured at fair value</b>				
<b>2022.12.31</b>				
Equity instruments without active market	Discount for lack of marketability 17.5%	1%	<u>\$ 11,583,569</u>	<u>(11,583,569)</u>
<b>2021.12.31</b>				
Equity instruments without active market	Discount for lack of marketability 17.5%	1%	<u>\$ 11,794,118</u>	<u>(11,794,118)</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.

### (XXVI) Financial risk management

#### 1. Summary

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 abovementioned 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.

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

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 is the risk of financial loss caused by the Company's customers or counterparties of financial instruments who cannot perform contractual obligations, mainly from the Company's accounts receivable from customers and bank deposits.

#### (1) Accounts and other receivables

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 deposit

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 that cannot deliver cash or other financial assets to pay off financial liabilities, and cannot perform related obligations. The Company supervises the financing amount in the bank through management personnel to ensure sufficient funds and compliance with the terms of the loan contract. Meanwhile, it also conducts financing negotiations with financial institutions to maintain a certain credit amount and reduce liquidity risks. On December 31, 2022 and 2021, the Company's unused financing amount in the bank were NT\$2,749,928,821 and NT\$217,659,130, respectively.

### 5. Market risk

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

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) Currency 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 main denomination currencies of these transactions are the New Taiwan dollar and the US dollar.

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. Generally speaking, the currency of the loan is the same as the currency of the cash flow generated by the Company's operations, mainly in NT dollars, but also in US dollars. 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) Price Risk of Equity Instrument

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.

## (XXVII) 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

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

are calculated by deducting cash and cash equivalents from total liabilities, as shown in the balance sheet. Total capital is all the components of equity (i.e. share capital, capital reserves, retained earnings and other interests) plus net debt.

The debt-to-capital ratios for 31 December 2022 and 2021 are as follows:

	<u>2022.12.31</u>	<u>2021.12.31</u>
Total liabilities	\$ 4,444,188,551	4,357,239,542
Less: Cash and cash equivalents	<u>214,173,158</u>	<u>559,241,492</u>
Net liabilities	<u>\$ 4,230,015,393</u>	<u>3,797,998,050</u>
Total equity interest	<u>\$ 2,815,629,237</u>	<u>2,969,640,169</u>
Gross capital	<u>\$ 7,045,644,630</u>	<u>6,767,638,219</u>
Debt-to-capital ratio	<u>60.04%</u>	<u>56.12%</u>

As at 31 December 2022, there was no change for the Company's capital management approach.

### (XXVIII) Investment and financing activities in non-cash transactions

Reconciliation of liabilities associated with financing activities is explained below:

	<u>2022.1.1</u>	<u>Cash flow</u>	<u>Changes without cash effect</u>		<u>2022.12.31</u>
			<u>Exchange rate changes</u>	<u>Interest amortization</u>	
Short-term notes and bills payable	\$ -	125,000,000	-	(300,028)	124,699,972
Short-term loan	3,232,340,870	(27,269,691)	-	-	3,205,071,179
Long term borrowings	<u>700,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,000,000</u>
Total liabilities from financing activities	<u>\$ 3,932,340,870</u>	<u>97,730,309</u>	<u>-</u>	<u>(300,028)</u>	<u>4,029,771,151</u>

	<u>2021.1.1</u>	<u>Cash flow</u>	<u>Changes without cash effect</u>		<u>2021.12.31</u>
			<u>Exchange rate changes</u>	<u>Interest amortization</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>-</u>	<u>700,000,000</u>
Total liabilities from financing activities	<u>\$ 3,522,722,585</u>	<u>409,688,391</u>	<u>-</u>	<u>(70,106)</u>	<u>3,932,340,870</u>

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

### VII. Related party transactions

#### (I) Name and relationship of related parties

Transactions with related parties during the reporting period of the financial statements are as follows:

<u>Name of 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) Material transactions with related parties

##### 1. Revenue from sales and scraps

	<u>2022</u>	<u>2021</u>
Kao Hsing Smelting & Chemical Fiber Co., Ltd.	<u>\$ 13,507,217</u>	<u>11,099,741</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. Lease

(1) The company leases the office for the head office from the Employees' Welfare Committee of Kao Hsing Chang Iron & Steel Corp. The lease period is from January 1, 2015 to December 31, 2024, and the payment method is paying off all the rent during the lease period when signing the contract.

The rental deposits for the aforementioned leases on December 31, 2022 and 2021 are both NT\$4,000,000. The balance of right-of-use assets as of December 31, 2022 and 2021 is NT\$6,580,560 and NT\$9,870,840, respectively.

(2) In November 2020, the Company leased the plant in Zhuyuan Section, Renwu District, Kaohsiung City to SUNWARD REFRACTORIES CO. LTD. The lease period is from



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

November 2020 to November 2023. The rental deposits collected for the aforementioned leases on December 31, 2022 and 2021 are both NT\$5,000,000. Both the rent revenue recognized for the year ended December 31, 2022 and 2021 are NT\$28,608,567, which are reported in the operating income of the consolidated income statement. As of December 31, 2022 and 2021, the receivables generated from the aforementioned transactions are received.

### 3. Receivables from related parties

Details of related party receivables are shown below:

<u>Account category</u>	<u>Type of related party</u>	<u>2022.12.31</u>	<u>2021.12.31</u>
Other receivables	A company managed by key management personnel	<u>\$ 4</u>	<u>499,036</u>

### 4. Other

- (1) In 2021, the Company increased the cash capital NT\$45,200,000 for SUNWARD REFRACTORIES CO. LTD., and the relevant change procedures have been completed.
- (2) As of December 31, 2022 and 2021, the bank loans, short-term notes and bills payable, and the available financing amount are jointly guaranteed by the key management personnel of the Company.

### (III) Key management personnel transaction.

Compensation to key management personnel includes the following:

	<u>2022</u>	<u>2021</u>
Short-term employee benefits	\$ 10,282,245	10,078,080
Retirement benefits	<u>63,072</u>	<u>60,630</u>
	<u>\$ 10,345,317</u>	<u>10,138,710</u>

In addition, the Company also provides automobiles for management personnel. On December 31, 2022 and 2021, the undepreciated balance of such automobile equipment was NT\$939,154 (cost: NT\$11,270,000, less accumulated depreciation: NT\$10,330,846) and NT\$1,314,826 (cost: NT\$11,270,000, less accumulated depreciation: NT\$9,955,174). The depreciation expenses for 2022 and 2021 are both NT\$375,672. The Chairman has been assigned a driver, whose salary is determined according to the Company's Employee Salary Policy.

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

### 8. Assets as collateral

Book value of assets pledged by the Company is explained below:

Name of asset	Underlying assets pledged for collateral	2022.12.31	2021.12.31
Restricted bank deposits	Short-term loan	\$ 20,022,848	-
Non-current Assets Held for Sale	Short-term loan	113,333,469	-
Property, plant and equipment	Short-term loans and long-term loans	944,394,238	959,595,740
Investment property	Short-term loans and long-term loans	<u>1,996,070,599</u>	<u>1,765,680,183</u>
		<u><b>\$ 3,073,821,154</b></u>	<u><b>2,725,275,923</b></u>

### IX. Major contingent liabilities and unrecognized contractual commitments

- (I) On December 31, 2022 and 2021, the guaranteed notes payable issued by the Company for purchasing the goods are NT\$41,820,000 and NT\$12,820,000, respectively.
- (II) As of December 31, 2022 and 2021, the unused balances of the letters of credit issued by the Company were NT\$63,288,938 and NT\$40,655,135, respectively.
- (III) On December 31, 2022 and 2021, the Company has signed sales contract commitments of NT\$4,498,632 and NT\$25,226,040 respectively, and provided NT\$530,000 and NT\$1,624,367 as performance bonds, reported refundable deposit in the financial report. If the delivery is not made as committed, a fine of 1/1000 to 3/1000 of the purchased price of the undelivered goods shall be imposed every day.

### X. Losses from major disasters: None.

### XI. Significant subsequent events.

The Company's board of directors made a resolution on March 7, 2023. In order to maintain the company's credit and shareholders' rights and interests, it is expected to buy 10,000,000 treasury shares.

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

### XII. Others

(I) The functions of employee benefits, depreciation and amortization expenses are summarized as follows:

Function	2022			2021		
	Presented as operating cost	Presented as operating expense	Total	Presented as operating cost	Presented as operating expense	Total
Employee benefit expenses						
Salary expenses	87,782,72	35,145,32	122,928,0	80,212,16	31,793,22	112,005,3
Labor/health insurance premium	9,808,246	3,667,074	13,475,32	9,492,919	3,547,712	13,040,63
Pension expense	4,315,120	1,617,345	5,932,465	4,147,376	1,526,353	5,673,729
Directors' compensation	-	4,338,000	4,338,000	-	4,638,000	4,638,000
Other employee benefit expenses	8,018,082	3,029,845	11,047,92	5,630,512	2,029,614	7,660,126
Depreciation	49,155,46	6,616,704	55,772,17	48,096,04	6,388,926	54,484,97
Amortization	-	-	-	-	-	-

The number of the Company's employees for the year ended on December 31, 2022 and 2021, and additional information on employee benefit expenses are as follows:

	2022	2021
Number of employees	<u>214</u>	<u>215</u>
No. of directors without concurrent position as employee	<u>6</u>	<u>6</u>
Average employee benefit expenses	<u>\$ 737,422</u>	<u>662,105</u>
Average employee salary expenses	<u>\$ 591,000</u>	<u>535,911</u>
Adjustments to average employee salary expenses	<u>10.28%</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:

- I. Employees' compensation mainly includes basic compensation (including salary and special environmental allowance), year-end bonus and performance incentives, etc.
  1. The payment standard of the compensation refers to the market condition of the salary, the Company's operating conditions and organizational structure. 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. Employees' compensation and remuneration are based on their academic backgrounds, experiences, professional knowledge and skills, experiences in professional fields, and personal performances, and do not differ due to age, gender, race, religion, political position, marital status, or union.

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

3. Bonuses are offered according to the company's operating performance and the personal performance of employees.
  4. The starting salary standard for inexperienced and foreign workers complies with government regulations.
  5. According to the Articles of Incorporation of the Company, if the Company makes profits in the year, no less than 0.5% should be set aside as employees' compensation. However, profits must first be taken to offset against cumulative losses if any.
- II. The remuneration of managers is in accordance with factors such as the company's business strategy, profit status, performance, and job contribution, and refers to the salary level in the market, including salary, job bonus, severance pay, various bonuses, incentives, and various allowances. In addition, according to the company's Articles of Incorporation, if the Company makes profits in the year, no less than 0.5% shall be set aside as employees' compensation. However, profits must first be taken to offset against cumulative losses if any.
- III. For the directors' remuneration, in addition to receiving a fixed amount every month for the travel expenses for conducting the business, the remuneration of the chair of the directors also includes salary, various bonuses, incentives, etc. In addition, according to the Company's Articles of Incorporation, if the company makes profits in the year, no less than 5% shall be set aside for the director's remuneration. However, profits must first be taken to offset against cumulative losses if any.

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

### XIII. Other disclosures

#### (I) Information on material transactions

For the year ended December 31, 2022, in accordance with the regulations of the preparation of standards, the Company should re-disclose the related information on material transactions as follows:

1. Lending funds to other parties: none
2. Endorsement/Guarantees: none
3. Marketable securities held at the end of the period (excluding investment in subsidiaries, associates, and joint ventures):

Holder	Name and type of securities	Relationship with the securities issuer	Account category	Closing amount				Remarks
				Shares	Book value	Shareholding percentage	Fair value	
The Company	Stock/HIWIN TECHNOLOGIES CORP.	-	Financial assets at fair value through other comprehensive income - current	104,000	18,980,000	0.03%	18,980,000	
The Company	Stock/Sino-American Silicon Products Inc.	-	Financial assets at fair value through other comprehensive income - current	100,000	13,950,000	0.02%	13,950,000	
The Company	Share/China Steel Chemical	-	Financial assets at fair value through other comprehensive income - current	500,000	52,750,000	0.21%	52,750,000	
The Company	Stocks/ASE Technology Holding	-	Financial assets at fair value through other comprehensive income - current	800,000	75,120,000	0.02%	75,120,000	
The Company	Stock/GENIUS ELECTRONIC OPTICAL CO., LTD.	-	Financial assets at fair value through other comprehensive income - current	50,000	16,775,000	0.04%	16,775,000	
The Company	Stock/DELTA ELECTRONICS, INC.	-	Financial assets at fair value through other comprehensive income - current	100,000	28,650,000	-	28,650,000	
The Company	Stocks/Taiwan Semiconductor Manufacturing	-	Financial assets at fair value through other comprehensive income - current	350,000	156,975,000	-	156,975,000	
The Company	Stock/Cleanaway Company Limited	-	Financial assets at fair value through other comprehensive income - current	300,000	54,000,000	0.28%	54,000,000	
The Company	Share/ChainQui Construction Development	-	Financial assets at fair value through other comprehensive income - current	93,000	1,367,100	0.04%	1,367,100	
The Company	Share/Asia Pacific Telecom	-	Financial assets at fair value through other comprehensive income - current	6,000,000	36,600,000	0.14%	36,600,000	
The Company	Stocks/Asia Optical	-	Financial assets at fair value through other comprehensive income - current	300,000	18,150,000	0.11%	18,150,000	

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

Holder	Name and type of securities	Relationship with the securities issuer	Account category	Closing amount				Remarks
				Shares	Book value	Shareholding percentage	Fair value	
The Company	Stock/VisEra Technologies Company Limited.	-	Financial assets at fair value through other comprehensive income - current	100,000	19,350,000	0.03%	19,350,000	
The Company	Stock/Universal Microwave Technology, Inc.	-	Financial assets at fair value through other comprehensive income - current	120,000	16,140,000	0.19%	16,140,000	
The Company	Stocks/Eternal Materials	-	Financial assets at fair value through other comprehensive income - current	500,000	15,625,000	0.04%	15,625,000	
The Company	Stock/GUDENG PRECISION INDUSTRIAL CO., LTD.	-	Financial assets at fair value through other comprehensive income - current	100,000	26,500,000	0.12%	26,500,000	
The Company	Share/Yageo	-	Financial assets at fair value through other comprehensive income - current	360,000	162,360,000	0.09%	162,360,000	
The Company	Stock/KAIMEI ELECTRONIC CORP.	-	Financial assets at fair value through other comprehensive income - current	900,000	48,150,000	0.83%	48,150,000	
The Company	Stock/China Airlines.	-	Financial assets at fair value through other comprehensive income - current	500,000	9,500,000	0.01%	9,500,000	
The Company	Stock/WALSIN LIHWA CORPORATION	-	Financial assets at fair value through other comprehensive income - current	200,000	9,440,000	0.01%	9,440,000	
The Company	Stocks/CHPT	-	Financial assets at fair value through other comprehensive income - current	110,000	51,205,000	0.34%	51,205,000	
The Company	Stock/Episil Holding Inc.	-	Financial assets at fair value through other comprehensive income - current	200,000	16,920,000	0.06%	16,920,000	
The Company	Share/Sunspring Metal	-	Financial assets at fair value through other comprehensive income - current	300,000	6,780,000	0.15%	6,780,000	
The Company	Stock/Zhen Ding Technology Holding Limited. - KY	-	Financial assets at fair value through other comprehensive income - current	40,000	4,200,000	-	4,200,000	
The Company	Stock/Hon Hai Precision Industry	-	Financial assets at fair value through other comprehensive income - current	400,000	39,960,000	-	39,960,000	
The Company	Stock/FOXCONN TECHNOLOGY CO., LTD.	-	Financial assets at fair value through other comprehensive income - current	400,000	20,760,000	0.03%	20,760,000	
The Company	Stock/NOVATEK MICROELECTRONICS CORP.	-	Financial assets at fair value through other comprehensive income - current	160,000	50,480,000	0.03%	50,480,000	
The Company	Share/Win Semiconductors	-	Financial assets at fair value through other comprehensive income - current	100,000	13,650,000	0.02%	13,650,000	
The Company	Share/Chunghwa Picture Tubes	-	Financial assets at fair value through other comprehensive income - non-current	71,210	-	-	-	
The Company	Share/CSGT Metals Vietnam Joint Stock Company	-	Financial assets at fair value through other comprehensive income - non-current	1,328,940	56,496,230	6.00%	56,496,230	
The Company	Share/Universal Venture Capital Investment Crop.	-	Financial assets at fair value through other comprehensive income - non-current	1,400,000	10,990,000	1.16%	10,990,000	
The	Share/KHH Arena	-	Financial assets at	5,000,000	61,091,250	2.00%	61,091,250	

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

Holder	Name and type of securities	Relationship with the securities issuer	Account category	Closing amount				Remarks
				Shares	Book value	Shareholding percentage	Fair value	
Company	Corporation		fair value through other comprehensive income - non-current					
The Company	Stock/Southern Air Transport, Inc.	-	Financial assets at fair value through other comprehensive income - non-current	350,000	3,500,000	1%	3,500,000	
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	263,015,408	1%	263,015,408	
The Company	Share/How Weih Holding (Cayman) Co. Ltd.	The Company is a director of the securities issuer	Financial assets at fair value through other comprehensive income - non-current	12,700,000	560,563,395	1%	560,563,395	

4. Aggregate purchases or sales of the same securities reaching NT\$300 million or 20 percent of paid-in capital or more: None
5. Acquisition of real estate reaching NT\$300 million or 20 percent of paid-in capital or more: None.
6. Disposal of real estate reaching NT\$300 million or 20 percent of paid-in capital or more: None

Disposal of real estate companies	Name of property	Date of occurrence	Original acquisition date	Book value	Transaction amount	Price receiving situation	Disposal of profit and loss	Transaction parties	Relations	Purpose of disposal	Supporting materials of reference for price determination	Other stipulated matters
The Company	Land (reported in non-current assets held for sale)	Signing date 2022.12.16	September 1987	113,333,469	452,373,000	(Note1)	(Note2)	Individual	Unrelated Parties	Replenishing operating capital	Appraisal report	-

Note1: The buyer and the seller jointly appointed LAND BANK OF TAIWAN CO., LTD. (Land Bank) to handle the escrow of the purchasing price. As of March 7, 2023, the buyer has deposited NT\$169,644,000 in a special trust account under the Land Bank.

Note2: The disposition benefit is about NT\$300 million, and is expected to be transferred to the account after handover in the second quarter of 2023.

7. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20 percent of paid-in capital or more: None

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

8. Accounts receivable from related parties reaching NT\$100 million or 20 percent of paid-in capital or more: None

9. Trading in derivative instruments: None

(II) Information on reinvestments:

The Company's reinvestment business information for the year ended December 31, 2022 is as follows (excluding investee companies in mainland China):

Name of investor	Investee Company Designation	Location	Main business items	Sum of initial investment		Period-end holding position			Current period profit/loss of the investee	Investment gains/losses recognized in the current period	Remarks
				End of current period	End of previous year	Shares	Ratio	Book value			
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%	128,274,407	(2,952,304)	(1,131,323)	-
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%	212,975,236	(126,596)	(57,968)	-
The Company	Sunward Refractories Co., Ltd.	Renwu District, Kaohsiung City	Ceramic products and refractory material manufacturing	107,906,001	107,906,001	4,588,600	20.00%	72,544,231	17,195,444	3,439,089	-
The Company	Smartway Ark Alliance Co., Ltd.	Gushan District, Kaohsiung City	Real estate construction industry	99,000,000	-	9,900,000	45.00%	99,030,271	67,268	30,271	-

(III) Information on investments in the Mainland Area: None

(IV) Information on major shareholders: None

Unit:

Shares

Name	Shares	Number of shares held	Percentage of shareholding
Huida Investment Co., Ltd.		40,9	20.4
		99,3	1%
		12	
TAI-RONG LU		27,5	13.7
		51,3	1%
		29	
Hsieh Chang Hsing Trading Co., Ltd.		26,0	12.9
		07,9	4%
		15	
KHC Steel International Corp.		18,5	9.24
		74,0	%
		00	
Lu Ho-Lin		16,4	8.17
		26,0	%



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

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The Company has applied to Taiwan Depository and Clearing Corporation to obtain the information listed in this table to explain the following matters:

- (1) The major shareholders' information was derived from the data that the Company issued common shares (including treasury shares) in dematerialized form which were registered and held by the shareholders above 5% on the last operating date of each quarter and was calculated by Taiwan Depository & Clearing Corporation. 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) If the aforementioned data contains shares which are kept in trust by the shareholders, the data is disclosed as a separate account of the client which was set by the trustee. 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) Information on profit and loss, assets, liabilities, and their measurement basis and reconciliation of the reportable segment.

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 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 IV - "Summary of significant accounting policies."

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

Disclosure and reconciliation of segment information:

	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
<b>2022</b>				
Revenues:				
Revenues from external customers	\$ 2,122,479,408	93,575,250	-	2,216,054,658
Inter-segment revenues	-	-	-	-
Total revenues	<u>\$ 2,122,479,408</u>	<u>93,575,250</u>	<u>-</u>	<u>2,216,054,658</u>
Interest expenses	<u>\$ -</u>	<u>-</u>	<u>(73,038,759)</u>	<u>(73,038,759)</u>
Depreciation and amortization	<u>\$ 40,703,715</u>	<u>5,110,637</u>	<u>9,957,821</u>	<u>55,772,173</u>
Share of equity-accounted associated companies	<u>\$ -</u>	<u>-</u>	<u>2,280,069</u>	<u>2,280,069</u>
Profit/loss of reported segment	<u>\$ 135,305,200</u>	<u>(17,376,718)</u>	<u>1,630,640</u>	<u>119,559,122</u>
Assets:				
Equity-accounted investments	<u>\$ -</u>	<u>-</u>	<u>512,824,145</u>	<u>512,824,145</u>
Capital spending for non-current assets	<u>\$ 38,012,158</u>	<u>1,955,000</u>	<u>7,416,980</u>	<u>47,384,138</u>
Assets of reported segment	<u>\$ 1,679,370,650</u>	<u>20,021,533</u>	<u>5,560,425,605</u>	<u>7,259,817,788</u>
	<u>Steel Pipe Department</u>	<u>Others</u>	<u>Reconciliation and elimination</u>	<u>Total</u>
<b>2021</b>				
Revenues:				
Revenues from external customers	\$ 1,325,565,856	225,058,405	-	1,550,624,261
Inter-segment revenues	-	-	-	-
Total revenues	<u>\$ 1,325,565,856</u>	<u>225,058,405</u>	<u>-</u>	<u>1,550,624,261</u>
Interest expenses	<u>\$ -</u>	<u>-</u>	<u>(56,353,471)</u>	<u>(56,353,471)</u>
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-accounted associated companies	<u>\$ -</u>	<u>-</u>	<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>\$ -</u>	<u>-</u>	<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>

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

Significant reconciliation of information between the reporting segments mentioned above:

1. Unallocated profit or loss of reportable segment:

	<u>2022</u>	<u>2021</u>
Disposal of property, plant and equipment losses	\$ (892,224)	(29,955)
Financial cost – interest expense	(73,038,759)	(56,353,471)
Others	<u>75,561,623</u>	<u>43,164,001</u>
Total	<u><u>\$ 1,630,640</u></u>	<u><u>(13,219,425)</u></u>

2. Assets that are not in reportable segments:

	<u>2022</u>	<u>2021</u>
Cash and bank deposits	\$ 214,083,158	559,151,492
Equity-accounted investments	512,824,145	448,776,883
Non-current Assets Held for Sale	113,333,469	-
Property, plant and equipment	619,729,429	619,205,853
Right-of-use asset	6,580,560	9,870,840
Investment property	2,027,466,093	2,141,001,859
Financial assets at fair value through other comprehensive income	1,939,993,383	1,777,133,429
Other financial assets	20,022,848	-
Others	<u>106,392,520</u>	<u>71,530,604</u>
Total	<u><u>\$ 5,560,425,605</u></u>	<u><u>5,626,670,960</u></u>

### (II) Regional information

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>2022</u>	<u>2021</u>
Revenues from external customers:		
Taiwan	\$ 1,557,333,227	1,488,453,206
United States	657,960,034	61,086,427
Japan	<u>761,397</u>	<u>1,084,628</u>
	<u><u>\$ 2,216,054,658</u></u>	<u><u>1,550,624,261</u></u>
<u>Location</u>	<u>111.12.31</u>	<u>110.12.31</u>
Non-current assets:		
Taiwan	<u><u>\$ 3,548,088,914</u></u>	<u><u>3,670,702,642</u></u>

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

Non-current assets include property, plant, and equipment, investment property, and right-of-use asset, but exclude non-current financial instruments.

### (III) Information of main customers

<b>Customer</b>	<b>2022</b>	<b>2021</b>
Nakosin Enterprise Co., Ltd.	\$ 613,502,013	395,054,118
Duferco Participations Holding SA	253,774,731	4,159,299
Thyssenkrupp Materials Trading	224,945,828	-
Long An Hardware Co., Ltd.	175,974,266	227,015,649
Gir Gai Trading Co., Ltd.	218,536,382	185,756,351
	<b>\$ 1,486,733,220</b>	<b>811,985,417</b>

**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of cash and cash equivalents**

**December 31, 2022**

**Unit: NTD**

<b>Item</b>	<b>Summary</b>	<b>Amount</b>
Cash dividends	Reserve cash	\$ 404,692
Cash in banks	Check deposit	26,559,388
	Demand deposit	118,857,741
	Foreign currency deposit (USD 2,225,702.92, exchange rate 30.71)	<u>68,351,337</u>
Total		<u><b>\$ 214,173,158</b></u>

## Kao Hsing Chang Iron & Steel Corp.

### Schedule of financial assets at fair value through other comprehensive income - current December 31, 2022 Unit: NTD

Financial instrument designations	Summary	Number of shares/number of units	Face value	Total	Acquisition cost	Fair value		Provision of guarantee or collateral
						Unit price	Total	
HIWIN	Listed shares	104,000	\$ 10	1,040,000	29,231,295	182.50	18,980,000	None
Sino-American Silicon Products Inc.	TPEX listed shares	100,000	10	1,000,000	19,307,470	139.50	13,950,000	None
China Steel Chemical	Listed shares	500,000	10	5,000,000	54,477,209	105.50	52,750,000	None
ASE Technology Holding	Listed shares	800,000	10	8,000,000	84,796,397	93.90	75,120,000	None
GENIUS ELECTRONIC OPTICAL CO.,LTD.	Listed shares	50,000	10	500,000	25,645,008	335.50	16,775,000	None
DELTA ELECTRONIC S,INC.	Listed shares	100,000	10	1,000,000	27,367,930	286.50	28,650,000	None
Taiwan Semiconductor Manufacturing	Listed shares	350,000	10	3,500,000	180,572,211	448.50	156,975,000	None
Cleanaway Company Limited	Listed shares	300,000	10	3,000,000	64,774,162	180.00	54,000,000	None
ChainQui Construction Development	Listed shares	93,000	10	930,000	3,352,906	14.70	1,367,100	None
Asia Pacific Telecom	Listed shares	6,000,000	10	60,000,000	73,339,914	6.10	36,600,000	None
Asia Optical	Listed shares	300,000	10	3,000,000	23,871,407	60.50	18,150,000	None
VisEra Technologies Company Limited.	Listed shares	100,000	10	1,000,000	21,949,905	193.50	19,350,000	None
Universal Microwave Technology, Inc	TPEX listed shares	120,000	10	1,200,000	18,251,969	134.50	16,140,000	None
Eternal Materials	Listed shares	500,000	10	5,000,000	19,151,710	31.25	15,625,000	None
GUDENG PRECISION INDUSTRIAL CO., LTD.	TPEX listed shares	100,000	10	1,000,000	32,606,389	265.00	26,500,000	None
Yageo	Listed shares	360,000	10	3,600,000	192,208,033	451.00	162,360,000	None
KAIMEI ELECTRONIC CORP.	Listed shares	900,000	10	9,000,000	101,106,949	53.50	48,150,000	None
China Airlines.	Listed shares	500,000	10	5,000,000	11,136,696	19.00	9,500,000	None
WALSIN LIHWA CORPORATIO N	Listed shares	200,000	10	2,000,000	9,357,931	47.20	9,440,000	None
CHPT	TPEX listed shares	110,000	10	1,100,000	63,966,755	465.50	51,205,000	None
Episil Holding Inc.	TPEX listed shares	200,000	10	2,000,000	18,583,288	84.60	16,920,000	None
Sunspring Metal	Listed shares	300,000	10	3,000,000	14,272,864	22.60	6,780,000	None
Zhen Ding Technology	Listed shares	40,000	10	400,000	4,236,026	105.00	4,200,000	None

Holding-KY Hon Hai Precision Industry FOXCONN TECHNOLOGY CO., LTD. NOVATEK MICROELECTRONICS CORP. Win Semiconductors Total	Listed shares Listed shares Listed shares TPEx listed shares	400,000 400,000 160,000 100,000	10 10 10 10	4,000,000 4,000,000 1,600,000 1,000,000	45,597,083 28,887,194 61,647,716 <u>35,417,015</u>	99.90 51.90 315.50 136.50	39,960,000 20,760,000 50,480,000 <u>13,650,000</u>	None None None None
					<b><u>\$ 1,265,113,432</u></b>		<b><u>984,337,100</u></b>	

### Other Financial Assets – Current assets Schedule

Please refer to Note 6 (3) for other financial assets- current assets related information.

**Kao Hsing Chang Iron & Steel Corp.**

**Notes receivable schedule**

**December 31, 2022**

**Unit: NTD**

<u>counter party</u>	<u>Summary</u>	<u>Amount</u>
Gir Gai Trading Co., Ltd.	Business	<u>\$ 4,291,169</u>

**Schedule of other notes receivable**

<u>counter party</u>	<u>Summary</u>	<u>Amount</u>
Mr. Hsu Pei-Kai	Rental income	<u>\$ 200,000</u>

**Schedule of net accounts receivable**

<u>Customer name</u>	<u>Summary</u>	<u>Amount</u>
Gir Gai Trading Co., Ltd.	Business	\$ 17,245,585
Nakosin Enterprise Co., Ltd.	Business	37,692,618
Kiin's Corporation	Business	18,195,060
Others (if the balance of each account is less than 5% of accounts receivable, it shall be reported together)	Business	<u>30,124,109</u>
Total		<u>\$ 103,257,372</u>



**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of other net receivables**

**December 31, 2022**

**Unit: NTD**

<b>Item</b>	<b>Summary</b>	<b>Amount</b>
Related party:		
Income receivable from sale of scrap		\$ 499,474
Non-related party:		
Income receivable from sale of scrap		1,627,004
Receivables from sale of shares		4,766,316
Income from dividends receivable		1,307,500
Receivable purchase discounts		252,134
Receivables from scaffolding		470,460
Others		<u>158,281</u>
Total		9,081,169
Less: Allowance for bad debts		<u>470,460</u>
Net		<u><b>\$ 8,610,709</b></u>

**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of inventories**

**December 31, 2022**

**Unit: NTD**

<b>Item</b>	<b>Amount</b>	
	<b>Cost</b>	<b>Net realizable value</b>
Finished goods	\$ 251,312,164	282,448,302
Less: loss provisions	15,902,115	
Subtotal	235,410,049	
Work-in-progress	105,033,753	116,396,841
Less: loss provisions	849,284	
Subtotal	104,184,469	
Raw materials	291,901,180	426,299,093
Less: loss provisions	13,790	
Subtotal	291,887,390	
Materials	109,765,459	105,055,441
Less: loss provisions	4,741,972	
Subtotal	105,023,487	
Inventory in transit	1,586,388	1,586,388
Scraps	112,492	112,492
Total	<u>\$ 738,204,275</u>	

**Schedule of non-current assets held to be sold**

Please refer to Note 6(7) for information about non-current assets held to be sold.

**Schedule of other current assets**

Please refer to Note 6 (12) for information about other current assets

**Kao Hsing Chang Iron & Steel Corp.**

**Financial assets measured at fair value through other comprehensive gains and losses -  
schedule of non-current changes**

**December 31, 2022**

**Unit: NTD**

<u>Designation</u>	<u>Beginning of period</u>		<u>Increase in the period</u>		<u>Decrease in the period</u>		<u>Closing amount</u>		Provision of guarantee or pledge
	<u>Shares</u>	<u>Fair value</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Fair value</u>	
Universal Venture Capital Investment Corporation	1,400,000	\$ 10,778,424	-	211,576 (Note 1)	-	-	1,400,000	10,990,000	None
Hanwei Arena Development Co., Ltd.	5,000,000	68,557,500	-	-	-	7,466,250 (Note 1)	5,000,000	61,091,250	None
CSGT Metals Vietnam Joint Stock Company	1,328,940	54,802,550	-	1,693,680 (Note 1)	-	-	1,328,940	56,496,230	None
ENRESTEC Inc.	19,101,651	268,373,422	-	-	-	5,358,014 (Note 1)	19,101,651	263,015,408	None
How Weih Holding (Cayman) Co. Ltd.	12,700,000	570,547,183	-	-	-	9,983,788 (Note 1)	12,700,000	560,563,395	None
Apex Logistic CO., LTD.	-	-	350,000	3,500,000 (Note 2)	-	-	350,000	3,500,000	None
Chunghwa Picture Tubes Total	71,210	-	-	-	-	-	71,210	-	None
		<b><u>\$ 973,059,079</u></b>		<b><u>5,405,256</u></b>		<b><u>22,808,052</u></b>		<b><u>955,656,283</u></b>	

Note 1: This is the number of changes in the evaluation of the current period.

Note2: It is the equity purchased in the current period NT\$3,500,000

**Kao Hsing Chang Iron & Steel Corp.**  
**Schedule of changes in investments accounted for using equity method**  
**January 1 to December 31, 2022**

Unit: NTD

Designation	Balance at the beginning of the period		Increase in the current period		Decrease in the current period		Balance at the end of period			Market price or net equity value		Provision of guarantee or pledge
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Percentage of shareholding	Amount	Unit price	Total price	
C Steel International Corp.	7,280,000	\$ 141,629,586	-	-	-	13,355,179 (Note 1)	7,280,000	38.32%	128,274,407	17.62	128,274,407	None
eh Chang Hsing Trading Co., Ltd.	17,172,851	238,042,155	-	-	-	25,066,919 (Note 2)	17,172,851	45.79%	212,975,236	12.40	212,975,236	None
ward Refractories Co., Ltd.	4,588,600	69,105,142	-	3,439,089 (Note 3)	-	-	4,588,600	20.00%	72,544,231	15.81	72,544,231	None
artway Ark Alliance Co., Ltd.	-	-	9,900,000	99,030,271 (Note 4)	-	-	9,900,000	45.00%	99,030,271	10.00	99,030,271	None
<b>Total</b>		<b>\$ 448,776,883</b>		<b>102,469,360</b>		<b>38,422,098</b>			<b>512,824,145</b>		<b>512,824,145</b>	

Note1: This is the investment loss recognized in the current period: NT\$(1,131,323) , unrealized loss of financial assets of investee companies recognized in proportion: NT\$(11,581,721) , and loss on disposal of stocks: NT\$(642,135).

Note2: This is the investment loss recognized in the current period: NT\$(57,968) unrealized loss of financial assets of investee companies recognized in proportion: NT\$(25,008,951).

Note3: This is the investment benefit recognized in the current period: NT\$3,439,089.

Note 4: This is the investment benefit recognized in the current period: NT\$30,271, and cash capital increase: NT\$99,000,000.

**Kao Hsing Chang Iron & Steel Corp.**  
**Schedule of changes in property, plant, and  
equipment**

**January 1 to December 31, 2022**

**Unit: NTD**

Please refer to Note 6 (9) for information on changes in property, plant and equipment.

**Schedule of changes in accumulated  
depreciation of property, plant and  
equipment**

<u>Q</u>	<u>Opening balance</u>	<u>Increase in the period</u>	<u>Decrease in the period</u>	<u>Closing balance</u>
Buildings	\$ 977,194,247	17,848,966	-	995,043,213
Machinery	1,324,861,044	27,039,167	713,776	1,351,186,435
Others	140,842,334	3,824,483	-	144,666,817
<b>Total</b>	<b>\$ 2,442,897,625</b>	<b>48,712,616</b>	<b>713,776</b>	<b>2,490,896,465</b>

**Schedule of accumulated impairment  
changes of property, plant and equipment**

<u>Item</u>	<u>Opening balance</u>	<u>Increase in the period</u>	<u>Decrease in the period</u>	<u>Closing balance</u>
Buildings	\$ 164,221,155	-	-	164,221,155
Machinery	815,467,960	-	-	815,467,960
Others	97,140,483	-	-	97,140,483
<b>Total</b>	<b>\$ 1,076,829,598</b>	<b>-</b>	<b>-</b>	<b>1,076,829,598</b>

**Kao Hsing Chang Iron & Steel Corp.**  
**Schedule of Changes in Right-of-Use Assets**  
**January 1 to December 31, 2022**

**Unit: NTD**

Please refer to Note 6 (10) for information on changes in right-of-use assets.

**Schedule of Changes in Accumula**  
**Depreciation of Right-of-Use Assets**

Please refer to Note 6 (10) for relevant information on changes in accumulated depreciation of right-of-use assets.

**Kao Hsing Chang Iron & Steel Corp.**  
**Schedule of changes in invested real estate**  
**January 1 to December 31, 2022**

**Unit: NTD**

Please refer to Note 6 (11) for relevant information on changes in investment property.

**Schedule of changes in accumulated  
depreciation of invested real estate**

Please refer to Note 6 (11) for relevant information on changes in accumulated depreciation of investment property.

**Schedule of guarantee deposits paid**  
**December 31, 2022**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Guarantee deposits paid	Performance bonds (transferred and reported from bid bond)	\$ 530,000
	rental deposit	4,000,000
	Others	<u>6,500</u>
Total		<u><u>\$ 4,536,500</u></u>

## Kao Hsing Chang Iron & Steel Corp.

### Schedule of short-term notes and bills payable

December 31, 2022

Unit: NTD

Item	Guarantee and acceptance agency	Contract period	Interest rate range	Amount			Remarks
				Issuing price	Unamortized discount on commercial notes payable	Book value	
commercial payable	paper Mega bills, Kaohsiung branch office	Within one year	2.2537%	\$ 50,000,000	123,493	49,876,507	
Commercial payable	paper China finance corporation, Kaohsiung branch	Within one year	2.1480%	75,000,000	176,535	74,823,465	
				<u>\$ 125,000,000</u>	<u>300,028</u>	<u>124,699,972</u>	

### Schedule of short-term loans

Loan type	Explanat ion	Closing balance	Contract period	Interest rate range	Financing amount	Mortgage or collateral
Loans L/C	under Changhua Bank	\$ 341,853,238	Within one year	1.97%~2.095%	Total amount 1,900,000,000	Land
Loans L/C	under Huatai Bank	24,931,841	Within one year	1.95%	Total amount 1,380,000,000	Land
Loans L/C	under Bank of Taiwan	28,286,100	Within one year	2.01%	Total amount 150,000,000	Land
Secured loans	Huatai Bank	1,300,000,000	Within one year	2.075%	Total amount 1,380,000,000	Land
Secured loans	Changhua Bank	900,000,000	Within one year	2.00%	Total amount 1,900,000,000	Land
Secured loans	O-Bank Co., Ltd	50,000,000	Within one year	2.5135%	Total amount 100,000,000	Land
Secured loans	JihSun Bank	460,000,000	Within one year	2.1636%	Total amount 520,000,000	Land
Secured loans	Bank of Taiwan	<u>100,000,000</u>	Within one year	2.01%~2.135%	Total amount 150,000,000	Land
Total		<u>\$ 3,205,071,179</u>				



**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of bills payable**

**December 31, 2022**

**Unit: NTD**

<u>Supplier</u>	<u>Summary</u>	<u>Amount</u>
I Hong Hot-Galvanization Industrial Co., Ltd.	Business	\$ 16,265,788
Weitai Industrial Inspection Co., Ltd.	Business	4,292,022
Perfect Engineering Co., Ltd.	Business	2,190,451
Others (if the balance of each account is less than 5% of notes payable, it shall be reported together)	Business	<u>17,541,499</u>
Total		<b><u>\$ 40,289,760</u></b>

**Schedule of other bills payable**

<u>Payment counterparty</u>	<u>Summary</u>	<u>Amount</u>
Each shareholder	Capital reduction and refund of shares	\$ 5,721,776
Yude Industrial Co., Ltd. (查不到英文)	Funds for equipment	1,620,150
GUOR LUNG MACHINE CO., LTD.	Funds for equipment	1,417,500
Perfect Engineering Co., Ltd.	Funds for equipment	1,155,000
Others (if the balance of each account is less than 5% of other notes payable, it shall be reported together)		<u>1,518,255</u>
Total		<b><u>\$ 11,432,681</u></b>

**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of accounts payable**

**December 31, 2022**

**Unit: NTD**

<u>Supplier</u>	<u>Summary</u>	<u>Amount</u>
I Hong Hot-Galvanization Industrial Co., Ltd.	Business	\$ 11,278,644
Shang Chen Steel Co., Ltd.	Business	7,782,403
Kounan Steel Co., Ltd.	Business	4,723,373
Others (if the balance of each account is less than 5% of accounts payable, it shall be reported together)	Business	<u>2,159,740</u>
Total		<u><b>\$ 25,944,160</b></u>

**Schedule of other payables**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary and bonus		\$ 13,738,609
Paid leave		7,490,200
Utility bills		2,761,268
Tax		2,885,220
Stock delivery payment		11,426,257
Freight and customs declaration fee		3,466,985
Cargo allowance		1,787,213
Funds for equipment		5,477,525
Pension		819,163
Repair costs		3,107,532
Labor health insurance		1,154,513
Guarantee deposits – current		40,000
Interest		3,548,831
Other		<u>16,377,396</u>
Total		<u><b>\$ 74,080,712</b></u>

## Kao Hsing Chang Iron & Steel Corp.

### Schedule of other current liabilities

December 31, 2022

Unit: NTD

Please refer to Note 6 (15) for information about other current liabilities schedule.

### Schedule of long-term loans

Creditor	Summary	Amount		Total	Contract period	Interest rate	Mortgage or guarantee
		Due within one year	Due after one year or more				
Changhua Bank	Secured loans	<u>\$ 32,558,140</u>	<u>667,441,860</u>	<u>700,000,000</u>	109.10.23~119.10.23	2.43%	Land

Please refer to Note 6 (16) for the relevant information of 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	57,559,607
	Non-current assets held for sale	<u>14,472,357</u>
Total		<u>\$ 210,632,330</u>

**Kao Hsing Chang Iron & Steel Corp.**  
**Schedule of guarantee deposits received**

**December 31, 2022**

**Unit: NTD**

<b>Item</b>	<b>Summary</b>	<b>Amount</b>
Guarantee deposits received	Land lease deposit	<b>\$ 5,000,000</b>

**Schedule of net operating income**  
**January 1 to December 31, 2022**

<b>Item</b>	<b>quantity (KG)</b>	<b>Amount</b>
Steel pipes	49,396,835	\$ 2,095,543,865
Hot rolled steel coil	2,546,065	56,243,979
Zinc products	320,853	26,862,448
Others	110,605	3,407,411
Rental income		33,996,955
Total		<b>\$ 2,216,054,658</b>

**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of operating costs**

**January 1 to December 31, 2022**

**Unit: NTD**

Item	Amount
Direct raw materials	
Beginning stock	\$ 287,195,589
Plus: Feedstock this period	1,311,988,580
less: private use	(285,009)
Inventory at the end of period	(291,901,180)
Direct raw materials consumed in this period	1,306,997,980
Direct labor	72,200,626
Manufacturing expenses	330,524,653
Unallocated manufacturing overheads	(34,194,019)
Manufacturing costs	1,675,529,240
Work in progress at the beginning of the period	141,228,540
Plus: Outsourcing	19,223,448
inventory profit	11,504
less: private use	(234,169)
Work in progress at the end of the period	(105,033,753)
Cost of finished goods for the current period	1,730,724,810
Finished goods at beginning of period	241,400,289
Plus: Outsourcing	128,903,753
inventory profit	120,717
Other	506,758
less: private use	(88,488)
Finished goods at end of period	(251,312,164)
Cost of goods sold before adjustment	1,850,255,675
Cost of goods sold plus (minus) adjustment	
Income from sale of scrap	(28,680,589)
Net inventory profit	(132,221)
Inactive Inventory and Falling Price Loss	10,488,997
Unallocated manufacturing overheads	34,194,019
Others	10,373,422
Adjusted cost of goods sold	1,876,499,303
Processing costs	57,477
Leasing costs	12,366,414
Operating costs	\$ <b>1,888,923,194</b>

**Kao Hsing Chang Iron & Steel Corp.**

**Schedule of selling expenses**

**January 1 to December 31, 2022**

**Unit: NTD**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary	Employee salary and bonus	\$ 8,907,584
Shipping expense	Sales freight expense	94,940,597
Warehouse rent and assembling and dissembling expense	Warehouse rent at customs, etc.	7,136,541
Others	Rent, utilities, pension, labor and health insurance, entertainment expenses, etc.	<u>9,887,615</u>
Total		<u><b>\$ 120,872,337</b></u>

**Schedule of management expenses**

<u>Item</u>	<u>Summary</u>	<u>Amount</u>
Salary	Employee salary, overtime pay and bonus	\$ 29,442,545
Entertainment expenses	Entertainment expenses	9,109,368
Labor expenses	Public expenses for services such as lawyers and accountants	2,111,800
Utility bills	Utility bills for office premises	1,283,806
Tax	Housing tax and land value tax, etc.	4,520,340
Pension	Employee pensions	1,129,427
Others	Stationery printing, training expenses, post and telecommunications expenses, travel expenses and repair expenses, etc.	<u>20,187,732</u>
Total		<u><b>\$ 67,785,018</b></u>

**Schedule of non-operating income a expenses**

Please refer to Note 6 (24) for information on non-operating income and expenses

- 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.

## Seven. Financial status and financial performance review analysis and risk issues

### I. Financial status

Unit: NTD Thousand

Item \ Year	2022	2021	Difference	
			Amount	%
Current assets	2,205,712	2,228,510	22,798	1.02
Non-current assets	5,054,106	5,098,370	(44,264)	(0.87)
Total assets	7,259,818	7,326,880	(67,062)	(0.92)
Current liabilities	3,532,687	3,399,559	133,128	3.92
Non-current liabilities	911,501	957,680	(46,179)	(4.82)
Total liabilities	4,444,188	4,357,239	86,949	2
Share capital	2,008,523	2,008,523	0	0
Capital surplus	75,159	75,159	0	0
Retained earnings	809,216	674,974	134,242	19.89
Other equity interest	(77,268)	210,985	(288,253)	(136.62)
Treasury stock	0	0	0	0
Total equity	2,815,630	2,969,641	(154,011)	(5.19)
Net value per share (NTD)	14.02	14.79	(077)	(5.21)

Description of major changes:

1. Other equities dropped by NTD 288,253 thousand, which was mainly due to the decrease in unrealized appraisal gains or losses of investments in equity tools measured at fair value through other combined gains or losses.



## II. Financial performance

### Concise Financial Performance

Unit: NTD thousand

Item	Year	2022	2021	Amount of increase or decrease	Change in ratios (%)
		Total	Total		
Operating income		2,216,054	1,550,624	665,430	42.91
Operating cost		1,888,923	1,356,051	532,872	39.30
Operating margin (loss)		327,131	194,573	132,558	68.13
Marketing expenditure		120,872	33,868	87,004	256.89
Overhead		67,785	63,743	4,042	6.34
Operating expenses		188,657	97,611	91,046	93.27
Operating profit (loss)		138,474	96,962	41,512	42.81
Non-operating income and expenditure		(18,915)	(34,393)	15,478	45
Net profit before tax for continuing operations (loss)		119,559	62,569	56,990	91.08
Income tax expense (benefit)		7,375	20,452	(13,077)	(63.94)
Net profit (loss) for the period		112,184	42,117	70,067	166.36
Other comprehensive income (net amount)		(266,195)	155,366	(421,561)	(271.33)
Total combined gains or losses for the period		(154,011)	197,483	(351,494)	(177.99)
Earnings per share (NTD)		0.56	0.21	0.35	166.67

Analysis and explanation of increases and decreases in ratios:

1. Increase in the net operating gross profit: mainly due to the increase in both the price and the volume.
2. Increase in the operating expenditure: mainly due to the increase in sales and the related costs.
3. Increase in non-operating income and expenditure: mainly due to the estimated soil restoration cost of NTD 24,563 thousand for 2021; this did not happen in 2022.
4. Decrease in other combined gains or losses: mainly due to the decrease in unrealized appraisal gains of investments in equity tools measured at fair value through other

combined gains or losses recognized by the Company and applying the equity method.

Expected sales volume and its basis and possible impact on the Company's future financial business and countermeasures: See Page 4 of the Annual Report.

### III. Cash flows

Liquidity analysis for the most recent two years

Item \ Year	2022	2021	Increase (decrease) proportion %
Cash flow adequacy ratio	3.52%	( 3.19)%	103.45%
Cash flow adequacy ratio	(7.94)%	(33.75)%	76.47%
Cash reinvestment ratio	1.70%	( 1.45)%	217.24%

Analysis and explanation of increases and decreases in ratios:

1. The cash flow ratio increased mainly due to the lowering of inventory levels.
2. The cash flow adequacy ratio increased mainly due to the increase in the net cash out-flows from operating activities over the most recent five years compared to the accumulated quantity of five years in 2021.
3. The cash re-investment ratio increased mainly due to the net cash in-flows from operating activities as a result of lowering the inventory level.

Analysis of cash liquidity in the coming year

Unit: NTD Thousand

Year	Balance of cash at start of term	Expected annual operating activities	Expected annual investment activities	Expected annual financing activities	Expected cash balance (Shortage)	Remedies for surplus (shortage)
						Financing plan
2023	214,173	23,446	785,842	(665,290)	358,171	-

Analysis of the changes in cash flows in 2023:

1. Net cash out-flows of operating activities led to the net cash inflows of operating activities as a result of lowering the inventory level.
2. Net cash inflows of investment activities are the result of estimated regulation of investment and sale of investment-oriented real estate properties - land.
3. Net operating outflows of financing activities are the result of estimated repayment of borrowings and distribution of dividends.
4. 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:

The Company approved through its 14th meeting of the Board of Directors of the 20th intake on May 7, 2021 the collaboration with Kuo Cheng Construction Co., Ltd. in the urban planning project of Kaohsiung City Government “southern side of the Special Trade III South Site.” On September 15 of the same year, the Smartway Ark Alliance was formed as required for the case. As agreed, for the capital contribution ratio, it is 45% for the Company and 55% for Kuo Cheng Construction (that is, Kuo Cheng is the leading company). The Company was rated the best applicant by the Kaohsiung City Government on November 19 of the same year. According to the agreement, when rated as the best applicant, it is required to form a project company based on the above-mentioned capital ratio and applicable requirements (that is, Smartway Ark Alliance Co., Ltd.). It was set up and registered on January 7, 2022 and related contracts were entered into with the Kaohsiung City Government on February 15 of the same year, with related tasks completed.

Smartway Ark Alliance Co., Ltd. has a capital size of NTD 3.6 billion, that is, 360 million shares at NTD 10 per share, which are to be issued in separate efforts. The paid-in capital size upon initial offering is NTD 220 million, which, based on the capital ratio of the Company, that is, 45%, 9,900,000 shares are subscribed to and the amount of investment is NTD 99 million. The total amount of investment of the Company is around NTD 1.62 billion according to the 45% in the capital size of Smartway Ark Alliance Co., Ltd., that is, NTD 3.6 billion, which will be adjusted and changed reflective of the overall capital size.

## 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:

Credit risk exposure

The carrying amount of financial assets represents the maximum amount of credit exposure

Credit risk concentration

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
<b>December 31, 2022</b>							
Non-derivative instruments							
Payable short-term notes	\$ 124,699,972	(125,000,000)	(125,000,000)	-	-	-	-
Short-term loans (floating rate)	3,205,071,179	(3,248,325,663)	(1,010,476,074)	(2,237,849,589)	-	-	-
Notes payable (non-interest bearing)	40,289,760	(40,289,760)	(40,289,760)	-	-	-	-
Other notes payable (non-interest bearing)	11,432,681	(11,432,681)	(11,432,681)	-	-	-	-
Accounts payable (non-interest bearing)	25,944,160	(25,944,160)	(25,944,160)	-	-	-	-
Other payables (non-interest bearing)	74,080,712	(74,080,712)	(74,040,712)	(40,000)	-	-	-
Guarantee deposits paid (non-interest bearing)	5,000,000	(5,000,000)	-	-	-	(5,000,000)	-
Long-term loan (floating rate)	700,000,000	(772,841,261)	(8,487,500)	(40,946,948)	(112,774,275)	(324,111,196)	(286,521,342)
	<b>\$ 4,186,518,464</b>	<b>(4,302,914,237)</b>	<b>(1,295,670,887)</b>	<b>(2,278,836,537)</b>	<b>(112,774,275)</b>	<b>(329,111,196)</b>	<b>(286,521,342)</b>

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:

	12/31/2022			December 31, 2021		
	Foreign currency (\$)	Exchange rate	NTD	Foreign currency (\$)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$2,225,702.92	30.71	68,351,337	\$ 887,077.45	27.68	24,277,504
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD				343,657.74	27.68	9,512,446

### 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, 2022 and 2021, 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 for 2022 would decrease or increase by NTD 2,187,242 and the net loss after tax for 2021 would increase or decrease by NTD 472,482. Analyses for the two periods were conducted on the same basis.

Since the Company's functional currency is New Taiwan Dollar, the foreign currency exchange gains and losses (including realized and unrealized) for 2022 and 2021 were a gain of NTD 7,769,283 and a gain of NTD 823,503, 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 re-use 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 to third parties: None.
4. Endorsements / guarantees provided: None.
5. Derivative trading

The Company did not engage in derivative transactions in 2022.

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 pro-actively 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 associated with focused purchases or sales and countermeasures:

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 countermeasures:

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.

Lawsuits and non-lawsuit events. Major lawsuits and non-lawsuits or administrative disputes with a finalized verdict or ongoing proceedings that involve the Company, the Company's directors, supervisors, general managers, actual person in charge and shareholders holding more than 10% of all shares and the associated companies shall be listed. If the results are likely to have significant impacts on shareholders' equity or prices of securities, the facts, target value and start date of the lawsuit, main clients involved and handling status as of the date of the Annual Report was printed shall be disclosed: none.

Other major risks and countermeasures: information security risk assessment.

Information security risk assessment and analysis: Ransomware has swept enterprises and end-users throughout the world over the past few years and the IoT setting gradually matures. Loopholes of IoT devices can be easily utilized by hackers for initiating cyberattacks. Therefore, besides reinforcing its gateway facilities, the Company is gradually safeguarding terminals and inspecting websites as well as enhancing filtration of mails in addition to periodic employee educational training in order to ensure important assets of the Company.



Name of asset	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

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. In the most recent year and as of the printing date of the Annual Report, the occurrence of the matters that have a significant impact on shareholders' equity or securities prices: None.

Kao Hsing Chang Iron & Steel Corp.



Chairman Lu Tai Rong

