

# **HSIN KUANG STEEL CO., LTD.**

## **2021 General Shareholders Meeting**

**Time** : 9:00 AM, July22 (Tuesday), 2021

**Location** : No. 120, Gongye 8th Road, Guanyin District, Taoyuan City

(The Company's Guanyin Plant Conference Office)

**Attendance** : Total outstanding Hsin Kuang shares : 308,527,374shares , Total shares represented by shareholders present in person or by proxy: 191,292,373 shares , Percentage of shares held by shareholders present in person or by proxy : 62% 。

Chairman : Mr.Alexander M.T.Su, the Chairman of the Board of Directors

Recorder : Jessica P.H.Liu

Directors present : Alexander M.T.Su ( Chairman of Han De Investment Co., Ltd. ) 、Trickle T.C.Chang ( Chairman of Trickle Co., Ltd. )、Ming-shan,Jheng、Fisher C.H.Yu、Johnathon Y.J.Su 、Shih-yang,Chen

Independent Directors present : Winston Won 、Po-Yung Chu 、Paul T.Y.Huang

Staff present : Deloitte & ToucheSheng-Hsiung Yao, CPA

I 、The aggregate shareholding of the shareholders present in person or by proxy constituted a quorum.

The Chairman called the meeting to order

II 、Chairman's Address (omitted)

III 、Report Items :

Case 1 2020 Business Report.

Case 2 Audit Committee's Report.

Case 3 Report on the 2020 distribution of remuneration to employees, directors, and supervisors.

Case 4 Report on the Company's total amount for endorsement, guarantee and amount of loans to third parties.

Case 5 Other matters:none.

VI、Acceptance and Discussions：

**Case 1：** Ratification of the 2020 business report and final financial statements (proposed by the Board of Directors)

Description：(1) The Company's 2020 financial statements, including: the balance sheet, comprehensive income statement, statement of changes in equity and the cash flow statement, have been audited by Sheng-Hsiung Yao, CPA and Jui-Na Chang, CPA of Deloitte and recognized in the 4th meeting of the Company's 15th-term Board of Directors.

(2) Please refer to and ratify Attachment 1 from page 9 to page 11 and Attachment 3 and 4 from page 13 to 32 of the Proceedings Manual for the Company's 2020 Business Report, CPA Auditing Report and the aforementioned financial statements.

(Questions raised by the shareholders and the management's responses were omitted)

Voting Results：

Shares represented at the time of voting：191,292,373

Voting Results*	% of the total represented share present
Votes in favor:：176,354,734 votes (34,221,720 votes)	92.191%
Votes against：35,026 votes (35,026 votes)	0.018%
Votes invalid：none	0.000%
Votes abstained：14,902,613 votes (14,902,613 votes)	7.791%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the 2020 Business Report and Financial Statements be and hereby were accepted as submitted.

**Case 2：** Approval of 2020 earnings distribution proposal. (proposed by the Board of Directors)

Description: (1) The Earnings Distribution Statement is for the distribution of distributable earnings of 2020 in cash dividend of NT\$1.50 per ordinary share. In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of earnings to be distributed and the resolution in this shareholders meeting in accordance with the quantity of the Company's shares in external circulation on the record date.

(2) For this period's motion to distribute dividends to shareholders, the dividend will be calculated to the amount of one whole NTD, and any decimal point below one NTD will be rounded down. Shares below one NTD will be adjusted from the largest decimal place, until the total amount of dividend for shareholders has been distributed.

(3) The Company's 2020 Earnings Distribution Statement was approved in the 4th meeting of the Company's 15th-term Board of Directors and approved by Supervisors as the submitted proposal. Please refer to Attachment 5 on page 33 of the Proceedings Manual and ratify.

(Questions raised by the shareholders and the management's responses were omitted)

Voting Results :

Shares represented at the time of voting : 191,292,373

Voting Results*	% of the total represented share present
Votes in favor: : 176,373,734 votes ( 34,240,720 votes )	92.201%
Votes against : 35,029 votes ( 35,029 votes )	0.018%
Votes invalid : none	0.00%
Votes abstained : 14,883,610 votes ( 14,883,610 votes )	7.781%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.

**Case 3 : Approval of the distribution of cash paid from capital reserves. ( proposed by the Board of Directors )**

Description: (1) The proposed capital surplus cash distribution plans to allocate NT\$154,128,768 in cash from the capital reserve that originated from the income on premiums of stocks issued at values exceeding their nominal value and the conversion price of the conversion of corporate bonds. NT\$0.50 for each ordinary share will be distributed according to the shareholdings listed in the shareholder register. In the future, if the number of the Company's shares that can participate in the distribution of cash is affected for any reason and the dividend rate of shareholders changes, the shareholders' meeting shall be requested to authorize the Board of Directors to handle and adjust the matter.

(2) The cash distribution of capital surplus shall be calculated to the NT\$. The total fractional amounts less than NT\$1 shall be listed in ascending order according to the amount and account number, until it means the total cash distribution amount for capital surplus.

(Questions raised by the shareholders and the management's responses were omitted)

Voting Results :

Shares represented at the time of voting : 191,292,373

Voting Results*	% of the total represented share present
Votes in favor: : 176,370,864 votes ( 34,237,850 votes )	92.200%
Votes against : 36,073 votes ( 36,073 votes )	0.019%
Votes invalid : none	0.00%
Votes abstained : 14,885,436 votes ( 14,885,436 votes )	7.781%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.

**Case 4 : Approval of revision of the Procedures for Extending Loans to Others. ( proposed by the Board of Directors )**

Description: (1) In order to clarify the information, the term of loan is clearly stipulated as one year. The interest rate is based on the baseline and management response measures. Articles 6, 7, and 11 of the Company's Procedures for

Extending Loans to Others have been revised accordingly.

- (2) For the comparison table of the Company's Procedures for Extending Loans to Others before and after the revision, please refer to Attachment 6 on page 32 of the Proceedings Manual and ratify.

(Questions raised by the shareholders and the management's responses were omitted)

Voting Results :

Shares represented at the time of voting : 191,292,373

Voting Results*	% of the total represented share present
Votes in favor: : 176,343,429 votes ( 34,210,415 votes )	92.185%
Votes against : 38,168 votes ( 38,168 votes )	0.020%
Votes invalid : none	0.00%
Votes abstained : 14,910,776 votes ( 14,910,776 votes )	7.795%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.

**Case 5 :** Approved the revisions to the Endorsement and Guarantee Making Procedure. ( proposed by the Board of Directors )

Description: (1) In order to clarify the information, the external endorsement and guarantee limit for the Company and the Company and its subsidiaries as a whole has been clearly stipulated. Article 5 of the Company's Endorsement and Guarantee Making Procedure has been revised accordingly.

- (2) For the comparison table of the Company's Endorsement and Guarantee Making Procedure before and after the revision, please refer to Attachment 8 on page 32 of the Proceedings Manual and ratify.

(Questions raised by the shareholders and the management's responses were omitted)

Voting Results :

Shares represented at the time of voting : 191,292,373

Voting Results*	% of the total represented share present
Votes in favor: : 176,360,975 votes ( 34,227,961 votes )	92.194%
Votes against : 38,133 votes ( 38,133 votes )	0.020%
Votes invalid : none	0.00%
Votes abstained : 14,893,265 votes ( 14,893,265 votes )	7.786%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.

## VII - Extempore Motions :

(Questions raised by the shareholders and the management's responses were omitted)

There being no other business and special motion, upon a motion duly made and seconded, the meeting was adjourned.

## VIII - Meeting adjourned 9:50AM

# **Hsin Kuang Steel Co., Ltd.**

## **Business Report**

**Dear Shareholders,**

2020 was a turbulent year. First, the COVID-19 virus infected the entire world. All economic, transportation, and tourism activities were affected. As the weather became hotter, the pandemic gradually eased. At the beginning of the third quarter, prices for coking coal and iron ore started to rise, and continue to rise to this day. Therefore, the price of steel also rose in the second half of the year. The domestic construction industry was also driven by the return of Taiwanese businesses, resulting in the increase in demand for steel. The Company has weathered the fluctuations in the market and has achieved outstanding results in terms of revenue and profit through the efforts of our robust management team and CEOs of each profit center.

### **Financial Performance**

The Company's combined revenue for 2020 totaled NT\$ 9.85 billion, which was a NT\$1.37 billion and 16.16% increase from the NT\$8.48 billion of the previous year. The net operating profit totaled NT\$470 million, which was a NT\$568 million and 579.59% increase from the NT\$98 million from the previous year. The EPS was NT\$2.69, which was a NT\$2.29 and 587.18% increase from the NT\$0.39 from the previous year, representing excellent performance in revenue and profits.

In products sales, the Company's operating goal in 2020 was the sale of 436,000 metric tons of steel products and the combined sales of the year reached 425,000 metric tons. The achievement rate was 97.5%.

In income and expenditures, cash outflow in 2020 from business activities amounted to NT\$274 million, which mainly from the increase in accounts receivable in sales and the continuous procurement. Cash outflow for investment activities amounted to NT\$1.469 billion mainly due to the purchase of properties and investment in plants and equipment. Cash inflow for financing activities amounted to NT\$1.355 billion, mainly due to the increase of short-term capital needs, and adjustment of long-term and short-term loans to meet operational needs. The ending cash and cash equivalents balance of the period was NT\$709 million.

### **Annual Corporate Development**

The 2021 business strategies include the following:

1. Eliminate the three major causes for sluggish sales: Idealistic order scheduling, undiscovered long delays, and stagnant markets.
2. Review the inventory structure and adjust product combinations. Reduce the amount of low profit steels for which the market is declining.
3. Implement and execute ISO9001, 45001, 14001, 3834, EN1090, 5S, and TPM.

4. Utilize the group's strength by working together to support Apex offshore wind power, Hsin Hua Steel, and Hsin Ho Fa Metal.
5. Implement project management and subcontract operations.
6. Cultivate new customers, new markets, and emerging or developing industries.
7. Solar power site development team, color steel sheet sales team.
8. Create differentiation through value chain integration.

Based on the aforementioned strategies, we shall continue to implement the following four plans:

1. Develop a new Blue Ocean: Cultivate talent, optimize the inventory structure, integrate value chains, and expand overseas markets.
2. Strengthen business management: Cultivate regional talent, adopt value-oriented strategies for profit centers, develop relationships with direct customers and those with whom we have not conducted transactions in a long time, improve the capabilities of each cutting center, and integrate supply chains.
3. Strengthen manufacturing management system: Improve production efficiency, utilization rates, improve labor safety management, improve production quality, reduce the outflow of mixed materials, improve environmental management, and implement production and management resources of joint ventures.
4. Simplify corporate procedures: Introduce tags into the production system, analyze the CRM database system, improve procedures, fully update computer systems, and introduce ERP with the aim of increasing efficiency and reducing lead times.

The total annual sales goal of 2021 is set at 456,000 metric tons of steel. With the birth of the COVID-19 vaccines, many countries have invested capital and manpower to ease this pandemic in the foreseeable future, in order to revitalize the economy, manufacturing, business and travel, and people's lives around the world. Considering the continuing demand for Taiwanese businesses to return to Taiwan to build factories, the solar power industry continues to shine. The offshore wind power industry is also on the rise. These are all industries that the government has been actively promoting. We will fully cooperate with the policies and fight for business opportunities. Among the raw materials for these industries, steel accounts for an important part. As a steel logistics center, we are able to fully unleash our expertise. With the combination of our management capabilities and processing technology, we are confident that we will reach our operational goal of 456,000 tons this year.

## **Corporate Social Responsibility**

The Company is dedicated to establishing comprehensive corporate governance, steady operations and profits, as well as maintaining the balance between the interests of the environment, society, and all stakeholders.

The Company upholds ideals of sustainable development, such as environmental protection, clean energy, and space reuse. In 2020, the Company's commercial rooftop solar power generators provided 11,510,000 kWh of electricity, reducing CO2 emissions by nearly 5,858 metric tons,

which is equivalent to roughly 15 times the amount of CO<sub>2</sub> that can be absorbed by Da'an Forest Park. Over the years, we have reduced CO<sub>2</sub> emissions by nearly 19,801 metric tons which is equivalent to 51 times the amount of CO<sub>2</sub> that can be absorbed by Da'an Forest Parks.

The Company is focused on promoting green manufacturing, creating an inclusive workplace, cultivating talent, establishing a responsible supply chain, and caring for the disadvantaged. The Company will remain dedicated to doing its part as a corporate citizen and pursue a sustainable future.

## **Honors and Awards**

In 2020, the Company received the Silver Award in Manufacturing at the TCSA Taiwan Corporate Sustainability Awards awarded by the Taiwan Institute for Sustainable Energy for its achievements in corporate governance, sustainable development, and information disclosure.

## **Future Outlook**

Last year's business results were fruitful. These excellent achievements were the result of the collective efforts, field experience, hard work, learning and growth of knowledge, teamwork, and ambition of all colleagues. We will continue to work hard to improve our value chain integration services, increase our cooperation and mutual understanding, and bring our partners closer together. We will continue to cultivate new customers and new industries to create more valuable diversified sales. Through upstream, downstream, and cross-industry cooperation between the steel logistics, solar power related components, and wind power underwater component industries, we will reach new heights for the Company and welcome an excellent year of the ox.

Legal Representative:  
Alexander M.T.Su

Managerial Officer:  
Alexander M.T.Su

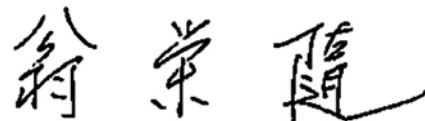
Chief Accounting Officer:  
Jessica P.H. Liu

## **Audit Committee's Report**

The Board of Directors has prepared and submitted the 2020 business report, financial statements, and earnings distribution proposal, of which the financial statements have been audited by Deloitte. These have been reviewed by the Audit Committee as correctly portraying the Company's business activities. In accordance with the Securities and Exchange Act and the Company Act, this report is submitted for shareholder's examination.

Hsin Kuang Steel Company Limited

Audit Committee Convener

Handwritten signature in black ink, consisting of three characters: 翁, 榮, 隨.

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March 16, 2021



## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Hsin Kuang Steel Company Limited

### **Opinion**

We have audited the accompanying consolidated financial statements of Hsin Kuang Steel Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the consolidated financial statements of the Group for the year ended December 31, 2020 are as follows:

#### Revenue recognition

The Group mainly engages in the sale, cutting, slitting, steel structure processing and logistics of various steel products. The Group's operating revenue for the year ended December 31, 2020 was NT\$9,852,311 thousand, an increase of 16% compared to the previous year, which was higher than the steel industry average. Customers with significant sales amount showing a growth trend have a significant impact on the financial statements; therefore, we identified the actual occurrence of the aforementioned sales transaction as a key audit matter.

Refer to Notes 4, and 23 to the consolidated financial statements for the accounting policies and related disclosures on revenue recognition.

We performed the following audit procedures in respect of the aforementioned revenue:

1. We obtained an understanding and tested the design and operating effectiveness of key controls over revenue recognition.
2. We selected samples from the sales ledger of the aforementioned revenue and verified against shipping reports and accounts receivable collections as evidence to ensure the existence of the transactions.
3. We analyzed the reasons and rationalities of the increase in sales from major customers.

#### **Other Matters**

We have also audited the parent company only financial statements of Hsin Kuang Steel Company Limited as of and for the years ended December 31, 2020 and 2019, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Sheng-Hsiung Yao and Jui-Na Chang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2021

#### Notice to Readers

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

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

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 709,443	4	\$ 1,099,161	7
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	1,956,292	10	1,349,571	8
Financial assets at amortized cost - current (Notes 4, 9 and 31)	80,159	-	61,113	-
Notes receivable from related parties (Notes 4, 5, 10 and 30)	36,699	-	44,465	-
Notes receivable from unrelated parties (Notes 4, 5, 10 and 31)	1,372,375	7	1,044,987	7
Trade receivables from related parties (Notes 4, 5, 10 and 30)	14,168	-	13,847	-
Trade receivables from unrelated parties (Notes 4, 5 and 10)	1,992,990	10	1,353,763	9
Prepayments	177,780	1	147,754	1
Inventories (Notes 4, 5 and 11)	3,849,230	19	3,435,128	21
Other current assets - other (Note 16)	29,165	-	47,827	-
<b>Total current assets</b>	<b>10,218,301</b>	<b>51</b>	<b>8,597,616</b>	<b>53</b>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	28,772	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 31)	2,666,221	14	1,767,897	11
Investments accounted for using the equity method (Notes 4 and 13)	578,258	3	575,743	4
Contract assets - non-current (Note 23)	2,762	-	-	-
Property, plant and equipment (Notes 4, 14 and 31)	5,294,370	27	3,887,599	24
Investment properties (Notes 4, 15 and 31)	963,590	5	984,659	6
Deferred tax assets (Notes 4 and 25)	64,565	-	47,405	-
Other non-current assets (Notes 5, 10 and 16)	76,434	-	226,972	2
<b>Total non-current assets</b>	<b>9,674,972</b>	<b>49</b>	<b>7,490,275</b>	<b>47</b>
<b>TOTAL</b>	<b>\$ 19,893,273</b>	<b>100</b>	<b>\$ 16,087,891</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 4 and 17)	\$ 5,441,820	27	\$ 4,743,264	29
Short-term bills payable (Notes 4 and 17)	179,879	1	469,737	3
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	118,652	1	41,855	-
Contract liabilities - current (Note 23)	212,678	1	149,488	1
Notes payable to unrelated parties (Notes 4 and 19)	391,119	2	263,903	2
Notes payable to related parties (Notes 4, 19 and 30)	505	-	608	-
Trade payables to unrelated parties (Notes 4 and 19)	155,018	1	48,280	-
Trade payables to related parties (Notes 4, 19 and 30)	62	-	-	-
Other payables (Notes 20 and 30)	274,791	1	110,636	1
Current tax liabilities (Notes 4 and 25)	84,877	-	11,182	-
Current portion of long-term borrowings and bonds payable (Notes 4, 17 and 18)	399,081	2	420,532	3
Other current liabilities - other	8,763	-	4,999	-
<b>Total current liabilities</b>	<b>7,267,245</b>	<b>36</b>	<b>6,264,484</b>	<b>39</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 4 and 17)	2,049,781	11	1,057,603	7
Long-term bills payable (Notes 4 and 17)	2,398,937	12	1,898,531	12
Provisions - non-current (Notes 4 and 13)	3,570	-	3,570	-
Deferred tax liabilities (Notes 4 and 25)	16,380	-	12,201	-
Net defined benefit liabilities - non-current (Notes 4 and 21)	25,695	-	27,048	-
Other non-current liabilities - other	30,235	-	13,668	-
<b>Total non-current liabilities</b>	<b>4,524,598</b>	<b>23</b>	<b>3,012,621</b>	<b>19</b>
<b>Total liabilities</b>	<b>11,791,843</b>	<b>59</b>	<b>9,277,105</b>	<b>58</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 22)</b>				
Share capital	3,082,226	16	3,106,877	19
Capital surplus	823,197	4	817,716	5
Retained earnings				
Legal reserve	869,380	4	858,883	6
Special reserve	108,259	1	43,567	-
Unappropriated earnings	2,065,739	10	1,565,297	10
<b>Total retained earnings</b>	<b>3,043,378</b>	<b>15</b>	<b>2,467,747</b>	<b>16</b>
Other equity	722,653	4	(108,260)	(1)
<b>Total equity attributable to owners of the Company</b>	<b>7,671,454</b>	<b>39</b>	<b>6,284,080</b>	<b>39</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>429,976</b>	<b>2</b>	<b>526,706</b>	<b>3</b>
<b>Total equity</b>	<b>8,101,430</b>	<b>41</b>	<b>6,810,786</b>	<b>42</b>
<b>TOTAL</b>	<b>\$ 19,893,273</b>	<b>100</b>	<b>\$ 16,087,891</b>	<b>100</b>

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

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 23 and 30)				
Sales	\$ 9,527,287	97	\$ 8,331,608	98
Other operating revenue	<u>325,024</u>	<u>3</u>	<u>146,177</u>	<u>2</u>
Total operating revenue	<u>9,852,311</u>	<u>100</u>	<u>8,477,785</u>	<u>100</u>
OPERATING COSTS				
Cost of goods sold (Notes 11, 24 and 30)	(8,810,213)	(90)	(8,253,950)	(97)
Other operating costs (Note 30)	<u>(229,402)</u>	<u>(2)</u>	<u>(47,274)</u>	<u>(1)</u>
Total operating costs	<u>(9,039,615)</u>	<u>(92)</u>	<u>(8,301,224)</u>	<u>(98)</u>
GROSS PROFIT	812,696	8	176,561	2
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	(1,264)	-	(682)	-
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	<u>682</u>	<u>-</u>	<u>900</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>812,114</u>	<u>8</u>	<u>176,779</u>	<u>2</u>
OPERATING EXPENSES				
Selling and marketing expenses (Note 24)	(207,334)	(2)	(159,341)	(2)
General and administrative expenses (Notes 24 and 30)	(135,054)	(1)	(80,309)	(1)
Expected credit gain/(loss) (Note 10)	<u>12</u>	<u>-</u>	<u>(35,029)</u>	<u>-</u>
Total operating expenses	<u>(342,376)</u>	<u>(3)</u>	<u>(274,679)</u>	<u>(3)</u>
PROFIT/(LOSS) FROM OPERATIONS	<u>469,738</u>	<u>5</u>	<u>(97,900)</u>	<u>(1)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 24 and 30)				
Interest income	496	-	1,008	-
Other income	69,491	-	80,936	1
Other gains and losses	492,724	5	301,719	4
Finance costs	(126,914)	(1)	(167,484)	(2)
Share of profit or loss of associates and joint ventures	<u>7,488</u>	<u>-</u>	<u>6,178</u>	<u>-</u>
Total non-operating income and expenses	<u>443,285</u>	<u>4</u>	<u>222,357</u>	<u>3</u>

(Continued)

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 913,023	9	\$ 124,457	2
INCOME TAX EXPENSE (Notes 4 and 25)	<u>(67,290)</u>	<u>-</u>	<u>(6,341)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>845,733</u>	<u>9</u>	<u>118,116</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME/(LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(225)	-	(631)	-
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	<u>836,244</u>	<u>8</u>	<u>(62,108)</u>	<u>(1)</u>
	<u>836,019</u>	<u>8</u>	<u>(62,739)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	<u>(5,344)</u>	<u>-</u>	<u>(2,591)</u>	<u>-</u>
Other comprehensive income/(loss) for the year, net of income tax	<u>830,675</u>	<u>8</u>	<u>(65,330)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,676,408</u>	<u>17</u>	<u>\$ 52,786</u>	<u>1</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 829,113	9	\$ 120,674	1
Non-controlling interests	<u>16,620</u>	<u>-</u>	<u>(2,558)</u>	<u>-</u>
	<u>\$ 845,733</u>	<u>9</u>	<u>\$ 118,116</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,659,801	17	\$ 55,351	1
Non-controlling interests	<u>16,607</u>	<u>-</u>	<u>(2,565)</u>	<u>-</u>
	<u>\$ 1,676,408</u>	<u>17</u>	<u>\$ 52,786</u>	<u>1</u>
EARNINGS PER SHARE (Note 26)				
From continuing operations				
Basic	<u>\$ 2.69</u>		<u>\$ 0.39</u>	
Diluted	<u>\$ 2.60</u>		<u>\$ 0.39</u>	

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

(Concluded)

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company										Total Equity	
	Share Capital			Other Equity								
				Number of Shares (In Thousands)	Amount	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translation of the Financial Statements of Foreign Operations		Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income
	Special Reserve	Legal Reserve										
BALANCE AT JANUARY 1, 2019	310,688	\$ 3,106,877	\$ 818,309	\$ 761,010	\$ -	\$ 2,067,794	\$ 2,214	\$ (45,782)	\$ -	\$ 6,710,422	\$ 524,707	\$ 7,235,129
Appropriation of 2018 earnings	-	-	-	97,873	-	(97,873)	-	-	-	-	-	-
Legal reserve	-	-	-	-	43,567	(43,567)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(466,032)	-	-	-	(466,032)	-	(466,032)
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(16,296)	(16,296)
Changes in percentage of ownership interests in subsidiaries	-	-	(593)	-	-	(1,302)	-	-	-	(1,895)	1,895	-
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(13,766)	-	-	-	(13,766)	-	(13,766)
Net profit for the year ended December 31, 2019	-	-	-	-	-	120,674	-	-	-	120,674	(2,558)	118,116
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(631)	(2,584)	(62,108)	-	(65,323)	(7)	(65,330)
Total comprehensive income/(loss) for the year ended December 31, 2019	-	-	-	-	-	120,043	(2,584)	(62,108)	-	55,351	(2,565)	52,786
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	-	18,965	18,965
BALANCE AT DECEMBER 31, 2019	310,688	3,106,877	817,716	858,883	43,567	1,565,297	(370)	(107,890)	-	6,284,080	526,706	6,810,786
Appropriation of 2019 earnings	-	-	-	10,497	-	(10,497)	-	-	-	-	-	-
Legal reserve	-	-	-	-	64,692	(64,692)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(248,550)	-	-	-	(248,550)	-	(248,550)
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(5,371)	(5,371)
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	-	(18,459)	-	-	-	(18,459)	18,459	-
Convertible bonds converted to ordinary shares	1,035	10,349	21,493	-	-	-	-	-	-	31,842	-	31,842
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(81,767)	(81,767)	-	(81,767)
Cancellation of treasury shares	(3,500)	(35,000)	(16,012)	-	-	(30,755)	-	-	81,767	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	44,507	-	-	-	44,507	-	44,507
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2020	-	-	-	-	-	829,113	-	-	-	829,113	16,620	845,733
Other comprehensive income/(loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	(225)	(5,331)	836,244	-	830,688	(13)	830,675
Total comprehensive income/(loss) for the year ended December 31, 2020	-	-	-	-	-	828,888	(5,331)	836,244	-	1,659,801	16,607	1,676,408
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(126,425)	(126,425)
BALANCE AT DECEMBER 31, 2020	308,223	\$ 3,082,226	\$ 823,197	\$ 869,380	\$ 108,259	\$ 2,065,739	\$ (5,701)	\$ 728,354	\$ -	\$ 7,671,454	\$ 429,976	\$ 8,101,430

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



# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 913,023	\$ 124,457
Adjustments for:		
Depreciation expense	159,179	108,256
Amortization expense	5,305	2,931
Expected credit loss (reversed)/recognized on trade receivables	(12)	35,029
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(406,646)	(88,666)
Finance costs	126,914	167,484
Interest income	(496)	(1,008)
Dividend income	(58,272)	(78,136)
Loss on disposal of property, plant and equipment	3,497	811
Loss on disposal of investment properties	887	-
Share of profit of associates and joint ventures	(7,488)	(6,178)
Reversal of write-downs of inventories	(99,714)	(14,415)
Unrealized gain on transactions with associates	1,264	682
Realized gain on transactions with associates	(682)	(900)
Net gain on foreign currency exchange	(13,616)	(66,025)
Decrease in net defined benefit liabilities	(1,633)	(1,486)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(123,402)	121,299
Contract assets	(2,762)	-
Notes receivable	(319,622)	231,191
Trade receivables	(645,407)	(134,093)
Other receivables	2,539	-
Inventories	(314,388)	636,321
Prepayments	(30,026)	10,473
Other current assets	26,129	(27,743)
Notes payable	127,113	(385,751)
Trade payables	106,504	(132,316)
Other payables	167,007	(57,475)
Contract liabilities	63,190	6,457
Current liabilities	3,764	1,701
Cash (used in)/generated from operations	(317,851)	452,900
Interest received	496	1,008
Dividends received	58,177	78,136
Income tax paid	(15,098)	(120,826)
Net cash (used in)/generated from operating activities	(274,276)	411,218
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(109,089)	(12,000)

(Continued)

# HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Proceeds from sale of financial assets at fair value through other comprehensive income	\$ 84,033	\$ 228,386
Purchase of financial assets at fair value through profit or loss	(27,853)	-
Proceeds from capital reduction and return of shares from financial assets at fair value through other comprehensive income	2,985	8,121
Purchase of financial assets at amortized cost	(19,046)	-
Proceeds from sale of financial assets at amortized cost	-	145,805
Payments for property, plant and equipment	(1,263,315)	(206,400)
Proceeds from disposal of property, plant and equipment	3,127	7,043
Payments for investment properties	403	1,400
Proceeds from disposal of investment properties	(577)	(3,513)
Increase in other non-current assets	(5,857)	(6,769)
Increase in prepayments for equipment	(136,861)	(334,784)
Dividends received from investees	3,860	3,204
(Increase)/decrease in refundable deposits	(950)	11,870
Net cash used in investing activities	<u>(1,469,140)</u>	<u>(157,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	16,183,152	15,039,975
Repayments of short-term borrowings	(15,464,813)	(17,192,060)
(Decrease)/increase in short-term bills payable	(290,000)	40,000
Proceeds from long-term borrowings	992,178	936,243
Repayments of long-term borrowings	-	(796,026)
Proceeds from long-term bills payable	500,000	1,900,000
Increase in guarantee deposits received	16,567	-
Interest paid	(119,621)	(177,084)
Dividends paid to non-controlling interests	(5,371)	(16,296)
Dividends paid to owners of the Company	(248,550)	(466,032)
Payments for buy-back of ordinary shares	(81,767)	-
(Decrease) increase in non-controlling interests	(126,425)	18,965
Net cash generated from (used in) financing activities	<u>1,355,350</u>	<u>(712,315)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(1,652)</u>	<u>(1,065)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(389,718)	(459,799)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,099,161</u>	<u>1,558,960</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 709,443</u>	<u>\$ 1,099,161</u>

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

(Concluded)

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Hsin Kuang Steel Company Limited

### **Opinion**

We have audited the accompanying financial statements of Hsin Kuang Steel Company Limited (the "Company"), which comprise the balance sheets as of December 31, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, 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.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters identified in the Company's financial statements for the year ended December 31, 2020 are as follows:

#### Revenue Recognition

The Company mainly engages in the sale, cutting, slitting, steel structure processing and logistics of various steel products. The Company's operating revenue for the year ended December 31, 2020 was NT\$9,870,098 thousand, an increase of 17% compared to the previous year, which was higher than the steel industry average. Customers with significant sales amount showing a growth trend have a significant impact on the financial statements; therefore, we identified the actual occurrence of the aforementioned sales transaction as a key audit matter.

Refer to Notes 4 and 22 to the financial statements for the accounting policies and related disclosures on revenue recognition.

We performed the following audit procedures in respect of the aforementioned revenue:

1. We obtained an understanding and tested the design and operating effectiveness of key controls over revenue recognition.
2. We selected samples from the sales ledger of the aforementioned revenue and verified against shipping reports and accounts receivable collections as evidence to ensure the existence of the transactions.
3. We analyzed the reasons and rationalities of the increase in sales from major customers.

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Sheng-Hsiung Yao and Jui-Na Chang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2021

Notice to Readers

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

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

# HSIN KUANG STEEL COMPANY LIMITED

## BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 522,481	3	\$ 906,531	6
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	1,167,584	6	728,466	5
Financial assets at amortized cost - current (Notes 4, 9 and 30)	76,736	-	55,684	-
Notes receivable from related parties (Notes 4, 5, 10 and 29)	36,699	-	44,465	-
Notes receivable from unrelated parties (Notes 4, 5, 10 and 30)	1,337,774	7	1,040,374	7
Trade receivables from related parties (Notes 4, 5, 10 and 29)	389,947	2	54,753	-
Trade receivables from unrelated parties (Notes 4, 5 and 10)	1,857,443	10	1,313,690	9
Inventories (Notes 4, 5 and 11)	3,492,055	18	3,337,743	21
Prepayments	101,584	-	109,809	1
Other current assets (Note 15)	22,838	-	41,372	-
Total current assets	9,005,141	46	7,632,887	49
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through profit or loss - non-current (Notes 4 and 7)	28,772	-	-	-
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 30)	2,580,780	13	1,677,957	11
Investments accounted for using the equity method (Notes 4 and 12)	2,240,995	12	2,073,493	13
Property, plant and equipment (Notes 4, 13, 29 and 30)	4,506,352	23	3,276,213	21
Investment properties (Notes 4, 14 and 30)	932,625	5	947,208	6
Deferred tax assets (Notes 4 and 24)	56,909	-	41,571	-
Other non-current assets (Notes 10 and 15)	59,775	1	56,030	-
Total non-current assets	10,406,208	54	8,072,472	51
<b>TOTAL</b>	<b>\$ 19,411,349</b>	<b>100</b>	<b>\$ 15,705,359</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 4 and 16)	\$ 5,301,362	27	\$ 4,688,264	30
Short-term bills payable (Notes 4 and 16)	179,879	1	469,737	3
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	118,652	1	41,755	-
Contract liabilities - current (Note 22)	149,236	1	141,910	1
Notes payable to unrelated parties (Notes 4 and 18)	373,696	2	254,763	2
Notes payable to related parties (Notes 4, 18 and 29)	1,030	-	608	-
Trade payables to unrelated parties (Notes 4 and 18)	146,292	1	45,499	-
Trade payables to related parties (Notes 4, 18 and 29)	5,781	-	1,299	-
Other payables (Notes 19 and 29)	239,655	1	91,511	-
Current tax liabilities (Notes 4 and 24)	81,027	-	-	-
Current portion of long-term borrowings and bonds payable (Notes 4, 16 and 17)	399,081	2	420,532	3
Other current liabilities - other (Note 29)	17,021	-	2,066	-
Total current liabilities	7,012,712	36	6,157,944	39
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 4 and 16)	1,799,781	9	807,603	5
Long-term bills payable (Notes 4 and 16)	2,398,937	12	1,898,531	12
Provisions - non-current (Note 4)	3,570	-	3,570	-
Deferred tax liabilities (Notes 4 and 24)	15,954	-	12,201	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	25,695	-	27,048	-
Other non-current liabilities - other (Note 29)	483,246	3	514,382	4
Total non-current liabilities	4,727,183	24	3,263,335	21
Total liabilities	11,739,895	60	9,421,279	60
<b>EQUITY (Notes 4 and 21)</b>				
Share capital	3,082,226	16	3,106,877	20
Capital surplus	823,197	4	817,716	5
Retained earnings				
Legal reserve	869,380	4	858,883	6
Special reserve	108,259	1	43,567	-
Unappropriated earnings	2,065,739	11	1,565,297	10
Total retained earnings	3,043,378	16	2,467,747	16
Other equity	722,653	4	(108,260)	(1)
Total equity	7,671,454	40	6,284,080	40
<b>TOTAL</b>	<b>\$ 19,411,349</b>	<b>100</b>	<b>\$ 15,705,359</b>	<b>100</b>

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

# HSIN KUANG STEEL COMPANY LIMITED

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 22 and 29)				
Sales	\$ 9,738,186	99	\$ 8,335,222	99
Other operating revenue	<u>131,912</u>	<u>1</u>	<u>78,443</u>	<u>1</u>
Total operating revenue	<u>9,870,098</u>	<u>100</u>	<u>8,413,665</u>	<u>100</u>
OPERATING COSTS				
Cost of goods sold (Notes 11, 23 and 29)	(9,018,321)	(91)	(8,210,795)	(98)
Other operating costs (Note 29)	<u>(22,748)</u>	<u>-</u>	<u>(27,340)</u>	<u>-</u>
Total operating costs	<u>(9,041,069)</u>	<u>(91)</u>	<u>(8,238,135)</u>	<u>(98)</u>
GROSS PROFIT	<u>829,029</u>	<u>9</u>	<u>175,530</u>	<u>2</u>
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	(99,184)	(1)	(682)	-
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES	<u>682</u>	<u>-</u>	<u>3,798</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>730,527</u>	<u>8</u>	<u>178,646</u>	<u>2</u>
OPERATING EXPENSES				
Selling and marketing expenses (Note 23)	(178,750)	(2)	(151,295)	(2)
General and administrative expenses (Notes 23 and 29)	(104,807)	(1)	(68,506)	(1)
Expected credit gain/(loss) (Note 10)	<u>12</u>	<u>-</u>	<u>(35,029)</u>	<u>-</u>
Total operating expenses	<u>(283,545)</u>	<u>(3)</u>	<u>(254,830)</u>	<u>(3)</u>
PROFIT/(LOSS) FROM OPERATIONS	<u>446,982</u>	<u>5</u>	<u>(76,184)</u>	<u>(1)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 23 and 29)				
Interest income	405	-	798	-
Other income	57,545	-	73,850	1
Other gains and losses	293,188	3	228,335	3
Finance costs	(121,326)	(1)	(161,553)	(2)
Share of profit or loss of subsidiaries, associates and joint ventures	<u>213,237</u>	<u>2</u>	<u>66,314</u>	<u>1</u>
Total non-operating income and expenses	<u>443,049</u>	<u>4</u>	<u>207,744</u>	<u>3</u>

(Continued)



# HSIN KUANG STEEL COMPANY LIMITED

## STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 890,031	9	\$ 131,560	2
INCOME TAX EXPENSE (Notes 4 and 24)	<u>(60,918)</u>	<u>(1)</u>	<u>(10,886)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>829,113</u>	<u>8</u>	<u>120,674</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME/(LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(225)	-	(631)	-
Unrealized gain/(loss) on investments in equity instruments at fair value through other comprehensive income	<u>836,244</u>	<u>9</u>	<u>(62,108)</u>	<u>(1)</u>
	<u>836,019</u>	<u>9</u>	<u>(62,739)</u>	<u>(1)</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of the financial statements of foreign operations	<u>(5,331)</u>	<u>-</u>	<u>(2,584)</u>	<u>-</u>
Other comprehensive income/(loss) for the year, net of income tax	<u>830,688</u>	<u>9</u>	<u>(65,323)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,659,801</u>	<u>17</u>	<u>\$ 55,351</u>	<u>1</u>
EARNINGS PER SHARE (Note 25)				
From continuing operations				
Basic	<u>\$ 2.69</u>		<u>\$ 0.39</u>	
Diluted	<u>\$ 2.60</u>		<u>\$ 0.39</u>	

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

(Concluded)

# HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)

	Share Capital		Retained Earnings			Other Equity			Treasury Shares	Total Equity
	Number of Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income		
BALANCE AT JANUARY 1, 2019	310,688	\$ 3,106,877	\$ 818,309	\$ 761,010	\$ -	\$ 2,067,794	\$ 2,214	\$ (45,782)	\$ -	\$ 6,710,422
Appropriation of 2018 earnings	-	-	-	97,873	-	(97,873)	-	-	-	-
Legal reserve	-	-	-	-	43,567	(43,567)	-	-	-	-
Special reserve	-	-	-	-	-	(466,032)	-	-	-	(466,032)
Cash dividends distributed by the Company	-	-	(593)	-	-	(1,302)	-	-	-	(1,895)
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	(13,766)	-	-	-	(13,766)
Net profit for the year ended December 31, 2019	-	-	-	-	-	120,674	-	-	-	120,674
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(631)	(2,584)	(62,108)	-	(65,323)
Total comprehensive income/(loss) for the year ended December 31, 2019	-	-	-	-	-	120,043	(2,584)	(62,108)	-	55,351
BALANCE AT DECEMBER 31, 2019	310,688	3,106,877	817,716	858,883	43,567	1,565,297	(370)	(107,890)	-	6,284,080
Appropriation of 2019 earnings	-	-	-	10,497	-	(10,497)	-	-	-	-
Legal reserve	-	-	-	-	64,692	(64,692)	-	-	-	-
Special reserve	-	-	-	-	-	(248,550)	-	-	-	(248,550)
Cash dividends distributed by the Company	-	-	-	-	-	(18,459)	-	-	-	(18,459)
Changes in percentage of ownership interests in subsidiaries	-	-	-	-	-	-	-	-	-	-
Convertible bonds converted to ordinary shares	1,035	10,349	21,493	-	-	-	-	-	-	31,842
Buy-back of ordinary shares	-	-	-	-	-	-	-	-	(81,767)	(81,767)
Cancellation of treasury shares	(3,500)	(35,000)	(16,012)	-	-	(30,755)	-	-	81,767	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	44,507	-	-	-	44,507
Net profit for the year ended December 31, 2020	-	-	-	-	-	829,113	-	-	-	829,113
Other comprehensive income/(loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	(225)	(5,331)	836,244	-	830,688
Total comprehensive income/(loss) for the year ended December 31, 2020	-	-	-	-	-	828,888	(5,331)	836,244	-	1,659,801
BALANCE AT DECEMBER 31, 2020	308,223	\$ 3,082,226	\$ 823,197	\$ 869,380	\$ 108,259	\$ 2,065,739	\$ (5,701)	\$ 728,354	\$ -	\$ 7,671,454

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

# HSIN KUANG STEEL COMPANY LIMITED

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 890,031	\$ 131,560
Adjustments for:		
Depreciation expense	86,945	83,354
Amortization expense	2,937	1,826
Expected credit loss (reversed)/recognized on trade receivables	(12)	35,029
Net gain on fair value changes of financial assets and liabilities at fair value through profit or loss	(212,569)	(14,832)
Finance costs	121,326	161,553
Interest income	(405)	(798)
Dividend income	(45,793)	(70,688)
Loss on disposal of property, plant and equipment	3,444	518
Loss on disposal of investment property	887	-
Share of profit of subsidiaries, associates and joint ventures	(213,237)	(66,314)
Reversal of write-downs of inventories	(99,163)	(12,056)
Unrealized gain on transactions with associates	99,184	682
Realized gain on transactions with associates	(682)	(3,798)
Net gain on foreign currency exchange	(11,462)	(66,420)
Decrease in net defined benefit liabilities	(1,633)	(1,486)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(149,776)	209,106
Notes receivable	(289,634)	224,211
Trade receivables	(884,806)	(132,346)
Inventories	(55,149)	701,488
Prepayments	8,225	34,830
Other current assets	28,540	(28,171)
Notes payable	119,355	(394,791)
Trade payables	104,978	(133,680)
Other payables	151,388	(53,188)
Contract liabilities	7,326	(1,120)
Other current liabilities	(405)	542
Cash (used in)/generated from operations	(340,160)	605,011
Interest received	405	798
Dividends received	45,699	70,688
Income tax paid	-	(111,291)
Net cash (used in)/generated from operating activities	(294,056)	565,206
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(109,089)	(12,000)
Proceeds from sale of financial assets at fair value through other comprehensive income	84,033	228,386

(Continued)

# HSIN KUANG STEEL COMPANY LIMITED

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	2020	2019
Purchase of financial assets at fair value through profit or loss	\$ (27,853)	\$ -
Proceeds from capital reduction and return of shares from financial assets at fair value through other comprehensive income	2,985	8,121
Purchase of financial assets at amortized cost	(21,052)	-
Proceeds from disposal of financial assets at amortized cost	-	60,992
Acquisition of long-term equity investments accounted for using the equity method	(95,883)	(17,675)
Payments for property, plant and equipment	(1,236,872)	(171,098)
Proceeds from disposal of property, plant and equipment	2,927	7,043
Proceeds from disposal of investment properties	403	1,400
Payments for investment properties	-	(3,000)
Increase in other non-current assets	(3,900)	(1,837)
Increase in prepayments for equipment	(75,122)	(17,212)
Dividends received from investees	17,993	32,908
Increase in refundable deposits	(950)	(11,858)
Net cash (used in)/generated from investing activities	<u>(1,462,380)</u>	<u>104,170</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	15,803,493	14,842,199
Repayments of short-term borrowings	(15,172,766)	(16,962,430)
(Decrease)/increase in short-term bills payable	(290,000)	40,000
Proceeds from long-term borrowings	992,178	689,182
Repayments of long-term borrowings	-	(610,526)
Proceeds from long-term bills payable	500,000	1,900,000
Decrease in guarantee deposits received	(15,777)	-
Interest paid	(114,425)	(173,937)
Dividends paid	(248,550)	(466,032)
Payments for buy-back of ordinary shares	(81,767)	-
Net cash generated from/(used in) financing activities	<u>1,372,386</u>	<u>(741,544)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(384,050)	(72,168)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>906,531</u>	<u>978,699</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 522,481</u>	<u>\$ 906,531</u>

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

(Concluded)

**【Attachment 5】**

**Hsin Kuang Steel Co., Ltd.  
Earnings distribution statement  
2020**

Unit: NT\$

Item	Amount	
	Subtotal	Total
Retained undistributed earnings carried over from the previous year		1,241,556,428
Minus: Actuarial losses on defined benefit plan (2020)	(224,854)	
Minus: Changes in equity of ownership of subsidiaries	(18,459,259)	
Minus: Losses from the cancellation of treasury stocks	(30,755,033)	
Plus: Disposal of equity instruments at fair value through other comprehensive income	44,507,538	
Plus: Special surplus reserve	108,259,704	
Plus: Net profit after tax of current year	829,113,311	932,441,407
Appropriated items		
Statutory surplus reserve (10%)	(82,418,170)	(82,418,170)
Distributable earnings of the current year		2,091,579,665
Distribution items		
Shareholder cash dividends - NT\$1.50 per share	(462,386,304)	(462,386,304)
Retained undistributed earnings in this year		1,629,193,361

- (1). The Company shall distribute shareholder dividends totaling NT\$462,386,304 this year with cash dividends of NT\$1.50 per share. After the approval of the shareholders' cash and stock dividends proposal by the general shareholders meeting, the Board of Directors shall be authorized to decide the record date for distribution.
- (2). For this period's motion to distribute dividends to shareholders, the dividend will be calculated to the amount of one whole NTD, and any decimal point below one NTD will be rounded down. Shares below one NTD will be adjusted from the largest decimal place, until the total amount of dividend for shareholders has been distributed.
- (3). In the event that the number of shares outstanding are affected by changes in the Company's share capital, making it necessary to revise the shareholder's cash dividend rate as a result, the shareholders' meeting is requested to authorize the Board of Directors or individuals authorized by the Board of Directors to handle such revision at its full discretion.
- (4). The 2020 earnings shall be prioritized for the Company's earnings distribution.

**[Attachment 6]**

**Hsin Kuang Steel Company Limited**

**Table of Comparison of Revised Articles of the "Procedures for Extending Loans to Others"**

The 11th amendment was on December 22, 2020

<b>Revised content (underlined)</b>	<b>Original content</b>	<b>Description</b>
<p>Article 6 Term of Loan</p> <p>The term of each loan of the Company <u>shall not exceed one year.</u></p> <p><u>The lending between the Company and its subsidiaries or between its subsidiaries shall be submitted to the Board for approval pursuant to the preceding paragraph. After the Board's approval, the Board may authorize the Chairman of the Board to lend the same party in installments or as revolving loan within the specific amount and the period not exceeding one year, as approved by the Board.</u></p>	<p>Article 6 Term of Loan</p> <p>In principle, the term of the Company's loans is one year (inclusive). In case of special circumstances, the financing period may be extended depending on the actual situation and after it is approved by the Board of Directors.</p>	<p>Clearly stipulate that the term of loans is limited to one year.</p>
<p>Article 7 Interest calculation method</p> <p><u>The interest rate of the Company's loans is adjusted according to the Company's capital costs. However, it must not be lower than the highest interest rate of the Company's short-term borrowing from regular financial institutions at the time of the loan. Interest is calculated on a monthly basis.</u></p>	<p>Article 7 Interest calculation method</p> <p>The Company's loan extension interest rate shall be a floating interest rate based on the <u>average baseline interest rate of the five major banks announced by the Central Bank.</u> As a principle, the Company shall collect loan interest on a monthly basis.</p> <p>In the event of special conditions, adjustments may be provided with the approval of the Board of Directors.</p>	<p>Clearly stipulate baselines for loans and interest rates.</p>

Revised content (underlined)	Original content	Description
<p>Article 11 Follow-up control measures for lent funds and procedures for handling non-performing loans and delinquent debtors</p> <p>I. After a loan has been drawn, the Company shall constantly monitor the finance, business and relevant credit status of the Borrower and the guarantor frequently. <u>In the event of overdue debt that cannot be recovered after collection, the Accounting Department shall notify the Administrative Services Department immediately to take further collection actions, in order to protect the Company's rights and interests.</u></p> <p>II. When the Borrower repays the loan on or before the maturity date, guaranteed notes shall not be returned to the Borrower and mortgages shall not be released unless the Borrower has repaid the full amount of the principal together with accrued interest.</p> <p>III. <u>Except for land and marketable securities, collateral shall be insured against fire and vehicles shall be fully insured. In principle, the insured amount shall not be less than the collateral's replacement cost. The policy shall list the Company as the beneficiary. The name, quantity, storage location, and policy conditions of the object listed on the policy shall match the original approved loan conditions of the Company.</u></p>	<p>Article 11 Follow-up control measures for lent funds and procedures for handling non-performing loans and delinquent debtors</p> <p>I. After a loan has been drawn, the Company shall constantly monitor the finance, business and relevant credit status of the Borrower and the guarantor from time to time. If any collateral is provided, the Company shall monitor changes in the value of the collateral. When a major change occurs, it shall be reported to the chairman immediately and appropriate handling procedures shall be implemented as instructed.</p> <p>II. When the Borrower repays the loan on or before the maturity date, guaranteed notes shall not be returned to the Borrower and mortgages shall not be released unless the Borrower has repaid the full amount of the principal together with accrued interest.</p> <p>III. When the loan expires, the borrower shall pay off the principal and interest immediately. For those who are unable to repay the loan and require an extension, the request must be made in advance and approved by the Board of Directors. Each repayment extension shall not exceed six months and can only be applied for once. The collateral or the guarantor of violators will be dealt with and recovered in accordance with the law by the Company.</p>	<p>Clearly stipulate management response measures</p>
<p>Article 19 Revision Date</p> <p>The Procedures were <u>passed in the shareholders' meeting on June 11, 2021.</u></p> <p>The 1st amendment was on May 26, 1994.  The 2nd amendment was on April 15, 1995.  The 3rd amendment was on May 21, 2002.  The 4th amendment was on February 18, 2003.  The 5th amendment was on March 21, 2006.  The 6th amendment was on July 14, 2006.  The 7th amendment was on August 1, 2008.  The 8th amendment was on March 1, 2009.  The 9th amendment was on March 12, 2013.  The 10th amendment was on March 19, 2019.  The 11th amendment was on December 22, 2020.</p>	<p>Article 19 Revision Date</p> <p>The Procedures were passed in the shareholders' meeting on June 11, 2019.</p> <p>The 1st amendment was on May 26, 1994.  The 2nd amendment was on April 15, 1995.  The 3rd amendment was on May 21, 2002.  The 4th amendment was on February 18, 2003.  The 5th amendment was on March 21, 2006.  The 6th amendment was on July 14, 2006.  The 7th amendment was on August 1, 2008.  The 8th amendment was on March 1, 2009.  The 9th amendment was on March 12, 2013.  The 10th amendment was on March 19, 2019.</p>	

[Attachment 7]

## Hsin Kuang Steel Company Limited

### Table of Comparison of Revised Articles of the "Endorsement and Guarantee Making Procedure"

The 8th amendment was on December 22, 2020

Revised content (underlined)	Original content	Description
<p>Article 5 External endorsement and guarantee limit for the <u>Company and the Company and its subsidiaries as a whole</u> and evaluation standard</p> <p>The total amount of the external endorsements and guarantees of the <u>Company and the Company and its subsidiaries as a whole</u> and the limit to a single enterprise are as follows:</p> <p>I. The total amount of external endorsements and guarantees of the <u>Company and the Company and its subsidiaries as a whole</u> shall not exceed 10% of the Company's net value.</p> <p>II. Regulation related to the amount for endorsements/guarantees to a single enterprise:</p> <ol style="list-style-type: none"> <li>1. If the Company engages in endorsements/guarantees as a parent company or subsidiary, it shall not exceed 5% of the Company's net value.</li> <li>2. Mutual endorsements/guarantees for industry peers or co-builders for purposes of undertaking a contracted project shall not exceed 5% of the Company's net value.</li> <li>3. <u>The value of the total endorsements and guarantees for a single enterprise of the Company and its subsidiaries shall not exceed 5% of the company's net value.</u></li> </ol> <p>Net value refers to the owner's equity of the parent company based on the most recent balance sheet prepared according to the Regulations Governing the Preparation of Financial Reports by Securities Issuers certified by the accountant.</p> <p>A subsidiary company refers to a company in which the Company directly and indirectly holds more than 50 percent of the voting shares and retains actual business management controlling rights.</p> <p>The "actual business management controlling rights" means that the chairman of the board, general manager, and financial officer of the controlled company are assigned by the Company.</p> <p>"Contracted project" refers to a construction contract in which the proportion of the Company's contracted parts exceed 50% and the Company retains leadership and controlling rights over all related affairs of the project.</p>	<p>Article 5 Endorsement and guarantee limit and evaluation standard</p> <p>The total amount of the Company's external endorsements and guarantees and the limit to a single enterprise are as follows:</p> <p>I. The total amount of external endorsements and guarantees shall not exceed 10% of the Company's net value.</p> <p>II. Regulation related to the amount for endorsements/guarantees to a single enterprise:</p> <ol style="list-style-type: none"> <li>1. If the Company engages in endorsements/guarantees as a parent company or subsidiary, it shall not exceed 5% of the Company's net value.</li> <li>2. Mutual endorsements/guarantees for industry peers or co-builders for purposes of undertaking a contracted project shall not exceed 5% of the Company's net value.</li> </ol> <p>Net value refers to the owner's equity of the parent company based on the most recent balance sheet prepared according to the Regulations Governing the Preparation of Financial Reports by Securities Issuers certified by the accountant.</p> <p>A subsidiary company refers to a company in which the Company directly and indirectly holds more than 50 percent of the voting shares and retains actual business management controlling rights.</p> <p>The "actual business management controlling rights" means that the chairman of the board, general manager, and financial officer of the controlled company are assigned by the Company.</p> <p>"Contracted project" refers to a construction contract in which the proportion of the Company's contracted parts exceed 50% and the Company retains leadership and controlling rights over all related affairs of the project.</p>	



Revised content (underlined)	Original content	Description
<p>Article 5 External endorsement and guarantee limit for the <u>Company and the Company and its subsidiaries as a whole</u> and evaluation standard</p> <p>The total amount of the external endorsements and guarantees of the Company and <u>the Company and its subsidiaries as a whole</u> and the limit to a single enterprise are as follows:</p> <p>I. The total amount of external endorsements and guarantees of <u>the Company and the Company and its subsidiaries as a whole</u> shall not exceed 10% of the Company's net value.</p> <p>II. Regulation related to the amount for endorsements/guarantees to a single enterprise:</p> <p>1. If the Company engages in endorsements/guarantees as a parent company or subsidiary, it shall not exceed 5% of the Company's net value.</p> <p>2. Mutual endorsements/guarantees for industry peers or co-builders for purposes of undertaking a contracted project shall not exceed 5% of the Company's net value.</p> <p>3. <u>The value of the total endorsements and guarantees for a single enterprise of the Company and its subsidiaries shall not exceed 5% of the company's net value.</u></p> <p>Net value refers to the owner's equity of the parent company based on the most recent balance sheet prepared according to the Regulations Governing the Preparation of Financial Reports by Securities Issuers certified by the accountant.</p> <p>A subsidiary company refers to a company in which the Company directly and indirectly holds more than 50 percent of the voting shares and retains actual business management controlling rights.</p> <p>The "actual business management controlling rights" means that the chairman of the board, general manager, and financial officer of the controlled company are assigned by the Company.</p> <p>"Contracted project" refers to a construction contract in which the proportion of the Company's contracted parts exceed 50% and the Company retains leadership and controlling rights over all related affairs of the project.</p>	<p>Article 5 Endorsement and guarantee limit and evaluation standard</p> <p>The total amount of the Company's external endorsements and guarantees and the limit to a single enterprise are as follows:</p> <p>I. The total amount of external endorsements and guarantees shall not exceed 10% of the Company's net value.</p> <p>II. Regulation related to the amount for endorsements/guarantees to a single enterprise:</p> <p>1. If the Company engages in endorsements/guarantees as a parent company or subsidiary, it shall not exceed 5% of the Company's net value.</p> <p>2. Mutual endorsements/guarantees for industry peers or co-builders for purposes of undertaking a contracted project shall not exceed 5% of the Company's net value.</p> <p>Net value refers to the owner's equity of the parent company based on the most recent balance sheet prepared according to the Regulations Governing the Preparation of Financial Reports by Securities Issuers certified by the accountant.</p> <p>A subsidiary company refers to a company in which the Company directly and indirectly holds more than 50 percent of the voting shares and retains actual business management controlling rights.</p> <p>The "actual business management controlling rights" means that the chairman of the board, general manager, and financial officer of the controlled company are assigned by the Company.</p> <p>"Contracted project" refers to a construction contract in which the proportion of the Company's contracted parts exceed 50% and the Company retains leadership and controlling rights over all related affairs of the project.</p>	
<p>Article 16 Revision Date</p> <p>The Procedures were <u>passed in the shareholders' meeting on June 11, 2021.</u></p> <p>The 1st amendment was on May 26, 1994.</p> <p>The 2nd amendment was on February 18, 2003.</p> <p>The 3rd amendment was on March 21, 2006.</p> <p>The 4th amendment was on August 1, 2008.</p> <p>The 5th amendment was on March 1, 2009.</p> <p>The 6th amendment was on March 12, 2013.</p> <p>The 7th amendment was on March 19, 2019.</p> <p><u>The 8th amendment was on December 22, 2020.</u></p>	<p>Article 16 Revision Date</p> <p>The Procedures were passed in the shareholders' meeting on June 11, 2019.</p> <p>The 1st amendment was on May 26, 1994.</p> <p>The 2nd amendment was on February 18, 2003.</p> <p>The 3rd amendment was on March 21, 2006.</p> <p>The 4th amendment was on August 1, 2008.</p> <p>The 5th amendment was on March 1, 2009.</p> <p>The 6th amendment was on March 12, 2013.</p> <p>The 7th amendment was on March 19, 2019.</p>	Revised wording

**Hsin Kuang Steel Company  
Limited  
Rules of Procedure for the Shareholders'  
Meeting**

Article1 : To establish a strong governance system and sound supervisory capabilities for the Company's shareholders meetings, and to strengthen management capabilities, these Rules are adopted pursuant to Article 5 of the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.

Unless otherwise specified by law or Articles of Incorporation, the Company shall proceed its shareholders' meetings according to the terms of this policy.

Unless otherwise specified by law or Articles of Incorporation, shareholders' meetings are convened by the board of directors.

Election or dismissal of Directors or Supervisors, amendments to the Articles of Incorporation, the dissolution, merger, or demerger of the Company, any matter under Article 185, Paragraph 1 of the Company Act, and Articles 26-1 and 43-6 of the Securities and Exchange Act or Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out in the notice of the reasons for convening the shareholders meeting. None of the above matters may be raised through an extempore motion.

Article2 : Shareholders attending the meeting in person (or their proxies) shall wear attendance and present badges and shall submit sign-in cards in lieu of signing in. The Company's weight of share ownership in attendance shall be based on the weight of share ownership in the submitted sign-in cards, plus the weight of share ownership exercised via electronic voting.

The shareholders referred to in the Rules shall be based on the records in the Company's list of shareholders.

Article3 : Each shareholder of the Company shall be entitled to one vote for each share held, except when the shares are restricted shares or are deemed non-voting shares under Article 179, Paragraph 2 of the Company Act. The votes that may be cast by one proxy representing two or more shareholders shall not exceed three percent of the votes of total shares issued; any votes in excess of that limit shall not be counted. The related regulations in Article 177, Article 177-1, and Article 177-2 of the Company Act shall apply mutatis mutandis to the Company's regulations on attendance of proxies of shareholders, the exercise of voting rights, and expression of opinions.

Votes in a shareholders' meeting are determined by the number of shares represented during the meeting.

Except in the exercise of voting rights for electing Directors and Supervisors, when a shareholder is an interested party in relation to an agenda item, and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder.

Article4 : Shareholders in attendance are obligated to follow the rules of the meeting, accept the resolution, and maintain the order of the meeting.

Article5 : Unless otherwise specified in these Rules, shareholder meetings shall be convened by the Board of Directors and chaired by the Chairman. If the Chairman is unable to perform such duties due to leave of absence or any other reason, the Chairman shall appoint one of the directors to act on the Chairman's behalf. If no delegate is appointed by the Chairman, one shall be elected from among the directors to act on the Chairman's behalf. If a shareholders meeting is convened by someone having the right to convene a meeting, but who is not a member of the Board of Directors, the said person shall chair the meeting. If more than one person has the right to convene the meeting, one shall be elected to chair the meeting.

Article6 : The Company may designate retained lawyers, certified public accountants or relevant personnel to attend the shareholders' meeting.

It is advisable that shareholders meetings convened by the Board of Directors be attended by a majority of the Directors and at least one Supervisor who attends the meeting in person. The attendance records shall be included in the meeting minutes of the shareholders meeting.

Organizers of the meeting must wear proper identification or arm badges.

Article7 : The Company shall record the whole course of the shareholders' meeting on audio tape or video tape, and shall keep the tapes on file for at least one year.

- Article8 : The chair shall announce the commencement of the meeting when the scheduled time arrives. If the number of shareholders present represents less than half of all voting rights, the chair may postpone the meeting. A meeting may be postponed twice for a combined maximum of thirty minutes (the first postponement shall be twenty minutes and the second postponement shall be ten minutes). If after two postponements the number of shareholders present is still insufficient while representing at least one third of the total issued shares, provisional resolutions may be adopted in accordance with Article 175 Paragraph 1 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent the legal required number of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of the Company Act.
- Article9 : Agenda of a shareholders meeting called by the board shall be decided by the board. The meeting shall proceed according to the agenda unless changed by a shareholders meeting resolution. If the shareholders' meeting is convened by someone entitled to convene such a meeting but who is not a member of the Board of Directors, the rules of the preceding paragraph shall apply *mutatis mutandis*. Unless otherwise resolved at the meeting, the chairman may not announce adjournment of the meeting before all the discussion items (including special motions) listed in the agenda are resolved. The shareholders cannot designate any other person as chairman and continue the Meeting in the same or another place after the Meeting is adjourned.
- Article10 : When a meeting is in progress, the chair may announce a break based on time considerations. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed, or a resolution may be passed in the shareholders meeting to reconvene the meeting within five days without requiring service of notice or public announcement in accordance with Article 182 of the Company Act.
- Article11 : When a shareholder (or proxy) present at the meeting wishes to speak, a Speech Note shall be filled out with summary of the speech, the shareholder's number (or the number on their attendance card) and the name of the shareholder. The sequence of speeches by shareholders shall be decided by the chair. A shareholder (or proxy) present at the meeting that merely submits a statement slip without speaking is considered not to have spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. Unless given consent by the chair and the speaking shareholder (or proxy), other shareholders may not speak to interrupt when a shareholder is speaking; otherwise the chair shall stop the interruption.

Article12 : Unless permitted by the chair, no shareholder may speak more than twice regarding the same proposal (including extempore motions), and shall not speak for more than five minutes each time.

If a shareholder violates the rules outlined in the preceding paragraph, goes beyond the scope of proposals in speaking, or affect the order of the meeting, the chair may stop him/her from speaking.

Article13 : An institutional shareholder may assign only one proxy representative to attend the meeting on its behalf. In the event an institutional shareholder assigns two or more representatives to attend the shareholders' meeting, only one of the representatives may speak on any single agenda item.

Article14 : After a shareholder present at the meeting speaks, the chair may reply in person or assign relevant personnel to reply.

Article15 : The chair may announce to discontinue further discussions if the agenda is considered to have been sufficiently discussed to proceed with the voting.

Article16 : The chair shall appoint personnel to monitor or count the votes. The individuals monitoring the votes, however, shall be the shareholders of the Company. Ballot counting will proceed openly during the meeting. The outcome of the vote must be documented and announced on site.

Article17 : Except for special resolutions otherwise provided by the Company Act or the Articles of Incorporation, a proposal shall be approved by the consent of more than half of the votes of shares represented by shareholders present. If the voting method has been decided as a non-ballot vote prior to the vote and the chair has inquired whether there are any objections, the proposal shall be deemed as passed with the same validity as a ballot vote.

At the time of a vote, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders for each proposal. The shareholder shall vote on each proposal and the results of shareholders' agreement, objection, and abstention shall be input on the Market Observation Post System.

Article18 : A shareholder holding one percent or more of the total number of outstanding shares of the Company may submit to the company a written proposal for discussion at a general shareholders meeting within the period for accepting shareholders' proposals announced by the Company. Each shareholder may only submit one proposal. A shareholder who submits more than one proposal or a proposal with over 300 words shall not be included in the agenda. In addition, when the circumstances of any subparagraph of Article 172-1, Paragraph 4 of the Company Act apply to a proposal put forward by a shareholder, the Board of Directors may exclude it from the agenda.

The announced period of acceptance of shareholder proposals, the location and time period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

Prior to the date for issuance of notice of a shareholders meeting, the Company shall inform the shareholders who submitted proposals of the proposal screening results, and shall list in the meeting notice the proposals that conform to the acceptance regulations. At the shareholders meeting the Board of Directors shall explain the reasons for exclusion of any shareholder proposals not included in the agenda.

Where there is an amendment or an alternative for a proposal, the chair shall determine the order in which they are to be voted on with the original proposal. If any of these proposals is approved, alternative proposals shall be treated as rejected and not be voted on separately.

Article19 : The chair may instruct the Proctor (or security personnel) to assist in maintaining order in the meeting venue. While maintaining order in the meeting, all Proctors or security staff must wear arm bands which identify their roles as "Proctor."

At the place of a shareholders meeting, if a shareholder attempts to speak through any device other than the public address equipment set up by the Company, the chair may prevent the shareholder from so doing.

When a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct the Proctors (or security personnel) to escort the shareholder from the meeting.

Article20 : All matters not provided by these Rules herein shall be handled in accordance with the Company Act, relevant laws and regulations, as well as the Articles of Incorporation.

Article21 : These Rules shall come into force after a resolution in the Board of Directors meeting and on the approval of the shareholders' meeting. The same procedures shall apply for future amendments.

Article22 : Revision Date

The Procedures were passed in the shareholders' meeting on June 15, 2016.

The 1st amendment was on May 26, 1994.

The 2nd amendment was on June 13, 1997.

The 3rd amendment was on May 21, 2002.

The 4th amendment was on April 27, 2004.

The 5th amendment was on March 21, 2006.

# **Hsin Kuang Steel Company Limited**

## **Articles of Incorporation**

### **Chapter 1 General Provisions**

Article 1 : The Company is constituted in accordance with the Company Act, and shall be known as "Hsin Kuang Steel Company Limited."

Article 2 : The business items operated by the Company are as follows:

- (1). CA01050 Iron and Steel Rolling, Drawing, and Extruding.
- (2).CA02010 Manufacture of Metal Structure and Architectural Components.
- (3).CA02060 Manufacture of Metal Containers.
- (4).CA02990 Manufacture of Other Fabricated Metal Products.
- (5).F111090 Wholesale of Construction Materials.
- (6).F106010 Wholesale of Ironware.
- (7).F206010 Retail Sale of Ironware.
- (8).F211010 Retail Sale of Construction Materials.
- (9).F401010 International Trade.
- (10).G801010 Warehousing and Storage.
- (11).H701010 Residence and Buildings Lease Construction and Development.
- (12).H703100 Real Estate Rental and Leasing.
- (13).IZ06010 Cargoes Packaging.
- (14).JE01010 Rental and Leasing Activities.
- (15).ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 3 : The Company's head office is established at New Taipei City. Where necessary the Company may establish branches at appropriate domestic or overseas locations, subject to resolution by its Board of Directors.

Article 4 : Public announcements of the Company shall be made in accordance with the Company Act and other relevant rules and regulations.

### **Chapter 2 Shares**

Article 5 : The Company's registered capital is NT\$3.6 billion, divided into 360 million shares with a face value of NT\$10 per share. Stock options of 20 million shares are set aside for employee subscription. The Board of Directors is authorized to issue the remainder in multiple installments.

Before issuing any employee stock options at a strike price which is lower than the closing price of the Company's common stocks on the date of issuance, the Company should firstly obtain the agreement of at least two-thirds of the voting rights present at the shareholders meeting attended by shareholders representing a majority of total issued shares.

Transfer of shares to employees at prices below the Company's average purchase price are subject to shareholders' meeting resolution and must be resolved with the presence of shareholders representing more than half of outstanding shares, and voted in favor by more than two-thirds of votes present in the meeting.

Article 6 : The Company's stocks shall be registered, and signed or sealed by the Director that represents the Company. The stocks shall be issued after the proper certification procedures in accordance with the law.

Registered share certificates issued by the Company are not required to be printed. The Company, however, should contact the securities depository and custodian institution for registration of the share certificates.

Article 7 : Title transfer of stocks shall be not be allowed within sixty days before the general shareholders meeting is held, within thirty days before an extraordinary shareholders meeting is held, or within five days before the base date for distribution of stock dividends and bonuses or other benefits determined by the Company.

Article 8 : Unless otherwise specified by law, all stock-related affairs including transfer, creation of pledge, reporting of loss, transfer via inheritance, transfer via gift, application for lost or change of the specimen chop shall be handled according to "Regulations Governing the Administration of Shareholder Services of Public Companies."

### **Chapter 3 Shareholder's Meeting**

Article 9 : Shareholders meetings include general meetings and special meetings. Unless otherwise provided in regulations, the shareholders' meeting shall be convened by the Board of Directors in accordance with laws. The annual general shareholders meeting is convened within six months of the end of each fiscal year by the Board of Directors. The organization of extraordinary shareholders meetings shall be governed by the relevant regulations.

Article 10 : Shareholders may attend meetings in person or appoint a proxy to attend a shareholders' meeting in his/her/its behalf by executing a power of attorney. A shareholder who cannot attend shareholders' meeting may appoint a proxy to attend on his/her behalf by executing a power of attorney in accordance with Article 177 of the Company Act.

Article 11 : Shareholders of the Company shall be entitled to one vote for each share held, except for the circumstances described in Paragraph 2 under Article 179 of the Company Act where shareholders are restricted or prohibited from exercising voting rights.

According to regulations of the competent authority, the Company's shareholders may also exercise voting rights by means of electronic transmission. A shareholder who exercises his/her/its voting power at a shareholders meeting by way of electronic transmission shall be deemed to have attended the shareholders' meeting in person. Other related matters shall be carried out in accordance with regulations.

Article 12 : Unless otherwise stipulated in the Company Act, any resolutions in a shareholders' meeting should be approved by a majority vote at a meeting attended by shareholders representing at least one half of its outstanding shares.



## **Chapter 4 Directors**

Article 13 : The Company shall have six to nine Directors. The number of Directors shall be determined by the Board of Directors. In the number of Directors specified in the previous paragraph, the number of Independent Directors shall be no less than three.

Directors shall serve a term of three years and may be eligible for re-election. Each share shall be empowered with voting rights equal to the number of elected directors in elections of Directors. These voting rights may be concentrated on one candidate or separated across a number of candidates. Candidates with the highest number of votes shall be elected as the Directors. The election of Directors shall be based on the candidate nomination system in accordance with Article 192-1 of the Company Act.

All matters regarding the acceptance method and announcement of the nomination of candidates for Directors will be handled according to the Company Act, the Securities and Exchange Act, and other applicable laws and regulations. The Independent Directors and non-independent Directors shall be elected concurrently and the seats shall be calculated separately.

When the number of vacancies in the Board of Directors reaches one third of the total number of members, the Board of Directors shall call a meeting of shareholders to elect Directors to fill the vacancies. With the exception of a comprehensive reelection of directors, the term of the newly-elected Director shall expire on the original expiry date of his/her predecessor.

The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination, and other requirements with regard to the Independent Directors shall be set forth in accordance with the Securities and Exchange Act and other relevant regulations.

The total shareholding ratio held by all Directors of the Company shall be determined in accordance with regulations of the competent authority responsible for securities.

Article 13-1: Shareholders retaining at least 1% of all outstanding shares and the board may nominate candidates for independent directorship. A list of candidates determined at board meetings to meet the criteria for being elected Independent Directors are submitted by the board to the shareholders meeting for consideration; if the shareholder's meeting is convened by another person with the authority to convene the meeting, after the person with the authority to convene the meeting examines the qualifications of the candidate(s) for serving as an Independent Director, the names are sent to the shareholder's meeting for election. All matters regarding the acceptance method and announcement of the nomination of candidates for Independent Director will be handled according to the Company Act, the Securities and Exchange Act, and other applicable laws and regulations.

Article13-2: The Company has established an Audit Committee in accordance with regulations in Article 14-4 of the Securities and Exchange Act. The Audit Committee shall consist of all Independent Directors and its powers and related matters shall be devised by the Board of Directors in accordance with the applicable laws. Following the Company's establishment of the Audit Committee, the duties that are previously exercised by supervisors in accordance with the Securities and Exchange Act, the Company Act, other laws and regulations, and the Articles of Incorporation, except for the power and authority stipulated in Article 14-4, Paragraph 4 of the Securities and Exchange Act, shall henceforth be exercised by the Audit Committee. The resolutions of the Audit Committee shall require agreement from more than one half of all members. The convener of the Audit Committee shall represent the Committee externally.

Article13-3: The Company may purchase liability insurance policies that cover the directors' term of service, and therefore insure itself against liabilities incurred by the directors over the course of service.

Article13-4: (Deleted).

Article 14 : The Board of Directors shall appoint one Chairman of the Board during a board meeting with more than two-thirds of Directors present, and with the approval of more than half of all attending Directors. The Chairman shall represent the Company externally.

A director may present a written proxy statement to entrust another director as proxy to attend the board meeting and exercise voting rights on his/her behalf with regard to all matters put forward in the meeting. However, the proxy may only represent one director.

The board meeting shall be convened at least once every quarter.

Article 15 : The first meeting of the Board of Directors for each term shall be convened in accordance with Article 203 of the Company Act. The Board of Directors meeting shall be convened by the Chairman. Other meetings shall be convened and chaired by the Chairman.

Notices for the Company's Board of Directors meetings shall be distributed to the Directors at least seven days before the meeting. The date, location, and agenda of the meeting shall be clearly stated in the notice. However, a Board of Directors meeting may be called at any time in the event of an emergency without requiring notices described above. The notice in the preceding paragraph shall be provided in print or in electronic format.

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

The Chairman shall chair the Board of Directors meeting. In addition, the Chairman retains the right to represent the Company in signing documents in accordance with resolutions passed in the Board of Directors meeting. The Chairman shall represent the Board of Directors to take actions for furthering

the Company's goals during the recess of the Board in accordance with the Board's resolutions.

Where the Chairman is absent, the Vice Chairman or other Directors shall act on his/her behalf in accordance with Article 208 of the Company Act. If the Chairman is unable to perform the duties, the Chairman may appoint one of the Directors to act on his/her behalf. If no one is appointed, the remaining Directors will appoint one among them to perform the Chairman's duties.

The Company's operating guidelines and other important items shall be determined by the Board of Directors. The Directors shall exercise their powers in accordance with resolutions adopted by the Board of Directors or the shareholders meeting.

Article 16 : The Board of Directors shall be authorized to determine the remuneration for the Chairman and Directors in accordance with their contribution to the Company and the industry's prevailing rates regardless of profits or losses.

## **Chapter 5 Managing Directors**

Article 17 : The Company may have a General Manager and several Vice General Managers. Their appointment, dismissal and remuneration shall comply with Article 29 of the Company Act.

The General Manager shall be in charge of the Company's business operations. The General Manager's scope of duties shall exclude duties of the General Shareholders Meeting or Board of Directors and the Chairman that are specified in the Company Act, Securities and Exchange Act, related regulations, and the "Authorization of Approval Table of the Board of Directors and Management" established by the Company; all other powers may be exercised by the General Manager.

## **Chapter 6 Accounting**

Article 18 : At the end of each fiscal year, the Company's Board of Directors shall compile the following reports and submit them to the Audit Committee for review at least 30 days before the annual general shareholders meeting: (1) Business Report (2) Financial Statements (3) Proposals on distribution of earnings or make-up of deficits, etc. The documents shall be submitted to the general shareholders meeting for ratification.

Article 19 : (Deleted).

Article 20 : If the Company has generated profits for the current year, it shall allocate at least 3% of profits as employee bonus. The Board of Directors shall decide to distribute the bonus as shares or cash, which can also be distributed to employees of affiliated companies that meet certain criteria; if the Company sustains profit for the current year, the Board of Directors shall decide to set aside no more than 3% of profit as remuneration for Directors. Employee bonus

and director remuneration proposals shall be presented to the shareholders meeting.

However when the Company still has accumulated loss, a certain amount of the earnings shall be retained for making up the loss and the remainder may be set aside as employee bonus and remuneration to Directors according to the percentage specified in the preceding paragraph.

Article20-1: In the event of surplus earnings after closing of annual accounts, due taxes shall be paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 10% of the remainder surplus shall be allocated as legal reserve. However, in the event that the accumulated legal reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. If there is remainder surplus, the Board of Directors shall draft a surplus distribution proposal regarding the remainder of the surplus as well as accumulated undistributed surplus for approval at the shareholders' meeting, at which the allocation of shareholders' dividends shall be decided.

The Company has adopted a balanced dividend policy to protect shareholder interest and the goal of sustainable development. The optimal dividend policy shall be consistent with current and future development plans while accounting for the investment environment, capital needs, domestic and international competition, the interest of shareholders, as well as the capital budgets for the following year. The Board of Directors shall formulate a distribution plan for approval in the shareholders meeting before implementation.

Dividends for shareholders may be distributed in cash or shares. The cash portion shall not be lower than 30% of total dividends.

Article20-2: The Company may make reinvestments in Taiwan or abroad following resolution in a Board of Directors meeting. When the Company becomes the shareholder of limited liability in other companies, its total amount of investment in such companies shall not be subject to Article 13 of the Company Act which stipulates that the total amount of investment may not exceed 40% of the amount of its own paid-in capital.

## **Chapter 7 Supplementary Provisions**

Article 21 : Any matters that are not addressed in the Articles of Incorporation shall be governed by the Company Act and the relevant regulations.

Article 22 : The Articles of Incorporation were established on December 2, 1976.

The 1st amendment was on October 12, 1978. The 2nd amendment was on December 11, 1978. The 3rd amendment was on January 8, 1979. The 4th amendment was on November 16, 1981. The 5th amendment was on April 28, 1985. The 6th amendment was on June 19, 1987. The 7th amendment was on September 5, 1988. The 8th amendment was on April 24, 1989. The 9th amendment was on June 15, 1990. The 10th amendment was on November 15, 1990. The 11th amendment was on April 27, 1991. The 12th amendment was on December 3, 1991. The 13th amendment was on July 4, 1992. The 14th amendment was on December 19, 1992. The 15th amendment was on May 26, 1994. The 16th amendment was on April 22, 1995. The 17th amendment was on April 20, 1996. The 18th amendment was on September 9, 1996. The 19th amendment was on June 13, 1997. The 20th amendment was on April 11, 1998. The 21st amendment was on April 14, 2000. The 22nd amendment was on April 9, 2001. The 23rd amendment was on May 21, 2002. The 24th amendment was on May 15, 2003. The 25th amendment was on May 17, 2005. The 26th amendment was on June 15, 2006. The 27th amendment was on June 13, 2007. The 28th amendment was on June 13, 2008. The 29th amendment was on June 10, 2009. The 30th amendment was on June 25, 2010. The 31st amendment was on June 15, 2016. The 32nd amendment was on June 11, 2019.

## 【Appendix 3】

### Status of Holdings of Directors

- (1). Total issued shares of the Company as of April 13, 2021: 308,527,374 common shares.
- (2). According to Article 26 of the Securities and Exchange Act, all Directors shall retain no less than 12,341,095 shares in total.
- (3). As of the ex-dividend date (April 13, 2021) shares retained by directors are as follows:

April 13, 2021

Title	Name	Shares currently held	
		Number of shares	Shareholding ratio
Director	Han De Investment Co., Ltd. representative: Alexander M.T.Su	24,700,276	8.01%
Director	Trickle Co., Ltd. representative: T.C.Chang	14,662,469	4.75%
Director	Ming-shan,Jheng	1,812,999	0.59%
Director	Fisher C.H.Yu	186,242	0.06%
Director	Johnathon Y.J.Su	7,704,930	2.50%
Director	Shih-yang,Chen	10,193	0.00%
Independent Directors	Winston Won	-	-
Independent Directors	Po-Young, Chu	-	-
Independent Directors	Paul T.Y.Huang	-	-

Note 1: As of the ex-dividend date, a total of 49,077,109 shares were retained by all Directors, which meets the requirement of 12,341,095 shares as specified under Article 26 of the Securities and Exchange Act.

Note 2: The Company has established an Audit Committee.