



# Part 2

## Credit Culture of Cheng Shin

### Key Performance

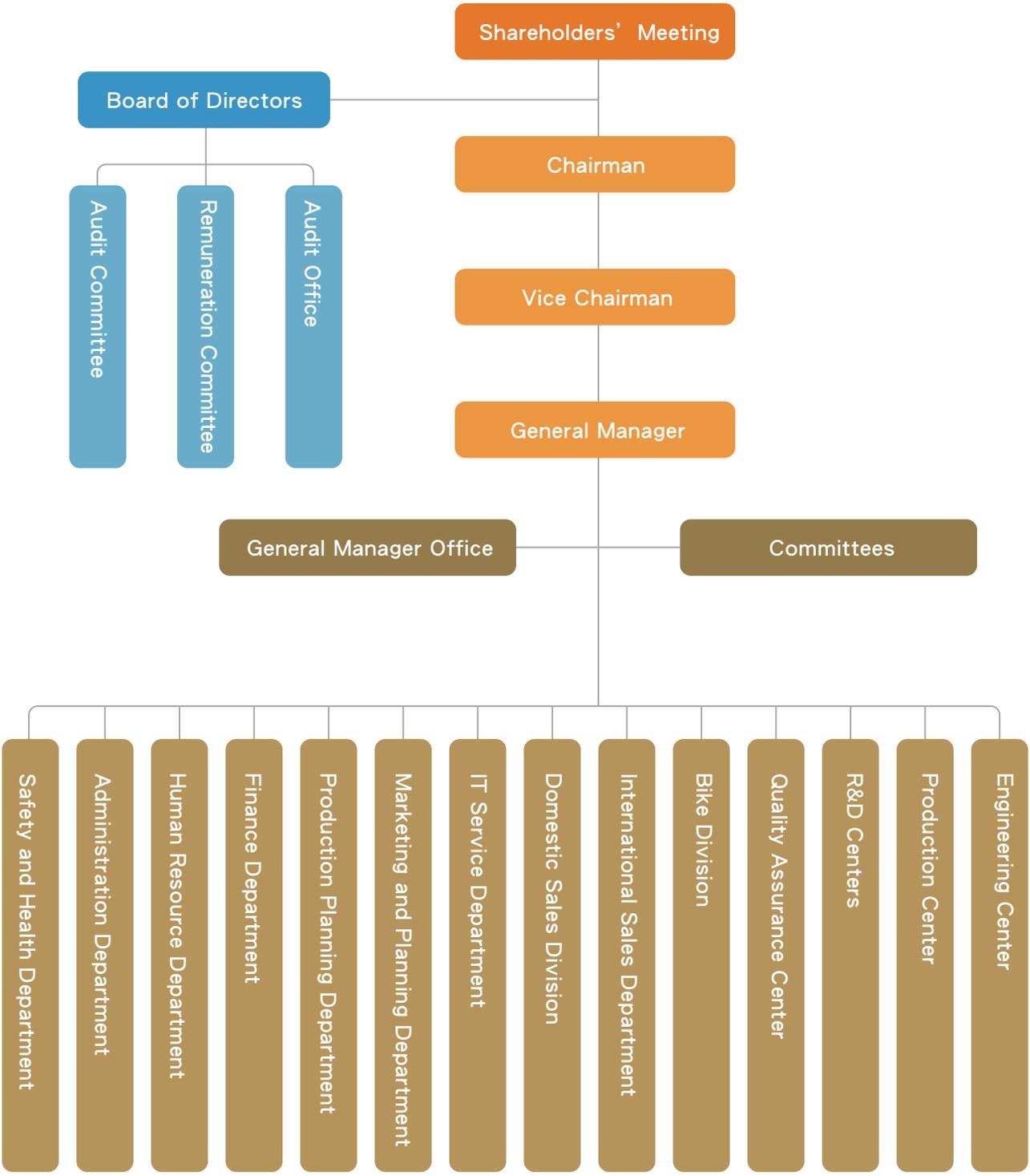
A total of 7,122 hours were invested in the education and training of ethical management in 2020  
 No violation of laws and regulations or internal rules on ethical management in 2020

## 2.1 Corporate Governance Corporate Governance Structure

The supreme governing body of Cheng Shin is the Board of Directors, which is set up to monitor the quality and integrity of Cheng Shin in the execution of accounting, auditing, financial reporting procedures, and financial controls. The Board of Directors has an Auditing office, an Audit Committee, and a Remuneration Committee to assist the board in performing its oversight duties.



# Organization Structure



The main responsibilities of each department are as follows:

Department	Tasks
General Manager Office	Plan the medium and long-term development strategies of the Company and the procurement of raw materials
Audit Office	Audit and evaluate the performance of departmental operating functions and the implementation of internal control policies.
Safety and Health Department	Plan and supervise the risk management of labor safety and health and environmental measures of all departments.
Administration Department	Responsible for the management of the Company's general affairs, assets, and operating and maintenance supplies
Human Resource Department	Responsible for short, medium and long-term human resources planning, personnel compensation, welfare and training.
Finance Department	Manage the working capital as well as matters pertaining to accounting and shares.
Production Planning Department	Manage manufacturing and sales planning and coordinate purchase orders of the Group.
Marketing and Planning Department	Responsible for the Company brand and product promotion projects, implementation of external public welfare activities, publicity materials, and corporate culture promotion, and act as the CSR corporate social responsibility unit.
IT Service Department	Implement the company computerization, and control computer data and computer software security.
Domestic Sales Division	Determine domestic sales strategies and goals.
International Sales Department	Implement and manage global sales policy (excluding Taiwan) and promotion planning.
Bike Division	Develop new customers and manage sales and services related to the OE factories and repair market of bike tires around the world
Quality Assurance Center	Plan, implement and manage quality assurance policy, quality enhancement and standardization of the whole Company.
R&D Centers	Coordinate the research and development strategies for the development of product and formulation of each tire class
Production Center	Plan and implement production schedules, manufacturing, delivery date, and quality affair pertaining to internal and external tires and rubber materials of the Company
Engineering Center	Design graphics for the development of mechanical devices and manage production.

## Operations of the Board of Directors

According to Article 10 of the Rules of Procedure for the Board of Directors Meetings, the board of directors of Cheng Shin shall be convened and chaired by the chairman. However, the first board meeting shall be convened and chaired by the director with the most voting rights obtained in the shareholders' meeting. When there are two or more such convening parties, they shall mutually select a chairman from among themselves.

According to the Articles of Incorporation, the Board of Directors of Cheng Shin has a total of 11 directors (including 3 independent directors), whose term of office is 3 years. The Board of Directors of Cheng Shin was re-elected on June 16, 2020. The setting of current board members is in accordance with Cheng Shin's "Corporate Governance Best Practice Principles" - shall pay attention to gender equality, and members shall generally have the necessary knowledge, skills, and quality to perform their duties. Two of the current 11 directors are women. Their areas of expertise include business, finance, law, and accounting. The main function of the Board of Directors is to appoint and supervise the management team of Cheng Shin so as to ensure the rights and interests of stakeholders and create maximum benefit for shareholders. It is stipulated in Cheng Shin's Rules of Procedure for Board of Directors Meetings that ethical management shall be implemented, and the directors shall adhere to the principle of a high degree of self-discipline and shall not vote on the motions listed by the board of directors where there is a risk of interest damage to any stakeholder and Cheng Shin, so as to avoid conflicts of interest.

The Rules of Procedure for Board of Directors Meetings is available to download from Cheng Shin's website ([http://www.cst.com.tw/shareholder\\_9.php](http://www.cst.com.tw/shareholder_9.php)).

In 2020, a total of 8 board meetings were held, with directors' (including independent directors) attendance rate of 100%. For further detailed background information on the board members, please refer to our Annual Report for the Shareholders' Meeting in 2020.

The Annual Report is available to download from MOPS and Cheng Shin's website ([http://www.cst.com.tw/shareholder\\_7.php](http://www.cst.com.tw/shareholder_7.php)).

## Remuneration Committee

Cheng Shin established a Remuneration Committee in 2011, which has been re-elected to the fourth term, with the term of 3 years. The members of the fourth term are composed of three independent members appointed by the Board of Directors, including two independent directors and one independent external expert, and one female member. The function of the Remuneration Committee is to evaluate, in a professional and objective manner, Cheng Shin's remuneration policies and systems for directors and managers of Cheng Shin and make recommendations to the Board of Directors for their reference in making decisions. In 2020, a total of 4 meetings were held, with an attendance rate of 100%. For further detailed background information on the Remuneration Committee, please refer to our Annual Report for the Shareholders' Meeting and Cheng Shin's website in 2020.

## Audit Committee

In 2017, Cheng Shin set up an Audit Committee to replace the supervisor system, which is composed of all independent directors with a term of 3 years. In 2020, a total of 6 meetings of the Audit Committee were held, with an attendance rate of 100%. For more detailed background information on the Audit Committee, please refer to our 2020 Annual Report for the Shareholders' Meeting and Cheng Shin's website.

## 2.2 Integrity and Anti-corruption

Item	Management Policy
Importance	Integrity is the cornerstone of Cheng Shin's management and has a vital impact on shareholders, employees, customers, and even society. Cheng Shin takes Maxxis Family as the center and Honesty and Integrity as its most basic and important concepts. The Board of Directors and the management implement the ethical management philosophy on such basis and promote ethical management culture and related policies through staff education and training so as to prevent any conflict of interest, gift, and other incidents.
Policy/Commitment	Rules of Procedure for Board of Directors Meetings, Procedures for Preventing Insider Trading, Working Regulation, Establishment of Rules for Related-Party Transactions, Establishment of Supplier - Commercial Contracts, internal control systems, etc.
Goals and Targets	Eradicate any violation of the principles of ethical management
Resources	A total of 7,122 hours were invested in the education and training of ethical management in 2020
Communication Channels	1. Appeal line (Taiwan, Kunshan), feedback platform, appeal mailbox 2. Chongqing Labor Arbitration Commission (Chongqing), Chongqing Human Resources, and Social Security Network, etc.
Action Plan	1. Establishment and promotion of ethical management rules 2. Ethical management education and training
Effectiveness Assessment	1. No violation of ethical management in 2020 2. Internal control systems (Regulations Governing Establishment of Internal Control Systems by Public Companies)

### Ethical Management and Anti-Corruption Rules

In accordance with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, Cheng Shin has formulated the Rules of Procedure for Board of Directors Meetings, Procedures for Preventing Insider Trading, Working Regulation, Establishment of Rules for Related-Party Transactions, Establishment of Supplier - Commercial Contracts, and internal control systems to implement ethical management. No violation of laws and regulations or internal rules on ethical management in 2020.

### Directors - Rules of Procedure for Board of Directors Meetings

An interest avoidance system has been provided for. When the director has a stake in a matter at the meeting, that director shall state the important aspects of the stake in the meeting and, where there is a likelihood that the interests of Cheng Shin would be prejudiced, may not participate in the discussion or vote on that proposal, shall recuse himself or herself from any discussion and voting, and may not exercise voting rights as a proxy on behalf of another director. Where the spouse or a blood relative within the second degree of kinship of a director, or a company which has a controlling or subordinate relationship with a director, is an interested party with respect to an agenda item as described in the preceding paragraph, such director shall be deemed to be an interested party with respect to that agenda item.

## Employee - Procedures for Preventing Insider Trading

Company insiders are expressly prohibited from trading securities using information not disclosed to the market.

## Working Regulation

It has clarified the code of conduct for the directors, managers, and employees of Cheng Shin, aiming at urging all members of Cheng Shin to perform their duties in an honest manner.

## Related-Parties - Related-Party Transactions

The management responsibilities of personnel, assets, and finance are clearly separated between Cheng Shin and affiliate enterprises. In addition to the supervision of subsidiary companies, the auditors also supervise the implementation on an annual basis.

## Establishment of Supplier - Commercial Contracts

It has been specified in the contracts between Cheng Shin and its main suppliers that, if the supplier violates the social responsibility and ethical management, it shall be liable for damages, the contract shall be terminated, and the supplier shall be rejected for business permanently.

In addition to following the above rules, the mainland region has also formulated the internal Human Resources Management Rules to regulate the behavior of anti-bribery and accepting gifts from manufacturers and customers, and specify that the procurement and engineering staff shall sign the letter of commitment regularly to avoid any violation of ethical management. In order to better understand the needs and aspirations of new employees and other internal and external related parties, Taiwan region has set the communication mailbox and set the human resources unit and auditing unit as the dedicated department. The human resources unit is primarily responsible for communicating the ethical management value of Cheng Shin, while the auditing unit is responsible for handling violations. However, if the party suspected to be involved in the violation is a director or senior executive, the independent director will act as the follow-up communication and disposal unit. No apparent violation was found in the aforementioned communication channels in 2020.

## Education and Training

At present, Cheng Shin Taiwan and mainland region provide 2 hours of ethical management education and training respectively for new employees on the day of entering the factory, provide promotion of ethical and responsible code of conduct for in-service staff, explain and promote the behaviors to be observed and avoided in the employee service rules. The decrease in the number of education and training hours in Taiwan region in 2020 is mainly due to the postponing of some training courses and projects as a result of the COVID-19 epidemic, while the decrease in mainland region is due to the decrease of approximately 60% in the number of new employees compared with that in 2019, resulting in fewer trainees. Therefore, the training hours have been greatly reduced. And the duration of pre-service training courses is shortened to accelerate the arrival of new employees and relieve production pressure; as a result, the training hours have been reduced.

### Education & Training Hours for Ethical Management (Anti-Corruption, Anti-Bribery, Code of Conduct for Employees) Over the Years

Unit: hour

Region \ Year	2018	2019	2020
Taiwan Region	1,740	1,952	792
Mainland Region	13,282	16,184	6,330
Total	15,022	18,136	7,122

## 2.3 Risk Management

Ethical management is one of the most important business philosophies of Cheng Shin. Based on such concept, Cheng Shin implements corporate governance and operation management, and improves the risk management mechanism, actively manages and controls the risks that should be considered in the operation process so as to create sustainable corporate business development.

Cheng Shin has formulated various internal rules and regulations. According to the categories of risk factors, each responsible unit in Cheng Shin carries out risk control at different levels, evaluates and plans various control works, and implements them accordingly, expecting to minimize the uncertainty of business operation. Cheng Shin also focuses on the topics of environment, energy and resources, sets goals, and regularly reviews achievements. For details, please refer to Section 4.1 Risks and Challenges of Climate Change of this report.

ESG	Risk Type	Potential Risk	Control Strategies and Measures	Organizer
Corporate governance and operation management	Financial Risk	Exchange Rate Risk	<ul style="list-style-type: none"> <li>◆ As a multinational operating company, the financial reports of our overseas subsidiaries are denominated in the currency of the countries where they are located. Therefore, we are exposed to exchange rate risks arising from different currencies. The Group keeps close attention to the factors affecting the exchange rates and their changes of the countries in which it invests.</li> <li>◆ The group's major currencies for sales and purchase are RMB, USD, NTD, and THB. The sales and purchases amount were of similar scale, thus the exchange rate risk is offset. The exchange rate risk resulting from the overseas investment comes from RMB, USD, THB, VND, INR, and IDR. Cheng Shin continuously observes the trend of the foreign exchange market, records and makes appropriate currency adjustments according to the capital situation to reduce the exchange rate loss or reduce the risk to an acceptable range.</li> </ul>	Finance Department
		Interest rate risk	<ul style="list-style-type: none"> <li>◆ In 2019, novel coronavirus pneumonia was launched by the global central bank to stimulate the economy. In 2020, the new crown pneumonia impact was to expand the easing policy and cut the benchmark interest rate. The United States will cut interest rates to close to zero interest rate and launch an unlimited QE. However, the adoption of the US financial rescue in March 2021 and the gradual slowdown of the pandemic have boosted the optimistic expectation of the market on the economic recovery. The rise of US bond yield will take the lead in influencing the non US market. Cheng Shin will monitor the updates from central banks around the world and the market condition closely, and make adjustments to the Company's liabilities and adopt necessary hedging strategies.</li> </ul>	Finance Department
	Continuous Operational Risk	Material Price Risk/ Material Supply Management	<ul style="list-style-type: none"> <li>◆ Material price alert: Cheng Shin employs the personnel responsible for observing the international raw material trading prices to timely monitor the raw material market prices online and keying in all the information into the system and inform the Company's senior management of the unusual information so as to closely oversee and seize the market trends.</li> </ul>	General Manager Office

ESG	Risk Type	Potential Risk	Control Strategies and Measures	Organizer
Corporate governance and operation management	Continuous Operational Risk	New product development management	<ul style="list-style-type: none"> <li>◆ It is expected to review the generation planning and regulations of market products.</li> <li>◆ Research and develop new products according to the market and products, and meet the customer's performance, quality requirements, and regulations.</li> </ul>	R&D Department
		Transportation Risk	<ul style="list-style-type: none"> <li>◆ In inland and sea transportation, the cooperation of many large manufacturers and long-term cooperation with manufacturers are adopted to establish a deep relationship, so as to avoid the obstacles of export operation caused by the current rising market demand and fill the temporary gap.</li> <li>◆ Price stabilization mechanism: inland transportation and manufacturers set rolling mechanism of oil price and adopt reasonable long-term freight price; In order to stabilize the transportation cost under the current situation of the sharp rise of market price, the freight rate contract is signed by sea transportation.</li> </ul>	Corporate Planning Division
		Power supply	<ul style="list-style-type: none"> <li>◆ Implementation of energy equipment management, regular inspection of primary, secondary and tertiary equipment and predictive detection of thermal imager, formulation of energy management measures, improvement of energy efficiency, and annual setting of energy saving objectives in the plant. Reduce the risk of energy supply through improvement.</li> </ul>	Construction Department
	Intellectual property management	Intellectual Property Right Risk	<ul style="list-style-type: none"> <li>◆ The Company's products are sold to more than 180 countries globally. The preventive measures are as follows: A: Preventing IP violations by other companies: The intellectual property department monitors the current status of other companies' patents at all times. The business department is also keeping an eye on other companies' products. If there is any similarity that raises concerns or potential violation to the Company's patents, they will report to the intellectual property department so that the investigation will be conducted to confirm whether any violation exists. B: Preventing IP violations by the Company: Before the release of the Company's product, an R&amp;D engineer is required to perform a global patent search featuring this product to confirm it does not violate any existing patent. Then, the R&amp;D engineer is required to submit a patent application in accordance with the Invention &amp; Utility Model Patent Management Policy and the Design Patent Management Policy to ensure that all of the Company's products on the market are protected with patent rights and do not violate other companies' patents. After following the two preventive measures above, the authorization from the Company's management team must first be obtained before displaying the relevant patent information on the advertisements to publicize the Company's intellectual property rights and releasing any product advertisement material or new technology.</li> </ul>	General Manager Office
Information Security Risk	Confidential Information Protection	<ul style="list-style-type: none"> <li>◆ Formulate information security policy in the spirit of information security management system (ISO27001), specify the implementation of various security measures and strengthen the audit management. Strengthen information security management to ensure the availability, integrity, and confidentiality of information systems, and protect them from internal and external deliberate or accidental threats.</li> </ul>	Information Department	
Workplace safety and health	Safety risk management	Material Disaster	<ul style="list-style-type: none"> <li>◆ Formulate the Disaster Accident Management Regulations: specify the procedures to respond to an emergency, the emergency response contact system, and the disaster countermeasures.</li> <li>◆ Formulate the Comprehensive Emergency Plans: For factories in China, we have stipulated the Comprehensive Emergency Plans for accidents such as fire explosion, poisoning, machinery harm, vehicle harm, dust explosion, electric shock, and suffocation, specify the emergency team organization and the major responsibilities of each team, and emergency handling procedures to conform to the National Security Manufacturing Act, the General Safety and Health Requirements for Manufacturing Procedures, and the Guidelines for the Preparation of Emergency Plans for Production Safety Accidents in Production and Business Units.</li> </ul>	Safety and Health Department

ESG	Risk Type	Potential Risk	Control Strategies and Measures	Organizer
Workplace safety and health	Environmental risk	Environment Control Ability	<ul style="list-style-type: none"> <li>◆ Implement an environmental management system (ISO14001) with the annual external and internal audits, formulate environmental policies, set objectives, implement, audit and review to achieve continuous improvement in environmental performance.</li> </ul>	Safety and Health Department
		GHG Emissions	<ul style="list-style-type: none"> <li>◆ In response to the energy saving target of the Energy Bureau, energy consumption will be reduced by 2% every year. The energy saving target of next year and the implementation performance of this year will be listed in detail in the plant, so as to facilitate the discussion on the benefits of energy saving measures every year.</li> <li>◆ In response to the government's promotion of the "greenhouse gas reduction and management law", our company has actively carried out the greenhouse gas emission reduction strategy, in which the heavy fuel oil in the plant is completely replaced by natural gas to effectively reduce its emissions, and the registration and certification are completed through external inspection and verification every year.</li> </ul>	Safety and Health Department
		Environmental Management	<ul style="list-style-type: none"> <li>◆ The Company has obtained the ISO14001 environmental management system certification, from the daily management implementation, to continue to maintain the validity of the certificate, and ensure the air, water, waste, and other environmental pollution management.</li> <li>◆ Cooperate with the Environmental Protection Bureau to carry out the integration of multiple environmental protection permits into one license. We actively accept the guidance to integrate the certificates to promote the subsequent regulations and norms.</li> <li>◆ All units implement the general manager's policy, create a sustainable business environment and reduce waste. Reduce energy consumption and sewage discharge of air compressor.</li> </ul>	Safety and Health Department
		Risk of infectious diseases	<ul style="list-style-type: none"> <li>◆ Regarding the impact of COVID-19 epidemic, Cheng Shin carries out relevant epidemic prevention measures in accordance with the "Guidelines for Continuous Operation of Enterprises in Response to the Severe Special Infectious Pneumonia (COVID-19) Epidemic" issued by the Ministry of Health and Welfare. It includes organizing an in-plant pandemic prevention team to conduct propaganda and management, effectively controlling the pandemic situation in the group's domestic and foreign factories, controlling personnel access and operation diversion, etc., so as to ensure the company's internal sustainable operation.</li> </ul>	Safety and Health Department
Society	Human Resources Risk	Talent Capital	<ul style="list-style-type: none"> <li>◆ In order to speed up the cultivation of reserve executive talents, cultivate potential middle and senior talents through systematic training, shorten the training time for middle and senior executives, and implement the reserve talent plan.</li> </ul>	Human Resource Department
		HR management	<ul style="list-style-type: none"> <li>◆ Diversify the talent recruitment channels.</li> <li>◆ Strengthen employee care and enhance employee's willingness to stay.</li> </ul>	Human Resource Department
	Occupational Safety Risk	Safety and health standard operation management	<ul style="list-style-type: none"> <li>◆ In order to ensure the safety and health of the working environment, reduce the cost of accidents and reduce the loss of man-hours, we implement the ISO45001 occupational safety and health management system, ensure the safety and health objectives and performance, consider organizational risks and opportunities and identify occupational security risks in the group and seek to eliminate hazards or risks or control them to reduce their impact.</li> </ul>	Safety and Health Department
	Legal Compliance	Administrative Justice	<ul style="list-style-type: none"> <li>◆ With regard to the environmental protection regulations amended and announced by the government, the Company collects the latest promulgated laws and regulations for the responsible departments to verify if these laws and regulations are being adequately adhered to make sure that the Company's operation is in conformity and the relevant regulations of the Company will be amended accordingly.</li> <li>◆ If there are any relevant laws and regulations on the environmental issues such as greenhouse gas, the Company should actively participate in the contingency team organized by the Industrial Development Bureau of the Ministry of Economic Affairs, pay attention to the draft laws and regulations and relevant changes, and keep track of the relevant information at all times.</li> </ul>	General Manager Office Safety and Health Department