

**Taiwan Steel Union Co., Ltd. and
Subsidiary**

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2022 and 2021 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Taiwan Steel Union Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of Taiwan Steel Union Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") as of September 30, 2022 and 2021, the related consolidated statements of comprehensive income for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021, of changes in equity, and of cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as 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 International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2022 and 2021, its consolidated financial performance for the three months ended September 30, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the nine months then ended September 30, 2022 and 2021 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Shao-Chun Wu and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

October 24, 2022

Notice to Readers

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

For the convenience of readers, the independent auditors' review 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' review report and consolidated financial statements shall prevail.

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	September 30, 2022 (Reviewed)		December 31, 2021 (Audited)		September 30, 2021 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash (Note 6)	\$ 574,729	12	\$ 741,779	17	\$ 243,119	6
Financial assets at amortized cost - current (Note 7)	407,432	9	4,432	-	4,432	-
Notes receivable, net (Note 8 and 24)	4,318	-	2,384	-	7,824	-
Trade receivables from unrelated parties, net (Note 8)	136,102	3	111,225	2	49,702	1
Trade receivables from related parties, net (Notes 8 and 24)	22,703	1	3,341	-	13,310	1
Other receivables (Notes 8)	7,411	-	4,012	-	4,333	-
Inventories (Note 9)	158,411	3	121,297	3	170,350	5
Other current assets (Note 12)	<u>50,385</u>	<u>1</u>	<u>36,283</u>	<u>1</u>	<u>49,007</u>	<u>1</u>
Total current assets	<u>1,361,491</u>	<u>29</u>	<u>1,024,753</u>	<u>23</u>	<u>542,077</u>	<u>14</u>
NON-CURRENT ASSETS						
Property, plant and equipment (Notes 11, 21, 25 and 26)	3,282,334	70	3,299,524	75	3,326,779	84
Other intangible assets	3,806	-	3,726	-	4,176	-
Deferred tax assets (Notes 4 and 19)	14,256	-	14,722	1	9,777	-
Prepayments for machinery and equipment (Note 21)	51,066	1	55,802	1	56,437	2
Refundable deposits	2,705	-	860	-	408	-
Other financial assets - non-current (Note 25)	14,150	-	8,000	-	8,000	-
Other non-current assets (Note 12)	<u>4,662</u>	<u>-</u>	<u>3,311</u>	<u>-</u>	<u>3,607</u>	<u>-</u>
Total non-current assets	<u>3,372,979</u>	<u>71</u>	<u>3,385,945</u>	<u>77</u>	<u>3,409,184</u>	<u>86</u>
TOTAL	<u>\$ 4,734,470</u>	<u>100</u>	<u>\$ 4,410,698</u>	<u>100</u>	<u>\$ 3,951,261</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 13)	\$ 245,000	5	\$ 295,000	7	\$ 195,000	5
Trade payables to unrelated parties	40,330	1	32,706	1	21,556	1
Trade payables to related parties (Note 24)	34	-	733	-	304	-
Other payables (Notes 14 and 24)	141,239	3	108,111	2	105,094	3
Current tax liabilities (Notes 4 and 19)	104,243	2	111,464	3	31,497	1
Other current liabilities (Notes 14, 17 and 24)	<u>87,566</u>	<u>2</u>	<u>63,039</u>	<u>1</u>	<u>55,550</u>	<u>1</u>
Total current liabilities	<u>618,412</u>	<u>13</u>	<u>611,053</u>	<u>14</u>	<u>409,001</u>	<u>11</u>
NON-CURRENT LIABILITIES						
Deferred tax liabilities (Notes 4 and 19)	176	-	-	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 15)	6,327	-	9,088	-	10,022	-
Other non-current liabilities	<u>9,392</u>	<u>-</u>	<u>1,374</u>	<u>-</u>	<u>608</u>	<u>-</u>
Total non-current liabilities	<u>15,895</u>	<u>-</u>	<u>10,462</u>	<u>-</u>	<u>10,630</u>	<u>-</u>
Total liabilities	<u>634,307</u>	<u>13</u>	<u>621,515</u>	<u>14</u>	<u>419,631</u>	<u>11</u>
EQUITY						
Ordinary shares	1,112,709	24	1,112,709	25	1,112,709	28
Capital surplus	998,985	21	998,985	23	998,985	25
Retained earnings						
Legal reserve	480,201	10	423,639	10	423,639	11
Unappropriated earnings	<u>1,508,268</u>	<u>32</u>	<u>1,253,850</u>	<u>28</u>	<u>996,297</u>	<u>25</u>
Total equity	<u>4,100,163</u>	<u>87</u>	<u>3,789,183</u>	<u>86</u>	<u>3,531,630</u>	<u>89</u>
TOTAL	<u>\$ 4,734,470</u>	<u>100</u>	<u>\$ 4,410,698</u>	<u>100</u>	<u>\$ 3,951,261</u>	<u>100</u>

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

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
SALES (Notes 17 and 24)	\$ 649,737	100	\$ 364,831	100	\$ 1,928,521	100	\$ 1,145,102	100
COST OF GOODS SOLD (Notes 9,15,18 and 24)	<u>314,442</u>	<u>49</u>	<u>184,054</u>	<u>51</u>	<u>769,286</u>	<u>40</u>	<u>551,869</u>	<u>48</u>
GROSS PROFIT	<u>335,295</u>	<u>51</u>	<u>180,777</u>	<u>49</u>	<u>1,159,235</u>	<u>60</u>	<u>593,233</u>	<u>52</u>
OPERATING EXPENSES (Notes 15,18,24 and 26)								
Selling and marketing expenses	50,421	8	39,803	11	143,711	7	104,942	10
General and administrative expenses	33,647	5	28,271	8	100,564	5	92,953	8
Research and development expenses	<u>106</u>	<u>-</u>	<u>832</u>	<u>-</u>	<u>170</u>	<u>-</u>	<u>1,001</u>	<u>-</u>
Total operating expenses	<u>84,174</u>	<u>13</u>	<u>68,906</u>	<u>19</u>	<u>244,445</u>	<u>12</u>	<u>198,896</u>	<u>18</u>
PROFIT FROM OPERATIONS	<u>251,121</u>	<u>38</u>	<u>111,871</u>	<u>30</u>	<u>914,790</u>	<u>48</u>	<u>394,337</u>	<u>34</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income	596	-	43	-	935	-	297	-
Other income (Note 18)	328	-	589	-	988	-	5,474	-
Net foreign exchange gain (loss) (Note 27)	11,119	2	366	-	27,300	1	(1,636)	-
Financial costs	(749)	-	(501)	-	(1,896)	-	(3,490)	-
Other expenses	-	-	(1)	-	(60)	-	(68)	-
Loss on disposal of property, plant and equipment	(<u>263</u>)	<u>-</u>	(<u>1,370</u>)	<u>-</u>	(<u>1,784</u>)	<u>-</u>	(<u>1,719</u>)	<u>-</u>
Total non-operating income and expenses	<u>11,031</u>	<u>2</u>	(<u>874</u>)	<u>-</u>	<u>25,483</u>	<u>1</u>	(<u>1,142</u>)	<u>-</u>
PROFIT BEFORE INCOME TAX	262,152	40	110,997	30	940,273	49	393,195	34
INCOME TAX EXPENSES (Notes 4 and 19)	<u>46,664</u>	<u>7</u>	<u>23,466</u>	<u>6</u>	<u>184,209</u>	<u>10</u>	<u>85,127</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 215,488</u>	<u>33</u>	<u>\$ 87,531</u>	<u>24</u>	<u>\$ 756,064</u>	<u>39</u>	<u>\$ 308,068</u>	<u>27</u>
EARNINGS PER SHARE (Note 20)								
Basic	<u>\$ 1.94</u>		<u>\$ 0.79</u>		<u>\$ 6.79</u>		<u>\$ 2.77</u>	
Diluted	<u>\$ 1.94</u>		<u>\$ 0.79</u>		<u>\$ 6.78</u>		<u>\$ 2.76</u>	

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

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Ordinary Shares (Note 16)	Capital Surplus (Note 16)	Legal Reserve (Note 16)	Unappropriated Earnings (Note 16)	Total Equity
BALANCE AT JANUARY 1, 2021	\$ 1,112,709	\$ 998,985	\$ 382,810	\$ 1,062,871	\$ 3,557,375
Appropriation of 2020 earnings					
Legal reserve	-	-	40,829	(40,829)	-
Cash dividends distributed to shareholders	-	-	-	(333,813)	(333,813)
Total comprehensive income for the nine months ended September 30, 2021	-	-	-	308,068	308,068
BALANCE AT SEPTEMBER 30, 2021	\$ 1,112,709	\$ 998,985	\$ 423,639	\$ 996,297	\$ 3,531,630
BALANCE AT JANUARY 1, 2022	\$ 1,112,709	\$ 998,985	\$ 423,639	\$ 1,253,850	\$ 3,789,183
Appropriation of 2021 earnings					
Legal reserve	-	-	56,562	(56,562)	-
Cash dividends distributed to shareholders	-	-	-	(445,084)	(445,084)
Total comprehensive income for the nine months ended September 30, 2022	-	-	-	756,064	756,064
BALANCE AT SEPTEMBER 30, 2022	\$ 1,112,709	\$ 998,985	\$ 480,201	\$ 1,508,268	\$ 4,100,163

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

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 940,273	\$ 393,195
Adjustments for :		
Depreciation expense	151,190	140,257
Amortization expense	3,081	3,062
Finance costs	1,896	3,490
Interest income	(935)	(297)
Loss on disposal of property, plant and equipment	1,784	1,719
Write-down of inventories	620	3,146
Unrealized foreign currency exchange gain (loss), net	(251)	122
Changes in operating assets and liabilities		
Notes receivable	(1,934)	(5,680)
Trade receivables	(41,545)	118,653
Other receivables	(3,399)	(1,915)
Inventories	(37,734)	(78,680)
Other current assets	(4,464)	2,631
Trade payables	6,925	(11,814)
Other payables	26,336	(3,454)
Other current liabilities	24,527	4,379
Net defined benefit liabilities	(2,761)	10
Cash generated from operations	1,063,609	568,824
Interest received	935	425
Interest paid	(1,844)	(4,004)
Income taxes paid	(190,788)	(168,453)
Net cash generated from operating activities	871,912	396,792
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for financial assets at amortized cost	(398,000)	-
Proceeds from disposal of financial assets at amortized cost	-	270,410
Payments for property, plant and equipment	(84,682)	(107,492)
Proceeds from disposal of property, plant and equipment	906	675
Decrease (increase) in refundable deposits	(1,845)	2,549
Payments of intangible assets	(2,521)	(1,952)
Decrease (increase) in other financial assets	(11,150)	9,425
Increase in other non-current assets	(1,991)	(1,401)
Increase in prepayments for machinery and equipment	(52,613)	(38,952)
Decrease in deferred revenue	(61)	(31)
Net cash generated from (used in) investing activities	(551,957)	133,231
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	-	95,000
Repayments of short-term borrowings	(50,000)	(100,000)

(Continued)

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2022	2021
Repayments of long-term borrowings	-	(970,993)
Proceeds from guarantee deposits received	8,079	-
Cash dividend	<u>(445,084)</u>	<u>(333,813)</u>
Net cash used in financing activities	<u>(487,005)</u>	<u>(1,309,806)</u>
NET DECREASE IN CASH	(167,050)	(779,783)
CASH AT THE BEGINNING OF THE PERIOD	<u>741,779</u>	<u>1,022,902</u>
CASH AT THE END OF THE PERIOD	<u>\$ 574,729</u>	<u>\$ 243,119</u>

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

(Concluded)

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

Taiwan Steel Union Co., Ltd (the “Company”) was established in April 1995 and incorporated in August of the same year.

The Company’s main business is to dispose and reuse general industrial waste and hazardous industrial waste as well as manufacture and trade non-ferrous metal (zinc oxide) and non-metallic mineral products.

The Company obtained the permission document of treating electric arc furnace dust for general use since December 28, 2017. The Company’s shares have been listed on the Taiwan Stock Exchange (TWSE) since January 30, 2018.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on October 24, 2022.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies.

- b. New IFRSs to be endorsed by the FSC for application starting from 2023

New IFRSs	Effective Date Announced by IASB
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

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

Note 2: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 3: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022

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

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

New IFRSs	Effective Date Announced by IASB(Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
Amendments to IFRS 16 「Lease liabilities in sale and leaseback」	January 1, 2024 (Note2)
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 17 and IFRS9 - Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023

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

Note2: Sellers and lessees should apply the amendments to IFRS 16 retrospectively for sale and leaseback transactions entered into after the date of initial application of IFRS 16.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual consolidated financial statements.

- b. Basis of preparation

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

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

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

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e., its subsidiary).

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with those used of the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 10 and Tables 3 for detailed information on subsidiary (including the percentages of ownership and main businesses).

d. Other significant accounting policies

Except for the following, refer to the consolidated financial statements for the year ended December 31, 2021.

1) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2021.

6. CASH

	September 30, 2022	December 31, 2021	September 30, 2021
Cash on hand and revolving funds	\$ 129	\$ 129	\$ 129
Checking accounts and demand deposits	<u>574,600</u>	<u>741,650</u>	<u>242,990</u>
	<u>\$ 574,729</u>	<u>\$ 741,779</u>	<u>\$ 243,119</u>

7. FINANCIAL ASSETS AT AMORTIZED COST

	September 30, 2022	December 31, 2021	September 30, 2021
<u>Current</u>			
Time deposits with original maturities of more than three months	\$ 407,432	\$ 4,432	\$ 4,432

8. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2022	December 31, 2021	September 30, 2021
Notes receivable from unrelated parties	\$ 4,318	\$ 2,384	\$ 2,149
Notes receivable from related parties	-	-	5,675
	<u>\$ 4,318</u>	<u>\$ 2,384</u>	<u>\$ 7,824</u>
<u>Trade receivables from unrelated parties</u>			
At amortized cost			
Gross carrying amount	\$ 136,261	\$ 111,384	\$ 49,861
Less: Allowance for impairment loss	<u>(159)</u>	<u>(159)</u>	<u>(159)</u>
	<u>\$ 136,102</u>	<u>\$ 111,225</u>	<u>\$ 49,702</u>
Trade receivables from related parties	<u>\$ 22,703</u>	<u>\$ 3,341</u>	<u>\$ 13,310</u>
<u>Other receivables</u>			
Tax refund receivable	\$ 5,852	\$ 3,437	\$ 3,765
Others	<u>1,559</u>	<u>575</u>	<u>568</u>
	<u>\$ 7,411</u>	<u>\$ 4,012</u>	<u>\$ 4,333</u>

The average credit period of sales of goods is 60 to 90 days. No interest is charged on trade receivables. The Group adopted a policy of only dealing with entities that have good credit ratings and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group obtains credit reports from independent rating agencies for those customers who have higher risk. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix approach considering the past default experience of the customer, the customer's current financial position, economic condition of the industry in which the customer operates. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off trade receivables when there is evidence indicating that the customer is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and trade receivables.

	Not Past Due
<u>September 30, 2022</u>	
Expected credit loss rate	0%
Gross carrying amount	\$ 163,282
Loss allowance (Lifetime ECLs)	<u>(159)</u>
Amortized cost	<u>\$ 163,123</u>
<u>December 31, 2021</u>	
Expected credit loss rate	0%
Gross carrying amount	\$ 117,109
Loss allowance (Lifetime ECLs)	<u>(159)</u>
Amortized cost	<u>\$ 116,950</u>
<u>September 30, 2021</u>	
Expected credit loss rate	0%
Gross carrying amount	\$ 70,995
Loss allowance (Lifetime ECLs)	<u>(159)</u>
Amortized cost	<u>\$ 70,836</u>

The movements of the allowance for impairment loss recognized on notes receivable and trade receivables were as follows:

	For the Nine Months Ended September 30	
	2022	2021
Beginning and ending balance	<u>\$ 159</u>	<u>\$ 159</u>

9. INVENTORIES

	September 30, 2022	December 31, 2021	September 30, 2021
Merchandise	\$ -	\$ -	\$ 102
Raw materials	74,706	67,240	50,898
Finished goods	<u>83,705</u>	<u>54,057</u>	<u>119,350</u>
	<u>\$ 158,411</u>	<u>\$ 121,297</u>	<u>\$ 170,350</u>

The cost of inventories recognized as cost of goods sold for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021 were \$232,418 thousand , \$116,267 thousand , \$545,487 thousand and \$340,325 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021 included reversal of inventory write-down of \$2,004 thousand, \$2,479 thousand, and included inventory write-down of \$620 thousand and \$3,146 thousand, respectively. The reversal of previous write-down resulted from inventory close out.

10. SUBSIDIARY

Subsidiary included in the consolidated financial statements:

Investor	Investee	Main Business	% of Ownership		
			September 30, 2022	December 31, 2021	September 30, 2021
The Company	Taiwan Steel Resources Co., Ltd. ("TSR")	Waste disposal services	100	100	100

The financial statements of the subsidiary included in the consolidated financial statements which were reviewed by the auditors of the same year.

11. PROPERTY, PLANT AND EQUIPMENT

	For the Nine Months Ended September 30, 2022				
	Beginning Balance	Additions	Disposals	Reclassified Amount	Ending Balance
<u>Cost</u>					
Land	\$ 1,216,738	\$ -	\$ -	\$ -	\$ 1,216,738
Land improvements	69,408	-	-	-	69,408
Buildings	1,612,467	24,946	(3,763)	92	1,633,742
Machinery equipment	2,702,457	45,543	(6,016)	47,711	2,789,695
Transportation equipment	201,469	11,318	(3,410)	-	209,377
Miscellaneous equipment	79,430	7,172	(480)	-	86,122
Construction in progress	92	-	-	(92)	-
	<u>5,882,061</u>	<u>\$ 88,979</u>	<u>\$ (13,669)</u>	<u>\$ 47,711</u>	<u>6,005,082</u>
<u>Accumulated depreciation</u>					
Land improvements	57,886	\$ 2,094	\$ -	\$ -	59,980
Buildings	313,863	49,917	(2,832)	-	360,948
Machinery equipment	2,037,594	77,542	(4,705)	-	2,110,431
Transportation equipment	133,261	13,604	(2,963)	-	143,902
Miscellaneous equipment	39,933	8,033	(479)	-	47,487
	<u>2,582,537</u>	<u>\$ 151,190</u>	<u>\$ (10,979)</u>	<u>\$ -</u>	<u>2,722,748</u>
	<u>\$ 3,299,524</u>				<u>\$ 3,282,334</u>

	For the Nine Months Ended September 30, 2021				
	Beginning Balance	Additions	Disposals	Reclassified Amount	Ending Balance
<u>Cost</u>					
Land	\$ 1,210,738	\$ 6,000	\$ -	\$ -	\$ 1,216,738
Land improvements	68,659	749	-	-	69,408
Buildings	1,599,046	12,567	(1,649)	3,391	1,613,355
Machinery equipment	2,489,447	66,244	(6,316)	161,202	2,710,577
Transportation equipment	189,773	11,019	(1,235)	1,110	200,667
Miscellaneous equipment	63,637	8,925	(240)	1,528	73,850
Construction in progress	75,371	6,392	-	(81,671)	92
	<u>5,696,671</u>	<u>\$ 111,896</u>	<u>\$ (9,440)</u>	<u>\$ 85,560</u>	<u>5,884,687</u>
<u>Accumulated depreciation</u>					
Land improvements	53,650	\$ 3,370	\$ -	\$ -	57,020
Buildings	251,383	49,641	(1,210)	-	299,814
Machinery equipment	1,971,413	68,248	(5,109)	-	2,034,552
Transportation equipment	117,233	12,282	(500)	-	129,015
Miscellaneous equipment	31,018	6,716	(227)	-	37,507
	<u>2,424,697</u>	<u>\$ 140,257</u>	<u>\$ (7,046)</u>	<u>\$ -</u>	<u>2,557,908</u>
	<u>\$ 3,271,974</u>				<u>\$ 3,326,779</u>

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the assets:

Land improvements	2-13 years
Buildings	
Main buildings	25-50 years
Others	2-48 years
Machinery equipment	2-20 years
Transportation equipment	3-12 years
Miscellaneous equipment	2-15 years

Owner-occupied property, plant and equipment pledged as collateral for bank borrowings were set out in Note 25.

12. OTHER ASSETS

	September 30, 2022	December 31, 2021	September 30, 2021
<u>Current</u>			
Tax overpaid retained	\$ 8,308	\$ 9,480	\$ 15,566
Prepayments	35,715	16,858	28,927
Temporary payments (payments on behalf of others)	81	843	19
Costs to fulfill a contract (Note 17)	<u>6,281</u>	<u>9,102</u>	<u>4,495</u>
	<u>\$ 50,385</u>	<u>\$ 36,283</u>	<u>\$ 49,007</u>

	September 30, 2022	December 31, 2021	September 30, 2021
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Non-current

Long-term prepayments	\$ 4,662	\$ 3,311	\$ 3,607
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13. SHORT-TERM BORROWINGS

	September 30, 2022	December 31, 2021	September 30, 2021
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Unsecured loans

Bank loans	\$ 245,000	\$ 295,000	\$ 195,000
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Rate of interest per annum (%)	1.14-1.40	0.65-0.70	0.65-0.70
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14. OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	September 30, 2022	December 31, 2021	September 30, 2021
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Other payables

Payables for salaries and bonuses	\$ 40,054	\$ 47,367	\$ 30,067
Payables for purchases of equipment	12,811	8,513	16,006
Payables for annual leave	3,467	3,877	3,189
Payables for remuneration of directors	5,083	7,200	5,400
Payables for donations	1,002	1,984	1,234
Payables for interest	86	34	25
Others	78,736	39,136	49,173
	<u>\$ 141,239</u>	<u>\$ 108,111</u>	<u>\$ 105,094</u>

Other current liabilities

Contract liabilities (Note 17)	\$ 87,032	\$ 62,533	\$ 55,021
Temporary credits (receipts under custody)	534	506	529
	<u>\$ 87,566</u>	<u>\$ 63,039</u>	<u>\$ 55,550</u>

15. RETIREMENT BENEFIT PLANS

For the three months ended September 30, 2022 and 2021, and for the nine months ended September 30, 2022 and 2021, the pension expenses of defined benefit plans were \$210 thousand, \$206 thousand, \$630 thousand and \$619 thousand, respectively, and these were calculated based on the pension cost rate determined by the actuarial calculation on December 31, 2021 and 2020, respectively.

16. EQUITY

a. Share capital

	September 30, 2022	December 31, 2021	September 30, 2021
Shares authorized (in thousands of shares)	<u>160,000</u>	<u>160,000</u>	<u>160,000</u>
Shares authorized	<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>	<u>\$ 1,600,000</u>
Shares issued and fully paid (in thousands of shares)	<u>111,271</u>	<u>111,271</u>	<u>111,271</u>
Shares issued	<u>\$ 1,112,709</u>	<u>\$ 1,112,709</u>	<u>\$ 1,112,709</u>

The authorized shares included 2,000 thousand shares allocated for the exercise of employee share options.

b. Capital surplus

Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. According to the Article 240-5 of the Company's Articles, if two thirds of directors or more attended the meeting and over half of the directors who attended approve the resolution, the Company may authorize the board of directors to appropriate part or of all of the accrued dividends or bonuses, by cash, and a report shall be submitted to the shareholders' meeting. For the policies on the distribution of compensation of employees and remuneration of directors, refer to compensation of employees and remuneration of directors in Note 18-d.

In addition, under the dividends policy set forth in the Articles, the Company may distribute dividends in cash or shares. If the Company decides to distribute in cash, in principle, the cash dividends shall not be lower than 10% of share dividends.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2021 and 2020 which have been approved in the shareholders' meetings on May 26, 2022 and August 18, 2021, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2021	2020	2021	2020
Legal reserve	\$ 56,562	\$ 40,829		
Cash dividends	445,084	333,813	\$ 4	\$ 3

17. REVENUE

a. Revenue from contracts with customers

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Revenue from sale of zinc oxide	\$ 480,622	\$ 285,947	\$ 1,535,302	\$ 891,009
Revenue from waste disposal	149,712	74,898	362,185	238,856
Revenue from sale of concrete	19,042	3,986	30,548	15,220
Other operating revenue	<u>361</u>	<u>-</u>	<u>486</u>	<u>17</u>
	<u>\$ 649,737</u>	<u>\$ 364,831</u>	<u>\$ 1,928,521</u>	<u>\$ 1,145,102</u>

b. Contract balance

	September 30, 2022	December 31, 2021	September 30, 2021	January 1, 2021
Notes receivable and trade receivables (Note 8)	<u>\$ 163,123</u>	<u>\$ 117,109</u>	<u>\$ 70,995</u>	<u>\$ 184,090</u>
Contract liabilities (Note 14)	<u>\$ 87,032</u>	<u>\$ 62,533</u>	<u>\$ 55,021</u>	<u>\$ 50,755</u>

c. Assets related to contract costs

	September 30, 2022	December 31, 2021	September 30, 2021
Costs to fulfill a contract (Note 12)	<u>\$ 6,281</u>	<u>\$ 9,102</u>	<u>\$ 4,495</u>

Operating expenses mainly include depreciations of machinery and equipment, repair and maintenance expenses, salaries and wages of on-site personnel, materials, and any expenses related to handling services and waste disposal.

At the end of each month, any costs which are related to unfulfilled contracts would be recognized in assets, "cost to fulfill a contract". After the performance obligations are fully satisfied, the assets would be transferred to operating costs.

18. NET PROFIT FROM CONTINUING OPERATIONS

a. Other revenue

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Government grants	\$ 20	\$ 20	\$ 136	\$ 4,901
Other	<u>308</u>	<u>569</u>	<u>852</u>	<u>573</u>
	<u>\$ 328</u>	<u>\$ 589</u>	<u>\$ 988</u>	<u>\$ 5,474</u>

b. Depreciation and amortization

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Property, plant and equipment	\$ 51,722	\$ 48,341	\$ 151,190	\$ 140,257
Other intangible assets	<u>1,038</u>	<u>973</u>	<u>3,081</u>	<u>3,062</u>
	<u>\$ 52,760</u>	<u>\$ 49,314</u>	<u>\$ 154,271</u>	<u>\$ 143,319</u>
An analysis of depreciation by function				
Operating costs	\$ 48,236	\$ 44,857	\$ 141,253	\$ 129,846
Operating expenses	<u>3,486</u>	<u>3,484</u>	<u>9,937</u>	<u>10,411</u>
	<u>\$ 51,722</u>	<u>\$ 48,341</u>	<u>\$ 151,190</u>	<u>\$ 140,257</u>
An analysis of amortization by function				
Operating costs	\$ 117	\$ 109	\$ 366	\$ 390
Operating expenses	<u>921</u>	<u>864</u>	<u>2,715</u>	<u>2,672</u>
	<u>\$ 1,038</u>	<u>\$ 973</u>	<u>\$ 3,081</u>	<u>\$ 3,062</u>

c. Employee benefits expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Short-term employee benefits	\$ 47,624	\$ 37,732	\$ 137,672	\$ 111,668
Post-employment benefits				
Defined contribution plans	1,540	1,293	4,460	3,800
Defined benefit plans (Note 15)	<u>210</u>	<u>206</u>	<u>630</u>	<u>619</u>
	1,750	1,499	5,090	4,419
Other employee benefits	<u>5,526</u>	<u>4,324</u>	<u>16,731</u>	<u>13,444</u>
	<u>\$ 54,900</u>	<u>\$ 43,555</u>	<u>\$ 159,493</u>	<u>\$ 129,531</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 35,471	\$ 27,895	\$ 102,985	\$ 81,737
Operating expenses	<u>19,429</u>	<u>15,660</u>	<u>56,508</u>	<u>47,794</u>
	<u>\$ 54,900</u>	<u>\$ 43,555</u>	<u>\$ 159,493</u>	<u>\$ 129,531</u>

d. Compensation of employees and remuneration of directors

According to the Company's Articles, the Company accrues compensation of employees and remuneration of directors at rates of no less than 1% and no higher than 3%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors. The compensation of employees and remuneration of directors for the three months ended September 30, 2022 and 2021 and for the nine months ended September 30, 2022 and 2021, are as follows:

		<u>Nine Months Ended September 30</u>	
		2022	2021
<u>Accrual rate</u>			
Compensation of employees		2.27%	4.13%
Remuneration of directors		0.53%	1.30%

	<u>Three Months Ended September 30</u>		<u>Nine Months Ended September 30</u>	
	2022	2021	2022	2021
<u>Amount</u>				
Compensation of employees	\$ 7,309	\$ 5,812	\$ 21,940	\$ 17,186
Remuneration of directors	\$ 1,933	\$ 1,800	\$ 5,083	\$ 5,400

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

The appropriations of compensation of employees and remuneration of directors for 2021 and 2020 which have been resolved by the board of directors on January 21, 2022 and January 29, 2021, respectively, were as follows:

		<u>For the Year Ended December 31</u>	
		2022	2021
Compensation of employees		\$ 25,001	\$ 22,230
Remuneration of directors		7,200	7,200

There was no difference between the actual amounts of compensation of employees and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2021 and 2020.

Information on the compensation of employees and remuneration of directors resolved by the Company's board of directors in 2022 and 2021 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

19. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Current tax				
In respect of the current year	\$ 46,640	\$ 24,493	\$ 183,723	\$ 85,385
Income tax on unappropriated earnings	-	-	3,199	1,683
Adjustments for prior years	<u>-</u>	<u>(1,458)</u>	<u>(3,356)</u>	<u>(1,627)</u>
	46,640	23,035	183,566	85,441
Deferred tax				
In respect of the current year	<u>24</u>	<u>431</u>	<u>643</u>	<u>(314)</u>
Income tax expense recognized in profit or loss	<u>\$ 46,664</u>	<u>\$ 23,466</u>	<u>\$ 184,209</u>	<u>\$ 85,127</u>

b. Income tax assessments

The income tax returns of the Company and its subsidiary through 2020 have been assessed by the tax authorities.

20. EARNINGS PER SHARE

	Net profit Attributable to Owners of the Company	Shares (In Thousands of Shares)	Earnings Per Share (NT\$)
<u>For the Three Months Ended September 30, 2022</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Company	\$ 215,488	111,271	<u>\$1.94</u>
Effect of potentially dilutive ordinary shares			
Compensation of employees	<u>-</u>	<u>82</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Company plus effect of potentially dilutive ordinary shares	<u>\$ 215,488</u>	<u>111,353</u>	<u>\$1.94</u>
<u>For the Three Months Ended September 30, 2021</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Company	\$ 87,531	111,271	<u>\$0.79</u>
Effect of potentially dilutive ordinary shares			
Compensation of employees	<u>-</u>	<u>77</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Company plus effect of potentially dilutive ordinary shares	<u>\$ 87,531</u>	<u>111,348</u>	<u>\$0.79</u>

	Net profit Attributable to Owners of the Company	Shares (In Thousands of Shares)	Earnings Per Share (NT\$)
<u>For the Nine Months Ended September 30, 2022</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Company	\$ 756,064	111,271	<u>\$6.79</u>
Effect of potentially dilutive ordinary shares			
Compensation of employees	<u>-</u>	<u>267</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Company plus effect of potentially dilutive ordinary shares	<u>\$ 756,064</u>	<u>111,538</u>	<u>\$6.78</u>

For the Nine Months Ended September 30, 2021

Basic earnings per share			
Profit for the year attributable to owners of the Company	\$ 308,068	111,271	<u>\$2.77</u>
Effect of potentially dilutive ordinary shares			
Compensation of employees	<u>-</u>	<u>261</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Company plus effect of potentially dilutive ordinary shares	<u>\$ 308,068</u>	<u>111,532</u>	<u>\$2.76</u>

The Group may settle the compensation of employees in cash or shares; therefore, the Group assumes that the entire amount of the compensation will be settled in shares, and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

21. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities for the nine months ended September 30, 2022 and 2021:

	For the Nine Months Ended September 30	
	2022	2021
<u>Non-cash transactions for investing and financing activities</u>		
Transfers from prepayments for equipment to property, plant and equipment	<u>\$ 48,021</u>	<u>\$ 85,560</u>
Transfers from other financial assets to financial assets at amortized cost - current	<u>\$ 5,000</u>	<u>\$ -</u>

22. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash) and equity of the Group (comprising share capital, capital surplus, and retained earnings).

Key management personnel of the Group review the capital structure on a regular basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued, and the amount of new debt issued or existing debt redeemed.

The Group is not subject to any externally imposed capital requirements.

23. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The management personnel of the Group determined that the carrying amount of financial assets and financial liabilities not measured at fair value approximates to their fair value or their fair value is unable to be measured reliably.

b. Categories of financial instruments

	September 30, 2022	December 31, 2021	September 30, 2021
<u>Financial assets</u>			
Financial assets at amortized cost (1)	\$ 1,169,550	\$ 876,033	\$ 331,128
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (2)	435,468	437,336	321,954

1) The balances included financial assets measured at amortized cost, which comprise cash, financial assets at amortized cost, notes receivable, trade receivables(include related party), other receivables, refundable deposits, and other financial assets.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payables, trade payables (include related party), other payables and guarantee deposits received (recognized as other non-current liabilities).

c. Financial risk management objectives and policies

The Group's major financial instruments include cash, trade receivables, trade payables, and borrowings. The Group's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The corporate treasury and sales function report regularly to the management personnel of the Group. The management personnel oversee the impact of the financial risks.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (refer to (a) below) and interest rates (refer to (b) below).

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

a) Foreign currency risk

The Group have foreign currency denominated sales, which exposes the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities are set out in Note 27.

Sensitivity analysis

The Group is mainly exposed to the USD. The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (i.e., the functional currency) against USD. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the period for a 1% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit with the New Taiwan dollars strengthening 1% against USD. For a 1% weakening of the New Taiwan dollars against USD, there would be an equal and opposite impact on pre-tax profit, and the balances below would be negative.

	For the Nine Months Ended September 30	
	2022	2021
Profit before income tax	\$ 236	\$ 290

b) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetites ensuring the most cost-effective hedging strategies are applied.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the year were as follows:

	September 30, 2022	December 31, 2021	September 30, 2021
Fair value interest rate risk			
Financial assets	\$ 407,432	\$ 4,432	\$ 4,432
Financial liabilities	245,000	295,000	195,000

	September 30, 2022	December 31, 2021	September 30, 2021
Cash flow interest rate risk			
Financial assets	588,730	743,244	250,990

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the end of the year. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the year was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher and all other variables were held constant, the Group's per-tax profit for the nine months ended September 30, 2022 and 2021 would have increased by \$4,415 thousand and \$1,882 thousand, respectively, which was mainly a result of bank deposits with floating.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. At the end of the year, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to failure of counterparties to discharge its obligations and due to the financial guarantees provided by the Group, could be equal to the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group adopted a policy of only dealing with creditworthy counterparties. In order to minimize credit risk, based on the Credit Management Guidelines, the management of the Group has delegated a team responsible for determining credit limits, credit approvals, and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group will review the recoverable amount of the receivables on the balance sheet date to ensure that the unrecoverable receivables have been properly set aside for impairment losses. Accordingly, the management of the Group believes that the credit risk has been significantly reduced.

The Group assesses the financial positions of the customers with trade receivables continuously.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

Liquidity and interest rate risk tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

	Less Than 1 Year	Over 1 Year
<u>September 30, 2022</u>		
Non-interest bearing	\$ 181,603	\$ -
Fixed interest rate liabilities	245,000	-
<u>December 31, 2021</u>		
Non-interest bearing	141,550	-
Fixed interest rate liabilities	295,000	-
<u>September 30, 2021</u>		
Non-interest bearing	126,954	-
Fixed interest rate liabilities	195,000	-

24. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiary, which is related party of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed as follows.

a. Related party name and category

Related Party Name	Related Party Category
FENG HSIN STEEL CO., LTD. ("Feng Hsin Co.")	The Company's key management personnel
TUNG HO STEEL ENTERPRISE CORP. ("Tung Ho Co.")	The Company's key management personnel
HAI KWANG ENTERPRISE CORPORATION ("Hai Kwang Co.")	The Company's key management personnel
SHYEH SHENG FUAT STEEL & IRON WORKS CO., LTD. ("Shyeh Sheng Fuat Co.")	The Company's key management personnel
CHIEN SHUN STEEL CO., LTD. ("Chien Shun Co.")	The Company's key management personnel
UNITED STEEL CORPORATION ("United Co.")	The Company's key management personnel
KATEC CREATIVE RESOURCES CORP. ("Katec Co.")	Related party in substance
FENG YU RESOURCES CO., LTD. ("Feng Yu Co.")	Related party in substance

b. Sales

Line Item	Related Party Category /Name	Three Months Ended September30		Nine Months Ended September 30	
		2022	2021	2022	2021
Service revenue	The Company's key management personnel				
	Feng Hsin Co.	\$ 34,620	\$ 26,443	\$ 71,245	\$ 86,474
	Tung Ho Co.	17,175	8,023	35,267	29,297
	Shyeh Sheng Fuat Co.	5,204	10,845	38,522	45,131
	Others	9,117	2,144	32,824	9,043
	Related party in substance	<u>1,082</u>	<u>-</u>	<u>3,641</u>	<u>-</u>
		<u>\$ 67,198</u>	<u>\$ 47,455</u>	<u>\$ 181,499</u>	<u>\$ 169,945</u>
Other income	Related party in substance	<u>\$ 176</u>	<u>\$ -</u>	<u>\$ 396</u>	<u>\$ -</u>

There is no major difference for sales and payments terms between related parties and normal customers.

c. Purchase (Purchase discount)

Related Party Category	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Related party in substance	<u>\$ 193</u>	<u>\$ 503</u>	<u>(\$ 317)</u>	<u>\$ 686</u>

That is purchase (purchase discount) to related parties. There is no major difference for purchases and payments terms between related parties and normal suppliers.

d. Operating expenses

Related Party Category	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Related party in substance	<u>\$ 442</u>	<u>\$ 5,122</u>	<u>\$ 1,032</u>	<u>\$ 5,122</u>

e. Receivables from related parties

Line Item	Related Party Category	September 30, 2022	December 31, 2021	September 30, 2021
Note receivables	The Company's key management personnel			
	Shyeh Sheng Fuat Co.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,675</u>
Trade receivables	The Company's key management personnel	\$ 22,481	\$ 2,841	\$ 13,310
	Related party in substance	<u>222</u>	<u>500</u>	<u>-</u>
		<u>\$ 22,703</u>	<u>\$ 3,341</u>	<u>\$ 13,310</u>

The outstanding trade receivables from related parties are unsecured. For the nine months ended September 30, 2022 and 2021, no impairment losses were recognized for trade receivables from related parties.

f. Payables to related parties

Line Item	Related Party Category	September 30, 2022	December 31, 2021	September 30, 2021
Trade payables	Related party in substance	\$ 34	\$ 733	\$ 304
Other payables	Related party in substance	\$ -	\$ 550	\$ 29

g. Contract liabilities

Line Item	Related Party Category/Name	September 30, 2022	December 31, 2021	September 30, 2021
Other current liabilities	The Company's key management personnel			
	Feng Hsin Co.	\$ 5,552	\$ 6,869	\$ 5,551
	Shyeh Sheng Fuat Co.	2,533	6,294	7,064
	Others	4,362	1,431	1,456
	Related party in substance	141	346	-
		<u>\$ 12,588</u>	<u>\$ 14,940</u>	<u>\$ 14,071</u>

h. Remuneration of key management personnel

Remuneration of directors and key management personnel was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Short-term employee benefits	\$ 5,676	\$ 6,097	\$ 16,939	\$ 18,298
Post-employment benefits	27	50	107	152
	<u>\$ 5,703</u>	<u>\$ 6,147</u>	<u>\$ 17,046</u>	<u>\$ 18,450</u>

The remuneration of directors and key executives, as determined by the remuneration committee, is based on the performance of individuals and market trends.

25. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for guarantees and bank borrowings:

	September 30, 2022	December 31, 2021	September 30, 2021
Property, plant and equipment	\$ 914,860	\$ 914,860	\$ 914,860
Other financial assets - non-current	14,150	8,000	8,000
	<u>\$ 929,010</u>	<u>\$ 922,860</u>	<u>\$ 922,860</u>

26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant contingencies and unrecognized commitments of the Group at September 30, 2022, December 31, 2021 and September 30, 2021 were as follows:

- a. The Group's unrecognized commitments were as follows:

	September 30, 2022	December 31, 2021	September 30, 2021
Property, plant and equipment	\$ <u>33,445</u>	\$ <u>35,619</u>	\$ <u>56,878</u>

- b. Under the environmental protection agreement of clearance and recycling EAF dust, the Group has to make profit-sharing payments to Shengang Township and Xianxi Township, Changhua County. The payments would depend on the amount of clearance and recycling EAF dust each month. The profit-sharing payments are recognized as operating expenses, which amounted to \$4,242 thousand, and 4,564 thousand for the three months ended September 30, 2022 and 2021, and amounted to \$16,027 thousand and \$15,577 thousand for the nine months ended September 30, 2022 and 2021.

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

	September 30, 2022		
	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary item USD	\$ 1,532	31.75 (USD:NTD)	\$ <u>48,627</u>
<u>Financial liabilities</u>			
Monetary item USD	788	31.75 (USD:NTD)	\$ <u>25,013</u>

	December 31, 2021		
	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary item USD	\$ 3,164	27.68 (USD:NTD)	<u>\$ 87,578</u>

Financial liabilities

Monetary item USD	89	27.68 (USD:NTD)	<u>\$ 2,471</u>
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	September 30, 2021		
	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary item USD	\$ 1,087	27.85 (USD:NTD)	<u>\$ 30,269</u>

Financial liabilities

Monetary item USD	44	27.85 (USD:NTD)	<u>\$ 1,237</u>
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The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

Foreign Currencies	For the Three Months Ended September 30			
	2022		2021	
	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Gain
USD	31.75 (USD:NTD)	<u>\$ 11,055</u>	27.85 (USD:NTD)	<u>\$ 334</u>

Foreign Currencies	For the Nine Months Ended September 30			
	2022		2021	
	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Loss
USD	31.75 (USD:NTD)	<u>\$ 27,266</u>	27.85 (USD:NTD)	<u>\$ 2,562</u>

28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (Table 1)

3) Marketable securities held (excluding investments in subsidiary, associates and joint ventures).
(None)

- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
 - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
 - 9) Trading in derivative instruments. (None)
 - 10) Other: intercompany relationships and significant intercompany transactions. (Table 2)
 - 11) Information on investees. (Table 3)
- b. Information on investments in mainland China (None)
 - c. Information of major shareholders: list all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 4)

29. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's main business is to dispose and reuse EAF dust and other waste, and recycle zinc oxide which has economic value when sold. Taiwan Steel Resources Co.'s main business is to dispose LF slags and Rotary Kiln slags from the Company. The processed products can be used in civil engineering and ready-mixed concrete industries that comply with laws and regulations.

The chief operating decision maker considers the Company and Taiwan Steel Resources Co. as separate operating segments for the purposes of financial statements presentation.

The Company and its subsidiary's revenue, operating results, and assets and liabilities for the nine months ended September 30, 2022 and 2021, were as follows:

	The Company	Taiwan Steel Resources Co.	Reconciliation and Elimination	Total
<u>For the Nine Months Ended September 30, 2022</u>				
Revenue from external customers	\$ 1,674,324	\$ 254,197	\$ -	\$ 1,928,521
Inter-segment revenue	-	74,817	(74,817)	-
Total revenue	<u>\$ 1,674,324</u>	<u>\$ 329,014</u>	<u>\$ (74,817)</u>	<u>\$ 1,928,521</u>
Segment's profit	\$ 892,671	\$ 22,486	\$ (367)	\$ 914,790
Interest revenue	846	89	-	935
Finance costs	-	(1,896)	-	(1,896)
Other non-operation income and expenses	46,756	(153)	(20,159)	26,444
Profit before income tax	940,273	20,526	(20,526)	940,273
Income tax expense	184,209	-	-	184,209
Net profit	<u>\$ 756,064</u>	<u>\$ 20,526</u>	<u>\$ (20,526)</u>	<u>\$ 756,064</u>

	The Company	Taiwan Steel Resources Co.	Unallocated Assets/Liabilities	Reconciliation and Elimination	Total
<u>September 30, 2022</u>					
Identifiable segment's assets	\$ 4,407,163	\$ 2,397,309	\$ 28,406	\$ (2,098,408)	\$ 4,734,470
Identifiable segment's liabilities	\$ 223,836	\$ 68,485	\$ 349,419	\$ (7,433)	\$ 634,307

	The Company	Taiwan Steel Resources Co.	Reconciliation and Elimination	Total
<u>For the Nine Months Ended September 30, 2021</u>				
Revenue from external customers	\$ 968,715	\$ 176,387	\$ -	\$ 1,145,102
Inter-segment revenue	1	54,197	(54,198)	-
Total revenue	<u>\$ 968,716</u>	<u>\$ 230,584</u>	<u>\$ (54,198)</u>	<u>\$ 1,145,102</u>
Segment's profit (loss)	\$ 418,677	\$ (25,195)	\$ 855	\$ 394,337
Interest revenue	176	121	-	297
Financial Cost	-	(3,490)	-	(3,490)
Other non-operation income and expenses	(25,658)	(177)	27,886	2,051
Profit (loss) before income tax	393,195	(28,741)	28,741	393,195
Income tax expense	85,127	-	-	85,127
Net profit (loss)	<u>\$ 308,068</u>	<u>\$ (28,741)</u>	<u>\$ 28,741</u>	<u>\$ 308,068</u>

	The Company	Taiwan Steel Resources Co.	Unallocated Assets/Liabilities	Reconciliation and Elimination	Total
<u>September 30, 2021</u>					
Identifiable segment's assets	\$ 3,687,530	\$ 2,364,676	\$ 17,777	\$ (2,118,722)	\$ 3,951,261
Identifiable segment's liabilities	\$ 139,180	\$ 61,266	\$ 226,497	\$ (7,312)	\$ 419,631

Segment profit represented the profit before tax earned by each segment without interest income, other income, loss on disposals of property, plant and equipment, net foreign exchange gain (loss), finance costs, other expenses and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

For the purpose of monitoring segment performance and allocating resources between segments:

- All assets were allocated to reportable segments other than other financial assets and deferred tax assets; and
- All liabilities were allocated to reportable segments other than borrowings and current and deferred tax liabilities.

TABLE 1**TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY****ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsements/ Guarantees Given on Behalf of Each Party (Notes 3 and 5)	Maximum Amount Endorsed/ Guaranteed During the Three Months (Note 4)	Outstanding Endorsements/ Guarantees at the End of the Three Months (Note 4)	Actual Amount Borrowed	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsements/ Guarantees to Net Equity in Latest Financial Statements (%)	Aggregate Endorsements/ Guarantees Limit (Notes 3 and 5)	Endorsements/ Guarantees Given by Parent on Behalf of Subsidiaries	Endorsements/ Guarantees Given by Subsidiaries on Behalf of Parent	Endorsements/ Guarantees Given on Behalf of Companies in Mainland China
		Name	Relationship (Note 2)										
0	The Company	Taiwan Steel Resources Co., Ltd.	(2)	\$ 2,009,080	\$ 611,125 (NT\$ 500,000 and US\$ 3,500)	\$ 611,125 (NT\$ 500,000 and US\$ 3,500)	\$ 245,000	\$ -	14.90	\$ 2,050,082	Y	N	N

Note 1: 1) Taiwan Steel Union Co., Ltd. is numbered 0.

2) Subsidiaries are numbered starting from 1.

Note 2: The relationship between endorser/guarantor and the endorsee/guarantee can be classified into the following four categories:

- 1) The companies with which it has business relations.
- 2) Subsidiaries in which the company held more than 50% of its total outstanding ordinary shares.
- 3) The companies in which the parent company and the subsidiary together held more than 50% of its outstanding ordinary shares.
- 4) The parent company which held, directly or indirectly through a subsidiary, more than 50% of its outstanding ordinary shares.

Note 3: The maximum amount of the endorsements/guarantees provided by the Company and its subsidiary shall not exceed 50% of the Company's net assets as stated in its latest financial statement. Endorsements/guarantees provided by the Company to a single enterprise shall not exceed 49% of the Company's net assets as stated in its latest financial statement.

Note 4: The ending balance and actual amount used are recorded using the prevailing exchange rate at balance sheet date.

Note 5: According to the Company's Guideline for Endorsements and Guarantees, the maximum amount of the endorsements/guarantees is based on the Company's net assets as stated in its latest audited (reviewed) financial statements. In September 2022, the Company announced that the Company's maximum amount of the endorsements/guarantees to a single enterprise is \$1,903,491 thousand and the maximum amount of the endorsements/guarantees is \$1,942,337 thousand. Because the consolidated financial statements for the nine months ended September 30, 2022 have not been audited, these amounts were based on the financial statements for the six months ended June 30, 2022. Thus, there is a difference in between.

TABLE 2

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022

(In Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Account	Amount (Note 2)	Payment Terms	% of Total Sales or Assets
0	The Company	Taiwan Steel Resources Co., Ltd.	1	Cost of goods sold	\$ 74,450	- O/A 30 days	4
			1	Other payables	7,433		1

Note 1: Relationship of investee company to counterparty: (1) parent company to subsidiary

Note 2: Significant intercompany accounts and transactions have been eliminated.

TABLE 3

TAIWAN STEEL UNION CO., LTD. AND SUBSIDIARY

**INFORMATION ON INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of September 30, 2022			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				September 30, 2022	December 31, 2021	Number of Shares	%	Carrying Amount			
The Company	Taiwan Steel Resources Co., Ltd.	Changhua	Waste disposal	\$ 2,300,000	\$ 2,300,000	149,000	100	\$ 2,090,975	\$ 20,526	\$ 20,159	Subsidiary

Note: Significant intercompany accounts and transactions have been eliminated.

TABLE 4**TAIWAN STEEL UNION CO., LTD.****INFORMATION OF MAJOR SHAREHOLDERS
SEPTEMBER 30, 2022**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Feng Hsin Steel Co., Ltd.	26,424,587	23.74%
Tung Ho Steel Enterprise Corp.	24,829,009	22.31%
Hai Kwang Enterprise Corporation	9,691,512	8.70%
Shyeh Sheng Fuat Steel & Iron Works Co., Ltd.	9,677,573	8.69%
Chien Shun Steel Co., Ltd.	6,116,469	5.49%

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preference shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.