

Part2

Credit Culture of Cheng Shin

Key Performance

10,267.5 hours of education and training on integrity management in 2021

No violation of the laws and regulations or internal regulations for integrity management occurred in 2021

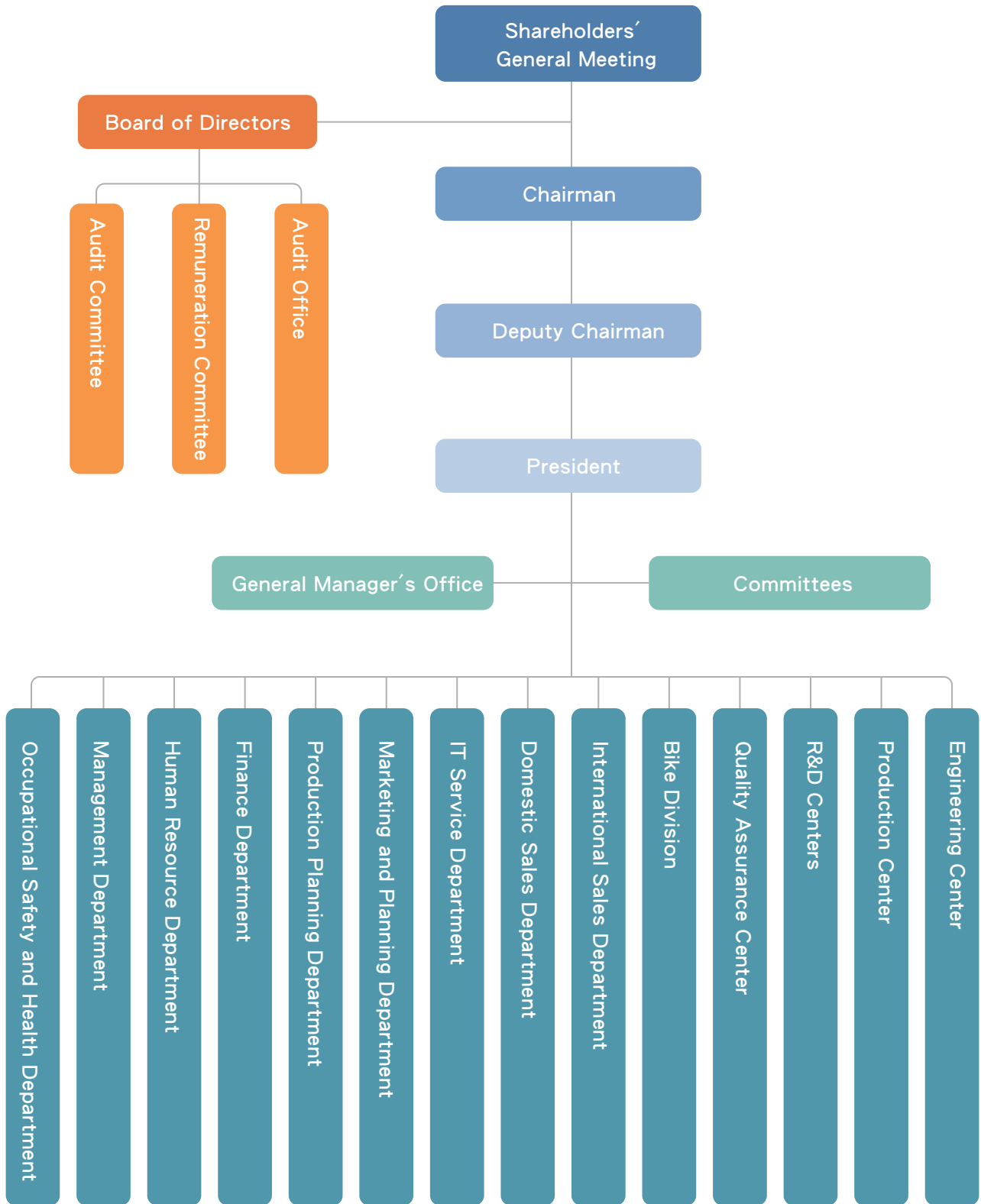
2.1 Corporate Governance

Corporate Governance Framework

The Board of Directors is the highest governance body of Cheng Shin and is responsible for overseeing the quality and integrity of the Company's accounting, auditing, financial reporting processes and financial controls. The Audit Office, Audit Committee, and Remuneration Committee are established under the Board of Directors to assist the Board in fulfilling its supervisory responsibilities.



Organization Structure



The main responsibilities of each department are as follows: : Please refer to Cheng Shin' s 2021 Annual Report for details.

Operations of the Board of Directors

In accordance with Article 10 of the Board of Directors' Meeting Regulations, the board of directors of Cheng Shin shall be convened by the chairman of the board, who shall serve as the chairman of the meeting. 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 current composition of the Board of Directors was organized on June 16, 2020 in accordance with Cheng Shin's "Corporate Governance Best Practice Principles", which emphasizes gender equality and the general knowledge, skills and qualities necessary for the discharge of duties. Of the 11 current directors, 3 are employees (27%) and 2 are women (18%). Three of the directors serve as independent directors (27%), and the term of office of the independent directors is less than eight years. Four of the directors are over 71 years old, three are 61 to 70 years old, and four are under 60 years old. All of the board directors are R.O.C. nationals. All directors have professional backgrounds in 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 integrity 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 that is detrimental to the interests 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).

In 2021, a total of 6 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 2021.

The report can be downloaded from the MOPs and the website of Cheng Shin (http://www.cst.com.tw/shareholder_7.php).

Remuneration Committee

Cheng Shin established the Remuneration Committee in 2011. It has been re-elected to its fourth term, with each term lasting 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 2021, a total of 3 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 in 2021 and Cheng Shin's website.

Audit Committee

The Audit Committee was established in 2017 to replace the supervisor system and is composed of all independent directors serving a three-year term, and shall include at least 1 female member. The Audit Committee convened five times in 2021 with 100% attendance rate. For further detailed background information on the Audit Committee, please refer to our Annual Report for the Shareholders' Meeting in 2021 and Cheng Shin's website.

2.2 Integrity and Anti-corruption

Item	Management Approach
Materiality	Integrity is the cornerstone of Cheng Shin's business management, and it has a pivotal impact on shareholders, employees, customers and society as a whole. Cheng Shin takes Maxxis Family as the center and Honesty and Integrity as its most fundamental and critical 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-giving, 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 Commercial Contracts, internal control systems, etc.
Goals and Targets	Eliminate any violation of the principle of honesty and integrity
Resources	10,267.5 hours of education and training on integrity management in 2021
Communication Channels	1. (Taiwan, Kunshan) Complaint hotline, feedback platform, complaint mailbox 2. (Chongqing) Chongqing Labor Arbitration Commission, Chongqing Human Resources and Social Security Website, etc.
Action Plan	1. Formulation of integrity management rules and regulations and promotion work 2. Integrity management education and training
Effectiveness Assessment	1. No violation of integrity management in 2021 2. Internal control system (Regulations Governing Establishment of Internal Control Systems by Public Companies)

Integrity Management and Anti-corruption Regulations

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 Commercial Contracts, and internal control systems to implement ethical management. No violation of laws and regulations or internal rules on integrity management occurred in FY2021.

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 explicitly prohibited from trading marketable securities using information not disclosed to the market.

Work Regulations

The purpose of these regulations is to ensure that the directors, officers and employees of the Company act in good faith in the performance and conduct of their duties.

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, auditors also supervise relevant implementation on an annual basis.

Suppliers - Commercial Contracts

It has been specified in the contracts between Cheng Shin and its main suppliers that, if the supplier violates required social responsibility and integrity management standards, 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, Cheng Shing's Mainland China operations have also formulated the internal Human Resources Management Rules to regulate the behavior of anti-bribery and accepting gifts from suppliers and customers, and specify that the procurement and engineering staff shall sign the letter of commitment regularly to avoid any violation of integrity management. In order to better understand the needs and voices of Cheng Shin's employees and other internal and external stakeholders, a communication mailbox has been set up in Taiwan, with the human resources and audit units serving as the dedicated departments responsible for addressing concerns raised. 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. In the event of a reported violation involving a director or a senior executive, the independent director will be the unit for follow-up communication and handling. In FY2021, no apparent violations were reported from the aforementioned communication channels.

Education and Training

At present, Cheng Shin's Taiwan and Mainland China operations provide 2 hours and 1.5 hours of integrity management education and training respectively for new employees on the day of entering the factory plants, provide promotion of ethical and responsible code of conduct for in-service staff, explains and promote the behaviors to be observed and avoided in the employee service rules. The training in Mainland China is conducted separately for each new employee and current employee, so the number of education and training covers all employees and the percentage of education and training is 100%.

Training hours for integrity management (anti-corruption, anti-bribery, and employee code of conduct) over the years Unit: Hours

Region \ Year	2019	2020	2021
Taiwan Region	1,952	792	948
Mainland Region	16,184	6,330	9,319.5
Total	18,136	7,122	10,267.5

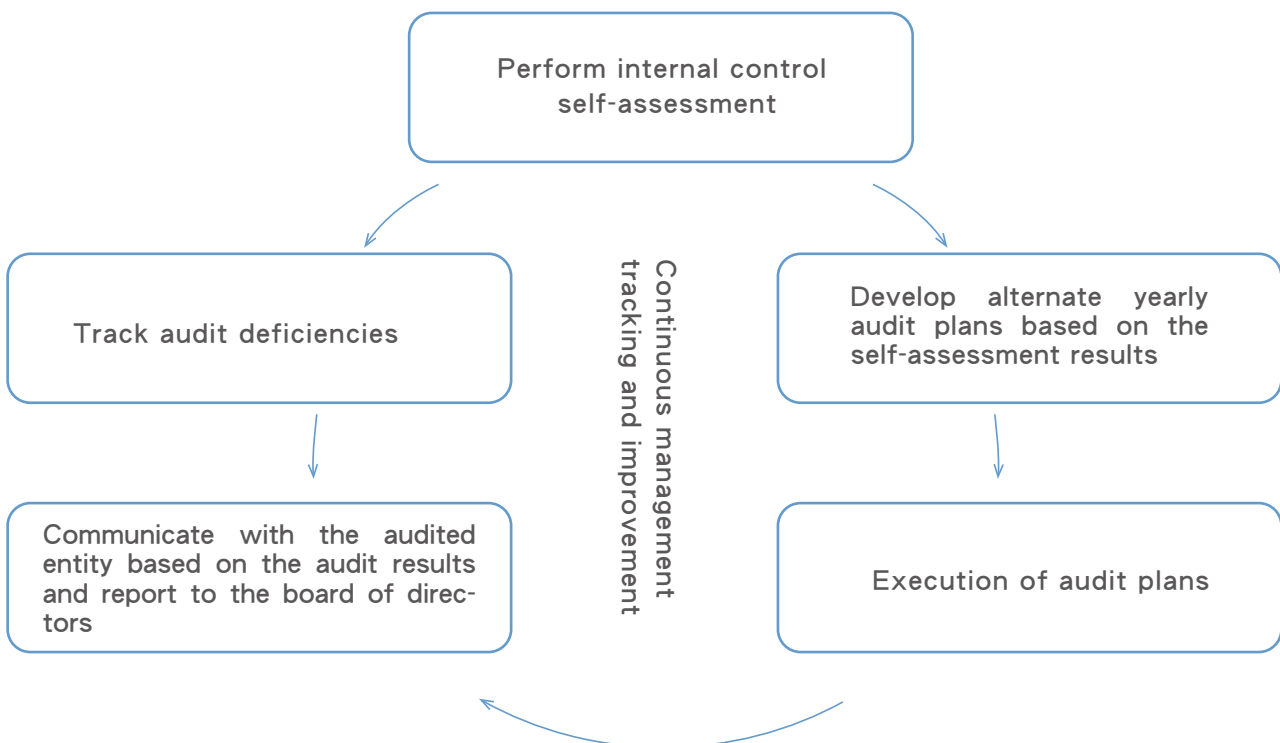
2.3 Risk Management

We have implemented corporate governance and operational management in accordance with this philosophy, as well as a sound risk management mechanism to actively face and control the risks that should be considered in the operation process in order to create sustainable corporate development.

Unit management functions and operation mechanisms

Unit	Responsibility	Frequency	Mechanism
Board of Directors	Cheng Shin's Board of Directors is the highest unit for risk management of the Company and is responsible for approving, reviewing and monitoring the Company's risk management policies in accordance with the "Guidelines for Handling the Internal Control System" to comply with laws and regulations, ensure the effectiveness of risk management, and promote and implement overall risk management as an objective.	Convene at least once every quarter	The internal audit unit establishes an annual audit plan based on risk assessment results. Supervise and manage the operation and management of subsidiaries in accordance with the "Regulations Governing the Supervision of Subsidiaries". When significant and abnormal risk events occur. The operation of the ESG Group. The above-mentioned reports are submitted to the Board of Directors for discussion and review of implementation status.

Unit	Responsibility	Frequency	Mechanism
Audit Office	An independent department under the Board of Directors. In accordance with the rules and regulations and the Company’s internal control system, the Audit Office schedules an annual audit plan to verify the implementation of the relevant units and, based on the results, communicates with the units under investigation to prepare an audit report for submission to the Board of Directors as well as for subsequent follow-up monitoring.	Monthly Audit Report	Monthly audit results are presented to the independent directors for their reference. Quarterly audit findings are presented to the independent directors for their reference on status of improvements. Report to the Board of Directors on a quarterly basis on the status of audit execution.
General Manager’s Office	Execute risk management decisions and coordinate cross-departmental risk management interaction and communication.	Monthly meetings	Integrate functional groups and make decisions and track progress.
Functional Groups	Integrate functional groups and make decisions and track progress.	Monthly functional meetings	Each functional group conducts cross-departmental reviews and executes regular reviews of the plan.



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 Category	Potential Risks	Management Strategies and Practices	Responsible Unit
Corporate Governance and Operations Management	Financial Risk	Exchange Rate Risk	<p>◆ The market expects the U.S. Federal Reserve to raise interest rates, engage in monetary squeeze policies. This is expected to strengthen the U.S. dollar in 2022, which will have an impact on emerging market currencies. 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. However, changes in the political and economic situation of the host country may also affect the exchange rate fluctuations of the subsidiary's reported currency against the New Taiwan dollar.</p> <p>◆ The Group's major currencies for transactions 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 arising from overseas investment mainly derives from RMB, USD, NTD, and 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 tolerable range.</p>	Finance Department
		Interest Rate Risk	<p>◆ In early 2020, central banks around the world cut benchmark interest rates, expanded monetary easing policies, and stimulated the economy due to the impact of the COVID-19 pandemic. However, since the second half of 2021, the impact of the pandemic gradually eased, prices rose, the U.S. consumer price index (CPI) rose, and inflation became more severe, so the market expects the U.S. Federal Reserve to start raising interest rates in 2022, which will in turn affect other countries' central banks.</p> <p>◆ Cheng Shin keeps a close watch on the central banks and market conditions, and can adjust its liabilities and take hedging measures if necessary.</p>	Finance Department
		Inflation	<p>◆ Faced with the uncertainty of the global economic outlook, Cheng Shin cannot predict whether there will be significant changes in inflation or deflation in the future. However, tires are consumer goods, which are highly correlated with raw material prices, market demand, and inflation or deflation, and therefore will affect Cheng Shin's sales results to a certain extent, but will not have a material adverse effect on overall operations.</p>	Finance Department
	Business Continuity Risk	Raw material prices and raw materials supply Risks	<p>◆ Raw material price alerts: Cheng Shin has set up dedicated personnel to monitor bulk raw material market prices online in real time by monitoring international raw material exchange prices, inputting the information obtained into the system, and reporting abnormal information to the company's senior executives in real time to facilitate close observation and adept grasp of market conditions, and to reduce the risk through global procurement, development of alternative (including recycled and recyclable) materials, and development of potential suppliers.</p>	General Manager's Office

ESG	Risk Category	Potential Risks	Management Strategies and Practices	Responsible Unit
Corporate Governance and Operations Management	Business Continuity Risk	Product Research Research and Development Management	<ul style="list-style-type: none"> ◆ Regularly review product generation planning and regulations in the market. ◆ Integrate market and product research and development to develop new products that meet customers' performance, quality requirements and regulatory requirements. 	R&D Center
		Transportation Risk	<ul style="list-style-type: none"> ◆ For inland and marine transportation, we use multiple large suppliers to cooperate and establish deep relationships with them over a long period of time, so that we can avoid hindering export operations due to rising market demand and fill the temporary shortage gap. ◆ Transportation price stabilization mechanisms: Inland transportation and manufacturers set up an oil price rolling mechanism and adopt reasonable and long-term transportation prices; for ocean freight transportation we have signed transportation contracts to stabilize transportation costs in the event of a large increase in 	Production Planning Department
		COVID-19 Outbreak	Regarding the impact of the COVID-19 pandemic, Cheng Shin has implemented internal measures to prevent the spread of the epidemic in accordance with the Ministry of Health and Welfare's "Guidelines for the Continued Operation of Enterprises in Response to the Severe and Special Infectious Pneumonia (COVID-19) Epidemic". This includes staff access control and work diversion to ensure sustainable operations within the company.	Occupational Safety and Health Department
		Energy Supply	<ul style="list-style-type: none"> ◆ Implement energy equipment management, regular inspection and thermal imaging camera prediction test for Grade 1, 2 and 3 equipment, and formulate energy management measures to improve energy usage efficiency and set annual energy saving targets for the Company's plants. Through effective improvement measures, Cheng Shin seeks to reduce the risk of energy supply. 	Engineering Center
	Intellectual Property Management	Intellectual Property Risk	<ul style="list-style-type: none"> ◆ 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 has occurred. B: Preventing IP violations by the Company: Before the release of the Company's product, an R&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&D engineer is required to submit a patent application in accordance with the Invention & 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 the above two precautionary measures are established, 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. 	General Manager's Office
	Digital Information Security Risks	Confidential Information Protection	<ul style="list-style-type: none"> ◆ Formulate information security policies in line with the 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 the Company's information systems, and protect them from internal and external deliberate or accidental threats. 	IT Service Department

ESG	Risk Category	Potential Risks	Management Strategies and Practices	Responsible Unit
Workplace Safety and Health	Safety Risk Management	Major Disasters Accidents	<ul style="list-style-type: none"> ◆ Formulate the Disaster Accident Management Regulations: specify the procedures to respond to an emergency, the emergency response contact system, and the disaster countermeasures. ◆ 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. 	Occupational Safety and Health Department
	Environmental Risks	Environmental Control Capabilities	◆ Implement the environmental management system (ISO14001), and through annual external and internal audits, formulate environmental policies, set targets, implement, audit and review them to achieve continuous improvement of environmental performance.	Occupational Safety and Health Department
		Greenhouse Gases Emissions	<ul style="list-style-type: none"> ◆ In response to the energy saving target of the Bureau of Energy, MOEA to reduce energy consumption by 2% per year, we have set out the energy saving target for next year and the performance of this year's implementation in order to explore the benefits of energy saving measures each year. ◆ In response to the government's promotion of the Greenhouse Gas Reduction and Management Act, the Company has actively carried out greenhouse gas emission reduction strategies, 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. 	Occupational Safety and Health Department
		Environmental Management	<ul style="list-style-type: none"> ◆ We have obtained ISO14001 environmental management system certification, and we have been maintaining the validity of the certification through daily management to ensure the management of environmental pollution such as air, water and waste. ◆ In line with the local Environmental Protection Bureau's implementation of multiple permits for environmental protection, Cheng Shin actively accepts counseling to integrate all the permits to facilitate the implementation of subsequent regulations. ◆ Each unit implements the general manager's policy to create a sustainable business environment and reduce waste. Reduce the amount of air pressure energy consumption and sewage discharge. 	Occupational Safety and Health Department
		Risk of Infectious Diseases	◆ Regarding the impact of the COVID-19 pandemic, Cheng Shin has implemented internal measures to prevent the spread of the epidemic in accordance with the Ministry of Health and Welfare's "Guidelines for the Continued Operation of Enterprises in Response to the Severe and Special Infectious Pneumonia (COVID-19) Epidemic". This includes the formation of an in-plant epidemic prevention team to promote and manage the epidemic, and to effectively control the entry and exit control of the Group's domestic and overseas plants, as well as the diversion of operations to ensure sustainable operations within the company.	Occupational Safety and Health Department

ESG	Risk Category	Potential Risks	Management Strategies and Practices	Responsible Unit
Social	Human Resource Risk	Human Capital	<ul style="list-style-type: none"> ◆ In order to accelerate the development of talent pools, we train high potential mid- and senior-level executives through systematic training. We accelerate the training time for mid- and senior-level executives to implement the talent reserve program. ◆ We provide professional learning and growth opportunities to motivate employees and enhance the strength of our talent pool, while satisfying their learning needs and ensuring that they master key skills to implement our talent pool program. 	Human Resources Department
		Human Resource Management	<ul style="list-style-type: none"> ◆ Diversified talent recruitment channels. ◆ Strengthen employee care and promote employee retention. ◆ Encourage employees to seek to develop new skills and obtain qualifications to perform a variety of jobs in order to enhance overall capabilities and increase management flexibility. 	Human Resources Department
	Occupational Safety Risk	Safety and health standard operation management	<ul style="list-style-type: none"> ◆ 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 implemented the ISO45001 occupational safety and health management system, ensure the achievement of 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. 	Occupational Safety and Health Department
	Legal Compliance	Rationalization of laws and regulations	<ul style="list-style-type: none"> ◆ For the laws and regulations amended by the government, the Company collects the latest laws and regulations announced in that month, and the responsible unit will judge the Company's degree of compliance with the laws and regulations to ensure that the subsequent implementation by the responsible unit is in compliance with the laws and regulations, and to amend the relevant regulations in factory plants. ◆ If there are any relevant laws and regulations on the environmental issues such as greenhouse gas, the Company actively participates in the contingency team organized by the government, pays attention to the draft laws and regulations and relevant changes, and keeps track of the relevant information at all times. 	General Manager's Office Occupational Safety and Health Department