

Stock

2102

# FEDERAL CORPORATION

2021 Annual Shareholders' Meeting

Meeting Handbook

Time: June 17, 2021

Location: No. 369, Huanxi Rd., Guanyin Dist., Taoyuan City

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# FEDERAL CORPORATION

## Meeting Agenda for 2021 Regular Shareholders' Meeting

Time: June 17, 2021 (THU) at 02:00 PM

Location: No. 369, Huanxi Rd., Guanyin Dist., Taoyuan City

- I. Announcing Meeting in Session.
- II. Welcome Speech by the Chair.
- III. Report Items:
  1. 2020 Business Report.
  2. Audit Committee's Review Report of 2020 Audited Financial Statements.
  3. 2020 Loaning of Funds and Endorsements/Guarantees.
  4. 2020 Employee and Director Compensation Distribution.
  5. 2020 Earnings Distribution.
  6. Suspension on Common/Preferred Stock Issuance as Adopted at the 2020 Annual General Shareholders' Meeting.
- IV. Matters for Ratification :
  1. To Ratify 2020 Financial Statements and Business Report.
  2. To Ratify the Distribution of 2020 Earnings.
- V. Matters for Discussion:
  1. Partial Article Amendments to the Corporation's "Articles of Incorporation".
  2. Partial Article Amendments to the Corporation's "Rules of Procedure for Shareholders' Meeting".
  3. To discuss the Shareholder's proposal to dismiss the role of NANKANG RUBBER TIRE CORP., LTD. (hereinafter "NANKANG TYRE") and its assigned representatives (incl. the currently representative Zhao, Guo-Shuai and subsequently assigned representatives) as director of this Corporation.
  4. To discuss the Shareholder's proposal to exercise the disgorgement of this Corporation's corporate shareholder NANKANG TYRE.
  5. To discuss the Shareholder's proposal to "dismiss the independent director Li, Tian-Hsiang" and the Board of Directors' proposal for the "Appointment of external professionals to conduct due diligence processes to demonstrate no reasons for dismissal based on shareholder proposals".

6. To discuss the Shareholder's proposal to "dismiss the independent director Tso, Wei-Li" and the Board of Directors' proposal for the "Appointment of external professionals to conduct due diligence processes to demonstrate no reasons for dismissal based on shareholder proposals".
7. To discuss the Shareholder's proposal to "dismiss the independent director Zhou, Xin-Ru" and the Board of Directors' proposal for the "Appointment of external professionals to conduct due diligence processes to demonstrate no reasons for dismissal based on shareholder proposals".
8. To discuss the Issuance of Common Stock by Cash Capital Increase via Book Building.
9. To discuss the Issuance of Common Stock via Private Placement.

VI. Extraordinary Motions:

VII. Adjournment.

## Report Items

1. 2020 Business Report.  
Explanation: Business Report is attached in the Attachment 1 of this Meeting Agenda Handbook, Page 25.
2. Audit Committee's Review Report of 2020 Audited Financial Statements.  
Explanation: Audit Committee Review Report is attached in the Attachment 2 of this Meeting Agenda Handbook, Page 28.
3. 2020 Loaning of Funds and Endorsements/Guarantees.  
Explanation: this Corporation has not made any loaning of funds of endorsement and guarantee to others as of December 31, 2020.
4. 2020 Employee and Director Compensation Distribution.  
Explanation:
  - (1) Transacted per Article 22 of this Corporation's Articles of Incorporation.
  - (2) This Corporation's profit before tax in 2020 after additions of employees' and directors' compensations

and deduction of cumulative losses is NTD 66,530,058, and 1% were further set aside for employees' compensation and directors' compensation respectively as adopted by resolution in the Board of Directors' meeting. The distribution as stated above shall be transacted in cash payments.

5. 2020 Earnings Distribution.

Explanation: transacted per regulation of "Articles of Incorporation" and per resolution in Board of Directors meeting on March 26, 2021, it is proposed that a cash dividend at NTD 9,466,584 will be distributed, with NTD 0.02 per share.

6. Suspension on Common/Preferred Stock Issuance as Adopted at the 2020 Annual General Shareholders' Meeting.

Explanation:

- (1) The Board of Directors under authorization as adopted by this Corporation's regular shareholders' meeting on June 19, 2020 may, within the limit of 200,000,000 shares, make cash capital increase through private placements of common and preferred stocks in installments depending on market condition and needs of this Corporation within one year from the date the resolution is made.
- (2) As per Article 43-6 of the "Securities and Exchange Act", private placements of securities shall be carried out within one year of the date of the resolution of the shareholders' meeting; such issuance of common and preferred stocks was however not carried out due to management assessment and considerations and has been discontinued and further terminated in the remaining period as adopted by the Board of Directors meeting due to the upcoming expiration.

## Matters for Ratification

### Case 1 (Proposed by the Board of Directors)

Summary: To Ratify 2020 Financial Statements and Business Report.

Explanation:

1. This Corporation's consolidated and parent-company only financial statements and Business Report have been adopted through resolution in Board of Directors meeting on March 26, 2021 and have been reviewed by the Audit Committee.
2. The aforementioned consolidated and parent-company only financial statements have been audited and attested by CPAs Du, Pei-Ling and Lin, Jun-Yao of PwC Taiwan, with audit report of unqualified opinions issued.
3. Audit report on the consolidated and parent-company only financial statements and consolidated and parent-company only financial statements and Business Report are attached in the Attachment 3 and the Attachment 1 of this Meeting Agenda Handbook, Pages 29 to 54 and Pages 25 to 27.

Resolution:

Case 2 (Proposed by the Board of Directors)

Summary: To Ratify the Distribution of 2020 Earnings.

Explanation: The profit after tax of this Corporation for the year 2020 is NTD 111,476,822. After covering the beginning cumulative losses at NTD 60,228,417, deduction to the retained earnings adjustment (actuarial gains/losses for pension) of 2020 at NTD 20,540,636, and setting aside legal reserve at NTD 3,070,777 and special reserve at NTD 1,591,590, the adjusted distributable earnings is NTD 26,045,402. The table for earnings distribution is attached in the Attachment 4 of this Meeting Agenda Handbook, Page 55.

Resolution:

## Matters for Discussion

### Case 1 (Proposed by the Board of Directors)

Summary: Partial Article Amendments to the Corporation’s “Articles of Incorporation”.

Explanation:

1. Interval(s) for earnings distribution is amended.
2. The comparison table for articles before and after amendment is as follows.

Comparison Table for “Articles of Incorporation” Before and After Amendment

After Amendment	Before Amendment	Explanation
<p>Article 22-1</p> <p>After closing of accounts, if there are earnings, this Corporation shall first pay the tax, make up the losses for the preceding years, set aside a legal reserve of 10% of the net profit, and then designate special reserves following relevant regulations; if there are still earnings, this Corporation may in priority distribute the dividends for preferred shares of the current year, and then the Board of Directors shall propose distribution of earnings (including the adjustment to undistributed earnings) herein before reporting to the shareholders’ meeting for resolution on distribution of shareholders’ dividends. In case a cash dividend is to be distributed, such distribution shall be adopted by a majority of directors in the board of directors’ meeting attended by more than two-third of all directors before reporting to the shareholders’ meeting.</p> <p>As the industry this Corporation is under is currently in maternity, in consideration of future capital needs and financial planning, as well as shareholders’ equity, the Board of Directors of this Corporation shall, depending on operation circumstances, set aside an earning distribution between the proportion between 5%</p>	<p>Article 22-1</p> <p>After closing of accounts, if there are earnings, this Corporation shall first pay the tax, make up the losses for the preceding years, set aside a legal reserve of 10% of the net profit, and then designate special reserves following relevant regulations; if there are still earnings, this Corporation may in priority distribute the dividends for preferred shares of the current year, and then the Board of Directors shall propose distribution of earnings (including the adjustment to undistributed earnings) herein before reporting to the shareholders’ meeting for resolution on distribution of shareholders’ dividends. In case a cash dividend is to be distributed, such distribution shall be adopted by a majority of directors in the board of directors’ meeting attended by more than two-third of all directors before reporting to the shareholders’ meeting.</p> <p>As the industry this Corporation is under is currently in maternity, in consideration of future capital needs and financial planning, as well as shareholders’ equity, the Board of Directors of this Corporation shall, depending on operation circumstances, set aside an earning distribution between the proportion between 5%</p>	<p>Interval(s) for earnings distribution is amended for a more flexible distribution.</p>



<p>and <u>100%</u> before submitting to the regular shareholders' meeting. Earnings distribution shall be in priority in form of cash dividend and may be made in equity, which shall be in principle not more than 80% of the total dividend; however, the earnings may be retained for this Corporation's material investment plans and future development, etc.</p>	<p>and 50% before submitting to the regular shareholders' meeting. Earnings distribution shall be in priority in form of cash dividend and may be made in equity, which shall be in principle not more than 80% of the total dividend; however, the earnings may be retained for this Corporation's material investment plans and future development, etc.</p>	
<p>Article 25 These Articles of Incorporation are agreed to and signed on September 19, 1955. <u>47th Amendment was made on June 17, 2021.</u></p>	<p>Article 25 These Articles of Incorporation are agreed to and signed on September 19, 1955. <u>46th Amendment was made on June 19, 2020.</u></p>	<p>Amendment Date</p>

Resolution:

Case 2 (Proposed by the Board of Directors)

Summary: Partial Article Amendments to the Corporation’s “Rules of Procedure for Shareholders’ Meeting”.

Explanation:

1. Transacted per 28 January 2021 Letter No. Taiwan-Stock-Governance-11000014461.
2. The comparison table for articles before and after amendment is as follows.

Comparison Table for “Rules of Procedure for Shareholders’ Meeting” Before and After Amendment

After Amendment	Before Amendment	Explanation
<p>Article 4</p> <p>Attendance at shareholders meetings shall be calculated based on numbers of shares. <u>When the government or a juristic person is a shareholder, the number of representatives at a shareholders meeting shall not be more than the number of incumbent directors (including independent shareholders).</u> When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders meeting, only one of the representatives so appointed may speak on the same proposal.</p>	<p>Article 4</p> <p>Attendance at shareholders meetings shall be calculated based on numbers of shares. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders meeting, only one of the representatives so appointed may speak on the same proposal.</p>	<ol style="list-style-type: none"> <li>1. Amended with reference to Article 6 of the Sample Template for “XXX Co., Ltd. Rules of Procedure for Shareholders Meetings”.</li> <li>2. Maximal number of representatives delegated by government or corporate shareholders is provided with reference to per 10 March 2015 Letter No. Jing-Shan 10402404570 of the Ministry of Economic Affairs.</li> </ol>
<p>Article 7</p> <p>The chair shall call the meeting to order at the appointed meeting time <u>and announce number of shares without voting rights and number of shares represented by the attending shareholders.</u> However, when the attending shareholders do not represent</p>	<p>Article 7</p> <p>The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more</p>	<p>For facilitation of corporate governance and maintenance of shareholders’ rights.</p>

<p>a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of this Corporation A</p>	<p>than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of this Corporation A</p>	
<p>Article 18 Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of this Corporation. The results of the voting shall be announced on-site at the meeting and made into records. <u>The election of directors at a shareholders meeting shall be held in accordance with the “Regulations Governing Directors’ Election” adopted by this Corporation, and the voting results shall be announced on-site immediately, including the names of those elected as directors and the numbers of votes with which they were elected as well as the names of those not elected as directors and the numbers of votes with which they have obtained.</u></p>	<p>Article 18 Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of this Corporation. The results of the voting shall be announced on-site at the meeting and made into records.</p>	<p>For facilitation of corporate governance and maintenance of shareholders’ rights.</p>
<p>Article 24 These Rules shall take effect after having been submitted to and approved by a shareholders meeting. Subsequent amendments thereto shall be effected in the same manner.</p>	<p>Article 24 These Rules shall take effect after having been submitted to and approved by a shareholders meeting. Subsequent amendments thereto shall be effected in the same manner.</p>	<p>Amendment Date</p>

1st Amendment was made on June 15, 2015. <u>2nd Amendment was made on June 17, 2021.</u>	1st Amendment was made on June 15, 2015.	
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Resolution:

Case 3 (Proposed by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares)

Summary: To discuss the Shareholder's proposal to dismiss the role of NANKANG RUBBER TIRE CORP., LTD. (hereinafter "NANKANG TYRE") and its assigned representatives (incl. the currently representative Zhao, Guo-Shuai and subsequently assigned representatives) as director of this Corporation.

Explanation:

1. FEDERAL CORPORATION (hereinafter "FEDERAL") is in the main business scope of manufacturing and sales of tires for automobiles, which shares the same scope(s) with NANKANG TYRE and might cause competition with as well as disclosure of trade secrets of FEDERAL. NANKANG TYRE and its representative(s) is hence unsuitable for the role as director of FEDERAL.
2. The proposal of dismissing NANKANG TYRE and its representative(s) (incl. the currently assigned representative Zhao, Guo-Shuai and subsequently assigned representatives) of the role as director of this Corporation is therefore proposed to this shareholders' meeting pursuant to applicable laws and regulations for resolution.

Resolution:

Case 4 (Proposed by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares)

Summary: To discuss the Shareholder's proposal to exercise the disgorgement of this Corporation's corporate shareholder NANKANG TYRE.

Explanation:

1. Corporate shareholder of the FEDERAL CORPORATION (hereinafter "FEDERAL") NANKANG TYRE had its representative Jiang, Qing-Xing elected as director in this Corporation's 2020 regular shareholders' meeting pursuant to Article 27, paragraph 2 of the Company Act, yet did not obtain the resolution of removal for restrictions on competing with this Corporation, and it was resolved in the same shareholders' meeting that disgorgement shall be exercised on NANKANG TYRE and its representative Jiang, Qing-Xing.
2. The proposal of disgorging the operating revenue of the corporate shareholder NANKANG TYRE from the date its representative is elected as director of FEDERAL to resolution date of 2021 regular shareholders' meeting as earnings of FEDERAL is therefore proposed to this shareholders' meeting for resolution.

Resolution:

Case 5 (Proposed by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares and Proposed by the Board of Directors)

Summary: To discuss the Shareholder's proposal to "dismiss the independent director Li, Tian-Hsiang" and the Board of Directors' proposal for the "Appointment of external professionals to conduct due diligence processes to demonstrate no reasons for dismissal based on shareholder proposals".

Explanation:

Explanations on the Proposal by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares:

FEDERAL's Board of Directors has adopted through resolution in the Board of Directors' meeting on March 26, 2021 on loaning of funds at USD 8 million to FEDERAL's subsidiary in the US., nevertheless, such subsidiary has revealed significant loss in its financial reports and experiences large operation risks under the U.S. anti-dump investigations. However, FEDERAL's independent director Li, Tian-Hsiang did not express its opinion over such loaning under the circumstances that the subsidiary showed tremendous loss and was identified as with material operation risks per US Anti-Dumping Investigation result. Following a research, it was found that the incumbent director of FEDERAL Ma, Shu-Jian concurrently serves as incumbent director of Kun Shan University, where Li, Tian-Hsiang serves as the president of the same school, and, as the term of Li, Tian-Hsiang will expire in the near future and, in accordance with the university's relevant regulations governing election of headmaster, Ma, Shu-Jian has a significant influence to the by-election of such role, putting the possibility of Li, Tian-Hsiang performing his duties for FEDERAL under superiority and justice as an independent director in doubt. In view of precondition of the conflict in interests and incurred by confusion of the roles, it is determined by the proposing shareholder(s) that Li, Tian-Hsiang is no longer suitable for the role as independent director of FEDERAL, and the proposal for dismissing his/her role as independent director is therefore proposed to this shareholders' meeting.

Explanation on the Proposal by the Board of Directors:

For protections of shareholders' exercise of proposal rights and directors' rights, safeguarding of dignity as well as the trade-off between this Corporation's normal management and rights protection of all shareholders, with considerations to proposals by the shareholders and to reveal the due diligence by independent directors, which is open for scrutiny by the public, concerning the aforesaid

proposal by the shareholders involving the questions on the ambiguity “On March 26, 2021, it has been adopted by resolution which this Corporation will make loan of funds at USD 8 million to its subsidiary in the US” of the reason for dismissal” [Remarks: ‘FEDERAL’s Board of Directors has adopted through resolution in the Board of Directors’ meeting on March 26, 2021 on loaning of funds at USD 8 million (NTD 226,240 Thousand) to FEDERAL’s subsidiary in the US’ refers to FEDERAL’s intention of converting the recognition of accounts receivable from this subsidiary to loan of funds, which is in complete compliance with Question 37 of the “Questions and Answers for Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” by the Securities and Futures Bureau, FSC without occurrence of illegal or unreasonable events.]albeit the fact that this Corporation has made a public statement (The excerpted gist of the Statement: “the Independent Director Li, Tian-Hsiang is in full conformity of qualifications for serving as an independent director as provided by laws and, since the assumption of office as an Independent Director of this Corporation, the independent director has fulfilled the duties unwavering by others and without events of negligence on duty of care as a good administrator”, “The claim by the proposing shareholder(s) with citation of Regulations Governing Election of President of Kun Shan University, which Ma, Shu-Jian has significant influence to the re-election of Li, Tian-Hsiang and may cause concerns of Li, Tian-Hsiang’s fulfillment of duties as an independent director to supervise FEDERAL’s daily operations, is a pure muddying to the water and does not match the facts.”) The excerpt as contained in the proposal by the shareholder(s) is an obvious false accusation deviating from the facts. However, with respect to the shareholders, the Board of Directors may entrust the external professionals to perform forensic accounting as a proof that the said independent director does not contain any reason for dismissal as claimed by the proposing shareholder(s) after proposed by the Board of Director for adoption at the shareholders’ meeting; followed by disclosure at MOPS or preparation of project report for presentation at the next shareholders’ meeting.

Resolution:

Case 6 (Proposed by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares and Proposed by the Board of Directors)

Summary: To discuss the Shareholder's proposal to "dismiss the independent director Tso, Wei-Li" and the Board of Directors' proposal for the "Appointment of external professionals to conduct due diligence processes to demonstrate no reasons for dismissal based on shareholder proposals".

Explanation:

Explanations on the Proposal by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares:

1. As per Article 3 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, "Within the scope of execution of business, an independent director of a public company shall maintain independence, and may not have any direct or indirect interest relationship with this Corporation"
2. It was found that, despite that the independent director Tso, Wei-Li did not take any role at this Corporation within two years prior to the assumption of office for independent director, however, he has been the Vice General Manager of this Corporation for various years under the General Manager named Ma, Shu-Jian, the incumbent Chairman.
3. In further findings, it was found that independent director Tso, Wei-Li has assumed office since 2017, yet to this date has never expressed his objection or qualified opinion in the Board of Directors meetings of this Corporation upon material information, even toward the fact that the Corporation intended to loan the fund in large figure to its subsidiary without any collateral, as submitted to the Board of Directors' meeting for resolution on March 26, 2021.

In comprehensive consideration based on the aforesaid facts, it is recognized that independent director Tso, Wei-Li is unable to independently perform his duties as an independent director due to the years of experience as a subordinate of this Corporation's Chairman, and hence is not suitable for serving as independent director of this Corporation. A dismissal is advised.

Explanation on the Proposal by the Board of Directors:

For protections of shareholders' exercise of proposal rights and directors' rights, safeguarding of dignity as well as the trade-off between this Corporation's normal management and rights protection of all shareholders, with considerations to proposals by the shareholders and to reveal the due diligence by independent directors, which is open for scrutiny by the public, concerning the aforesaid proposal by the shareholders involving the questions on the ambiguity "On March 26, 2021, it has been adopted by resolution



which this Corporation will make loan of funds at USD 8 million to its subsidiary in the US” of the reason for dismissal” [Remarks: ‘FEDERAL’s Board of Directors has adopted through resolution in the Board of Directors’ meeting on March 26, 2021 on loaning of funds at USD 8 million (NTD 226,240 Thousand) to FEDERAL’s subsidiary in the US’ refers to FEDERAL’s intention of converting the recognition of accounts receivable from this subsidiary to loan of funds, which is in complete compliance with Question 37 of the “Questions and Answers for Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” by the Securities and Futures Bureau, FSC without occurrence of illegal or unreasonable events.]albeit the fact that this Corporation has made a public statement (The excerpted gist of the Statement: “The Independent Director Tso, Wei-Li is in full conformity of qualifications for serving as an independent director as provided by laws and, since the assumption of office as an Independent Director of this Corporation, the independent director has fulfilled the duties unwavering by others and without events of negligence on duty of care as a good administrator”, “The Independent Director Tso, Wei-Li served as the vice general manager of this Corporation for various years, though, the said Independent Director has resigned from this Corporation for more than 12 years, which does not have any direct or indirect interest with this Corporation or the Chairman, meaning the failure of the said Independent Director to independently perform the duties of an independent director as claimed by the proposing shareholder(s) is a false accusation.”) However, with respect to the shareholders, the Board of Directors may entrust the external professionals to perform forensic accounting as a proof that the said independent director does not contain any reason for dismissal as claimed by the proposing shareholder(s) after proposed by the Board of Director for adoption at the shareholders’ meeting; followed by disclosure at MOPS or preparation of project report for presentation at the next shareholders’ meeting.

Resolution:

Case 7 (Proposed by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares and Proposed by the Board of Directors)

Summary: To discuss the Shareholder's proposal to "dismiss the independent director Zhou, Xin-Ru" and the Board of Directors' proposal for the "Appointment of external professionals to conduct due diligence processes to demonstrate no reasons for dismissal based on shareholder proposals".

Explanation:

Explanations on the Proposal by the Shareholders Holding 1% or More of this Corporation's Outstanding Shares:

1. As per provision of Securities and Exchange Act, legislative purposes for establishment of independent directors are "giving advice on Company affairs in independence and objectivity" and "effective supervision of this Corporation's operation and protection of shareholders' equity".
2. However, it was found by the Corporation's shareholders in material information as disclosed by this Corporation on March 26, 2021 that it was resolved by the Board of Directors' that a loan of NTD 226,240 (Thousand) would be loaned to a subsidiary of this Corporation, which however was 40 times the amount of their paid-in capital, while the amount of their cumulative losses was 8 times of their paid-in capital; however, such loan of funds did not obtain any collateral, and such loan are deemed unreasonable, as the funds were loaned by this Corporation from financial institutions before making such loan to such subsidiary.
3. However, as per material information, the independent director Zhou, Xin-Ru expressed no objection or qualified opinion. The shareholders have deemed Zhou not fulfilling the aforesaid purposes of an independent director, and dismissal to Zhou is advised.

Explanation on the Proposal by the Board of Directors:

For protections of shareholders' exercise of proposal rights and directors' rights, safeguarding of dignity as well as the trade-off between this Corporation's normal management and rights protection of all shareholders, with considerations to proposals by the shareholders and to reveal the due diligence by independent directors, which is open for scrutiny by the public, concerning the aforesaid proposal by the shareholders involving the questions on the ambiguity being "However, it was found by the Corporation's shareholders in material information as disclosed by this Corporation on March 26, 2021 that it was resolved by the Board of Directors' that a loan of NTD 226,240 (Thousand) would be loaned to a subsidiary of this Corporation, which however was 40 times the amount of their paid-in capital, while the amount of their cumulative losses was 8 times of their paid-in capital; however, such loan of funds did not obtain any collateral, and such loan are deemed unreasonable,"

[Remarks: ‘FEDERAL’s Board of Directors has adopted through resolution in the Board of Directors’ meeting on March 26, 2021 on loaning of funds at USD 8 million (NTD 226,240 Thousand) to FEDERAL’s subsidiary in the US’ refers to FEDERAL’s intention of converting the recognition of accounts receivable from this subsidiary to loan of funds, which is in complete compliance with Question 37 of the “Questions and Answers for Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” by the Securities and Futures Bureau, FSC without occurrence of illegal or unreasonable events.], albeit the fact that this Corporation has made a public statement (The excerpted gist of the Statement: “Independent Director Zhou, Xin-Ru”), such excerpt for shareholders’ proposal is untrue. However, with respect to the shareholders, the Board of Directors may entrust the external professionals to perform forensic accounting as a proof that the said independent director does not contain any reason for dismissal as claimed by the proposing shareholder(s) after proposed by the Board of Director for adoption at the shareholders’ meeting; followed by disclosure at MOPS or preparation of project report for presentation at the next shareholders’ meeting.

Resolution:

Case 8 (Proposed by the Board of Directors)

Summary: To discuss the Issuance of Common Stock by Cash Capital Increase via Book Building.

Explanations: In order to enrich the operation capital and/or repay the bank borrowings, this Corporation intends to, depending on capital needs, conduct the issuance of new shares by Cash Capital Increase within the issuance limit of 150,000,000 shares and submit to the shareholders' meeting for adoption of conducting domestic issuance of new shares by cash capital increase in one issuance or by installments depending on market condition and in cooperation with this Corporation's capital needs by the Board of Directors under authorization. The details are as follows:

1. In accordance with Article 28-1 of the "Securities and Exchange Act", the manner of offering for the portion requiring public underwriting shall be book building by the Board of Directors under authorization, with the proportion allocated for public underwriting handled pursuant to the manners below:
  - (1) In accordance with Article 267 of the "Company Act", 10 to 15 percent of the total of new shares issued shall be reserved for subscription by employees of the company, with the remaining 85 to 90 percent of the issued shares handled under adoption of the shareholders' meeting by making public underwriting through book building after the original shareholders have waived the rights of new share subscription with preference in accordance with Article 28-1 of the "Securities and Exchange Act". In case an employees of this Corporation has waived his subscription or there are number of shares insufficient through the subscription, the Chairman under authorization may make such offer for public issuance or for subscription by specific person or persons at the issuance price.
  - (2) The issuance price for this issuance of common shares through cash capital increase via book building will be determined in accordance with Article 7 of the "Voluntary Code of Practice for Taiwan Securities Association on Guidance of Offering and Issuance of Securities by Public Companies to Underwriter Members", whose actual price will be negotiated and agreed by representative as designated by the Board of Directors and main securities underwriter with reference and compilation of book building conditions and issuance market situation after the conclusion of book building period.
  - (3) The above methods for public underwriting sales are submitted to the shareholders' meeting to enable the Board of Directors under authorization to conduct relevant affairs in accordance with applicable laws and regulations.

2. In case the important contents of this cash capital increase including underwriting method, issuance price, actual number of shares issued, issuance condition, project items, placement amount, expected progress and expected benefits, etc. as well as all other affairs concerning this cash capital increase require amendments due to approval by competent authorities or based on management assessment or laws and regulations and objective circumstances, the amendments shall be submitted to the shareholders' meeting to enable the Board of Directors under full authorization for handling.
3. This issuance of new shares through cash capital increase shall, following adoption by the shareholders' meeting and submitted to the shareholders' meeting for authorizing the Board of Directors or other authorized person to propose such issuance for approval, set record date for share subscription, payment period, record date for capital increase and conduct all relevant affairs.
4. The rights and obligations contained in the new shares issued in this issuance will be the same as the original shares, and the shares will be issued in paperless form.
5. For equitable consideration of this Corporation's capital needs, strategic cooperation purposes and shareholders' equities, the total of this issuance of common shares through cash capital increase via book building and the issuance of common shares through private placement shall not be over 150,000,000 shares [Remarks: the shareholders' meeting has adopted the conduct of issuance of common shares through cash capital increase via book building and (or) common shares through private placement that only the upper limits will be executed when one of the cases is executed, or both cases are executed.].

Resolution:

Case 9 (Proposed by the Board of Directors)

Summary: To discuss the Issuance of Common Stock via Private Placement.

Explanations:

1. In cooperation with the operation development as well as reinforcement of long-term cooperation with strategic partners and competitiveness of this Corporation, it is proposed to the shareholders' meeting to adopt the conduct of private placement by the Board of Directors under authorization within the limit of issuance at 150,000,000 at once or at three installments within a year from the date of resolution at the shareholders' meeting at the appropriate timing under discretion and the premise which such conduct will not cause any material changes to management and in accordance with Article 43-6 of the "Securities and Exchange Act", other relevant laws and regulations, the Articles of Incorporation of this Corporation and the various principles stated below.
2. As per Article 43-6 of the "Securities and Exchange Act" and "Directions for Public Companies Conducting Private Placements of Securities", matters requiring explanations are as follow:
  - (1) Basis and Reasonableness in Determining Private Placement Price:
    - A. The basis for determining the price for a common share through private placement shall not be lower than the 80 percent of the price as calculated in accordance with the following two basis on the Price Determination Date, whichever is higher:
      - a. The simple average closing price of the common shares of the TWSE listed or TPEX listed company for either the 1, 3, or 5 business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends or capital reduction.
      - b. The simple average closing price of the common shares of the TWSE listed or TPEX listed company for the 30 business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction.
    - B. The actual price determination date and actual issuance price for common shares through private placement is proposed to the shareholders' meeting for resolution and, following the adoption by resolution, to be determined by the Board of Directors under authorization within the scope of percentages as resolved in the shareholder' meeting depending on the subsequent market conditions

and the situation in determining strategic investors.

C. The basis for the aforesaid private placement determination shall, in addition to meeting the relevant regulations of “Directions for Public Companies Conducting Private Placements of Securities”, consider the limitations on the assignees and quantities within three years from the delivery of securities under private placement, and the post registration to competent authorities for public offering and exchange may not be made within three years from the delivery, which shall therefore be with reasonableness.

(2) Method for selection by Specific Person(s):

A. Subjects of this issuance of common share through private placement shall be limited to specific person(s) meeting Article 43-6 of the “Securities and Exchange Act” and as specified in per 13 June 2002 Letter No. Taiwan-Finance-Securities-I-0910003455.

B. This Corporation currently has not selected a specific subscriber; however, the selection method of subscriber and its purpose, necessity and expected benefits are stated as follows:

a. Selection Method and Purpose: The selection of subscriber shall be under the principle of its added value to this Corporation, and subscribers who may generate direct or indirect increase in management performance to future operations of this Corporation shall be prioritized.

b. Necessity and Expected Benefits: The subscriber shall, with its experience, technique, knowledge, brand or reputations, etc., assist this Corporation in advancing technology, reducing cost, expanding market development, reinforcing relations with suppliers and customers and generating other benefits.

(3) Necessary Reason for Private Placement, Granted Credit for the Private Placement Offering, Purpose of Fund and Expected Benefit:

A. Reason for Not Adopting Public Offering: Compared to public offering, the rule which the securities issued through private placement may not be freely transferred will ensure the long-term partnership between this Corporation and strategic investment partners; in addition, through the private placement by the Board of Directors under authorization depending on actual needs in operations, mobility and flexibility of the funding by this Corporation will also be enhanced effectively.

B. Granted Credit for the Private Placement Offering: The number of

shares to be issued in this common share offering through private placement is intended to be limited at 150,000,000 shares, with a value per share at NTD 10. The total amount for private placement will be calculated based on the final price for private placement.

C. Purpose of Fund and Expected Benefits:

Expected Number of Conducts	Purpose of Fund	Expected Benefit
1~3 Conducts	Enriching operation funds and/or repaying bank borrowings	Enhancing operating funds and repayment capabilities, improving financial structure, and easing liabilities of interests.
<p>For the estimated number of shares issued through first, second and third private placement as mentioned above, in each conduct, the shares may be issued altogether or with combined portions based on the previously unissued shares and/or number of shares estimated to be issued, however, the total number of shares for the common shares issued through cash capital increase via book building shall not be more than 150,000,000 shares</p>		

3. The common shares issued through private placement shall, in accordance with Article 43-8 of the “Securities and Exchange Act” and relevant legal letter interpretation by the competent authorities, not be freely transferred within three years from the delivery of common shares issued through private placement by this Corporation, except for the specific circumstances as meeting laws and regulations as well as rules; after the common shares issued through private placement has been delivered for three years, this Corporation shall, in accordance with laws and regulations concerning such common shares issued through private placement, apply to the competent authority for the post registration of public offering and exchange.
4. In case the important contents of this cash capital increase including but not limited to issuance price, number of shares issued, issuance condition, offering amount, project items, estimated funds utilization progress, expected benefits as well as all other affairs unattended is to be determined, it is proposed to the shareholders that the Board of Directors under



authorization may, in accordance with relevant rules by competent authorities and in dependence on market condition and operation needs of this Corporation. Where modifications or amendments are required as instructed by competent authorities or based on management assessment or changes in objective circumstances or laws and regulations, such conducts shall be made by the Board of Directors under full authorization after adopted in the shareholders' meeting.

5. In cooperation with this issuance of common shares through private placement, it is proposed to the shareholder' meeting that the Chairman under authorization or the person as designated by the Chairman sign and negotiate all contracts and documents concerning this private placement, with relevant affairs handled. Matters unattended above shall be handled by the Chairman under full authorization.
6. For equitable consideration of this Corporation's capital needs, strategic cooperation purposes and shareholders' equities, the total of this issuance of common shares through cash capital increase via inquiry and book building and the issuance of common shares through private placement shall not be over 150,000,000 shares [Remarks: the shareholders' meeting has adopted the conduct of issuance of common shares through cash capital increase via book building and (or) common shares through private placement that only the upper limits will be executed when one of the cases is executed, or both cases are executed.].

Resolution:

Extraordinary Motions

Adjournment

# Attachments

## Attachment 1

# FEDERAL CORPORATION

## Business Report

In 2020, as the novel coronavirus (COVID-19) rampages the globe, various nations, to prevent the spread of pandemic, adopted rigid control measures including lockdown, close of borders, restrict civilian activities, etc., bringing the world economy near to full suspension, furthermore making the international crude oil and raw material prices plummeted. Albeit the fact that Taiwan made appropriate pandemic prevention measures, the nation without an exception got involved due to the major setback of global economy, which in the meantime affected the circumstances of the nation.

Following the shift of production sites and adjustments by manufacturers triggered by US-Sino Trade Wars, although the effects of order transfer and investments as a result of returning Taiwanese manufacturers brought about facilitation in Taiwan's export momentum, the global economy development would be interfered in continuation should the aforesaid trade conflicts enter a long-term development. In 2021, as the US Presidential Election has been concluded, whether the sanction to China started during the election will continue remained unknown. Should the US-Sino Trade conflict proceed or escalate, economic performance of China might be affected, furthermore influencing the cross-trait trades and global economy.

In the preceding year, under the influences of lockdown and closure of borders resulting from pandemic, various nations experienced the deficiency of containers and surge in shipment costs, weakening the economic growth momentum of exporting nations, while global tire manufacturers also faced the recess in revenue and reduced profit. This Corporation in 2020, even though affected by global circumstances, obtained full capacity resulting from various client orders and showed great performance by officially turning a loss into a profit.

### 1. Management Results of 2020

#### (1) Operation Overview:

Consolidated operating profit of this Corporation of 2020 is NTD 5,704,663 Thousand, up 26% compared to NTD 4,541,002 Thousand YoY. The profit after tax of the period is NTD 111,477 Thousand, which also obtained a significant growth YoY.

#### (2) Production and Sales Overview:

Unit: Tyres

	2020	2019	Gain (Loss)	%
Production Volume	3,382,085	2,633,458	748,627	28%
Sales Volume	3,301,696	2,824,924	476,772	17%

#### (3) Financial Overview and Profitability:

Unit: NTD Thousands

Items/Year	2020	2019	Gain (Loss)%
Net Operating Revenue	5,704,663	4,541,002	26%
Net Operating Margin	1,302,019	685,815	90%
Operating Income (Loss)	269,315	(386,034)	169%
Net Income (Loss)	111,477	(669,563)	116%

Items	2020	2019
-------	------	------

Return on Assets (%)	1.16	(4.37)
Return on Shareholders' Equity (%)	1.50	(8.73)
Pre-Tax Income to Paid-in Capital (%)	3.49	(14.00)
Profit Margin (%)	1.95	(14.74)
Earnings per Share	0.24	(1.46)

## 2. Management Plans of 2021

Prospecting the year 2021, as the impacts of pandemic may be gradually mitigated in 2021, along with the effects of partial production line transferring back to Taiwan, burgeoning demands by emerging technologies, etc., Taiwanese export may expect a drastic growth, in addition, the efforts by the government in promotion of green construction, which attracts foreign investments to Taiwan, will give aides to driving domestic needs. The economic momentum in 2021 will better the performance of the previous year and showcase a growth.

However, the abrupt measures of United States Department of Commerce to Taiwan by levying an anti-dump tax under preliminary determination at a rate ranging from 52.42%~98.44% starting by the end of 2020 has caused influences on the tyre manufacturing industry in Taiwan. Due to the influence on the tyre manufacturer in appearance NANKANG TYRE by a high tax rate at 98.44%, this Corporation and other manufacturers have also been affected with the tax rate under preliminary determination at 88.82%. Prior to the final verdict by the United States Department of Commerce in late May, this Corporation has entrusted the attorneys in the States to file litigations and conduct coordination via the assistance of TREIA and MoEA.

In comprehensive considerations of the above facts, this Corporation has adopted the following measures as countermeasures:

### (1) Operation Aspects:

1. Raising the sales proportion in non-US markets (Europe, Central and South America, Asia, etc.).
2. Addition to sales proportion of non "Passenger Car (PCR) and Light Truck (LT) Tyres" e.g. motorsport and performance tires, etc.
3. Developing overseas foundries for cooperative production with a goal of gradual restoration of supplies to the US.
4. Expanding the global distribution channels deployment and focusing on product R&D, marketing and services for enhanced competitiveness.

### (2) Production and Management Aspects:

1. Reinforcing internal control, and raising the corporate governance capacity.
2. Downsizing the human resources and reducing the costs for a lean and effective human resource.
3. Integration and merger of the two plants for achieving an enhanced productivity and lowered costs...
4. Rejuvenating the land assets to generate benefits and income.

### (3) R&D Aspects:

1. Diversified product development via the development of other tyre products. (ATV, UTV, SSV...)
2. Development of tires with high added-value, along with improvement of product performance.
3. Shortening new product development schedule, and supplying products with best cost performance
4. Sourcing new raw material suppliers for enhanced quality and reduced cost.
5. Developing economically friendly and green tires in response to increasingly rigid laws and regulations.

This Corporation will devote to development of new technology and R&Ds on products with high added value to enhance quality, to control production cost and to decrease expenditure with a view to raise product competitiveness, in addition, this Corporation will continue in integration of marketing, sales and other functions, sponsorship of international sports competitions, etc., to enhance product positioning and contend for a greater room for profitability.

Chairman: Ma, Shu-Jian

General Manager: Chen, Chung-Yi

Accounting Manager: Li, Xin-Yu

Attachment 2

Audit Committee Review Report

This Corporation's Business Report of 2020, Financial Statements of 2020 and Earnings Distribution are determined to be correct and accurate by the audit committee of FEDERAL CORPORATION. In accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, I hereby submit this report.

TO

FEDERAL CORPORATION 2021 Regular Shareholders' Meeting

Convener of Audit Committee Zhou, Xin-Ru

March 26, 2021

## Attachment 3

### INDEPENDENT AUDITORS' REPORT

(2021) Tsai-Audit Report No. 20004678

Dear the Board of Directors and Shareholders of Federal Corporation,

#### **Opinions**

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

In our opinion, based on our audits and the reports of other auditors please refer to the Other matter section, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Federal Group as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations of IFRS ("IFRIC"), and Interpretations of IAS ("SIC") endorsed by the Financial Supervisory Commission ("FSC") of Taiwan, the Republic of China ("ROC").

#### **Basis of Opinion**

We conducted our audits in 2020 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the ROC. ; for the audits conducted in 2019 was in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Financial Supervisory Commission letter dated 25 February 2020 No. Financial-Supervisory-Securities-Auditing-1090360805 and the ROC Generally Accepted Accounting Principles (ROC GAAP) .Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the ROC, and we have fulfilled our other ethical

responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

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

The key audited items in the Federal Group's consolidated financial statements for 2020 are as follows:

#### **Key Audit Item 1: Valuation of net realizable value of inventories**

##### Description

Please refer to Notes 4 (13), 5 and 6 (5) to the financial statements for the accounting policies, significant accounting estimates and uncertainties in assumptions regarding the valuation of inventories and accounting entries.

The Federal Group's main business is the design, development and sale of various types of tires. The Federal Group measures its inventories at the lower of cost or net realizable value, with inventories older than a specified period at the net realizable value of similarly sized items.

Because tires are the primary product sold by the Federal Group and management's assessment of their net realizable value involves subjective judgment, which has a significant impact on the valuation of inventories, we consider the assessment of net realizable value of inventories to be one of our key audit matters.

##### Response to the audit procedures

The procedures that we have performed at the specific level described in the critical review above are summarized as follows.

1. To obtain information about the Company's policy for recording allowance for losses on inventories and to compare it with the financial statements for the same period.



2. To understand the inventory management process, review its annual inventory plan and participate in the annual inventory count, and verify the inventory details

To evaluate the effectiveness of management in segregating and controlling obsolete inventories.

3. to obtain a statement of net realizable value of inventories as of the end of the financial reporting period, to sample sources of information such as selling prices of commodities or purchase prices used for net realizable value, and to recalculate the inventory allowance for impairment loss to confirm that such accounting estimates have been performed in a manner consistent with its policies.

## **Key Audit Item 2: Accuracy of sales revenue cut-off**

### **Item description**

Please refer to Notes 4(27) and 6(20) to the consolidated financial statements for the accounting policies and accounting entries related to revenue recognition.

Sales to customers involve different types of transaction terms. Sales to customers are recognized as revenue based on the transfer of significant risks and rewards of the goods shipped to the buyer based on the transaction terms agreed upon by the individual customer, particularly whether the significant risks and rewards of the goods shipped prior to the end of the reporting period are transferred to the buyer based on the agreed upon transaction terms. Therefore, we consider the correctness of the sales revenue cutoff to be one of the critical items to be audited.

### **Response to the audit procedures**

The procedures that we have performed at the specific level described in the key audit items above are summarized as follows.

1. To understand and evaluate the operating procedures and relevant internal controls over sales revenue

2. to review the details of post-period sales returns to confirm that there were no significant abnormal sales returns.

3. perform cut-off tests on sales revenue transactions for the period immediately preceding or following the end of the financial reporting period, including the reconciliation of purchase orders, customer orders and customs declarations, and review the terms of the transactions to confirm that revenue is recognized in the appropriate period.

4. To perform the balance confirmation test for accounts receivable as of the end of the financial reporting period to confirm that the accounts receivable and sales revenue are recorded in the correct period to meet the point of revenue recognition.

## **Other matters – individual financial reports**

Federal Corporation has prepared its financial statements for the years ended December 31, 2020 and 2019, and we have issued an unqualified audit report thereon for your information.

### **Management's and Governance's Responsibility for the Consolidated Financial Statements**

Management's responsibility is to prepare consolidated financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, and Interpretations and Interpretations issued by the Financial Supervisory Commission, and to maintain such internal control relevant to the preparation of consolidated financial statements as is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management's responsibility also includes assessing the ability of the Federal Group to continue as a going concern, the disclosure of related matters, and the adoption of the going concern basis of accounting, unless management intends to liquidate the Federal Group or cease operations, or there is no practical alternative to liquidation or discontinuation of operations.

The governance unit (audit committee) of the Federal Group has the responsibility for overseeing the financial reporting process.

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

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

As part of an audit performed in accordance with auditing standards generally accepted in

the ROC, we exercise professional judgment and maintain professional skepticism throughout the audit. We are also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to our auditors' report to the related disclosures in the financial statements, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. We have obtained sufficient and appropriate auditing evidence of the financial information of the constituent entities of the Group to express our opinions on the consolidated financial statements. We are responsible for the guidance, supervision and execution of the Group's audits and we are responsible for providing auditing opinions with the Group.

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

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

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

PricewaterhouseCoopers Taiwan

DU, Pei-ling

CPA

LIN, Jung-Yao

The Ex-Securities and Futures Commission, Ministry of  
Finance

Approved-certified No.:(84) No.

Taiwan-Financial-Securities-VI-13377

(85) No. Taiwan-Financial-Securities-VI-68702

March 26, 2021

Federal Corporation and Subsidiaries  
Consolidated Balance Sheets  
For the years ended December 31 2020 and 2019

(In thousands of New Taiwan Dollars)

Assets	Note	December 31 2020		December 31 2019		
		Amount	%	Amount	%	
<b>Current Assets</b>						
1100	Cash and cash equivalents	6 (1)	\$ 1,681,441	12	\$ 1,319,655	10
1110	Financial assets at fair value through profit or loss - current	6 (2)	45,038	-	663	-
1136	Financial assets at amortized cost - current	6 (1) and 8	167,221	1	62,568	1
1150	Net Notes Receivable	6 (4)	31,380	-	39,516	-
1170	Net Accounts Receivable	6 (4)	1,155,058	8	875,071	6
1200	Other Receivables		2,625	-	338	-
1220	Tax Assets		6,087	-	8,583	-
130X	Inventories	6 (5)	957,573	7	1,038,255	8
1410	Prepayments		147,836	1	123,927	1
1460	Pending sale of noncurrent Assets net	6 (6)	694,880	5	699,114	5
1470	Other Current Assets		172,472	1	-	-
11XX	<b>Total current assets</b>		<u>5,061,611</u>	<u>35</u>	<u>4,167,690</u>	<u>31</u>
<b>Non Current Assets</b>						
1517	Financial assets at fair value through other comprehensive income or loss – Non Current	6 (3)	391,450	3	267,077	2
1600	Property, Plant and Equipment	6 (7) and 8	8,687,618	60	8,765,188	65
1755	Right-of-use Assets	6 (8)	44,050	-	56,306	-
1760	Net Investment property	6 (10)	62,838	-	60,323	-
1780	Intangible Assets	6 (11)	10,531	-	18,661	-
1840	Deferred tax assets	6 (27)	99,811	1	114,629	1
1920	Refundable Deposits	8	44,641	-	44,216	-
1990	Other Non Current Assets – Other	6 (12)	173,255	1	108,985	1
15XX	<b>Total noncurrent assets</b>		<u>9,514,194</u>	<u>65</u>	<u>9,435,385</u>	<u>69</u>
1XXX	<b>Total Assets</b>		<u>\$ 14,575,805</u>	<u>100</u>	<u>\$ 13,603,075</u>	<u>100</u>

(Continued)

Federal Corporation and Subsidiaries  
Consolidated Balance Sheets  
For the years ended December 31 2020 and 2019

(In thousands of New Taiwan Dollars)

	Liabilities and Equity	Note	December 31 2020		December 31 2019	
			Amount	%	Amount	%
<b>Current Liabilities</b>						
2100	Short-term loans	6 (13)	\$ 927,510	6	\$ 517,075	4
2130	Liabilities Contract—Current	6 (20)	36,515	-	25,557	-
2150	Notes Payable		12,606	-	24,676	-
2170	Accounts Payable		298,493	2	249,927	2
2200	Other Payables	6 (14)	696,141	5	428,863	3
2230	Tax Liabilities		2,561	-	2,054	-
2260	Liabilities directly related to Non Current Assets to be sold	6 (6)	63,615	1	64,637	-
2280	Lease Liabilities—Current		13,692	-	18,025	-
2320	Long-term Liabilities due within one year or one business cycle	6 (15)	297,593	2	123,810	1
2399	Other Current Liabilities—Other		182,720	1	76,925	1
21XX	<b>Current Liabilities Total</b>		<u>2,531,446</u>	<u>17</u>	<u>1,531,549</u>	<u>11</u>
<b>Non Current Liabilities</b>						
2540	Long-term Loans	6 (15)	3,805,271	26	4,051,918	30
2570	Deferred tax liabilities	6 (27)	537,415	4	531,780	4
2580	Lease Liabilities—Non Current		7,732	-	15,274	-
2640	Defined Benefit Liabilities—Non Current	6 (16)	146,780	1	149,175	1
2645	Deposits received		3,736	-	3,589	-
25XX	<b>Total noncurrent liabilities</b>		<u>4,500,934</u>	<u>31</u>	<u>4,751,736</u>	<u>35</u>
2XXX	<b>Liabilities Total</b>		<u>7,032,380</u>	<u>48</u>	<u>6,283,285</u>	<u>46</u>
<b>Equity</b>						
	Capital stock	6 (17)				
3110	Common Stock		4,733,292	32	4,733,292	35
	Capital Surplus	6 (18)				
3200	Capital Surplus		156,764	1	156,764	1
	Retained earnings	6 (19)				
3310	Legal reserve		732,944	5	732,944	5
3320	Appropriated Retained Earnings		1,911,517	13	1,911,517	14
3350	Unappropriated earnings(Losses to be covered)		30,708	-	(60,228)	-
	Other Equity					
3400	Other Equity		161,235	2	28,536	-
3500	Treasury Stocks	6 (17)	(183,035)	(1)	(183,035)	(1)
3XXX	<b>Total Equity</b>		<u>7,543,425</u>	<u>52</u>	<u>7,319,790</u>	<u>54</u>
	Significant Contingent Liabilities and Unrecognized Contractual Commitments	9				
	Significant events after the reporting period	11				
3X2X	<b>Total Liabilities and Equity</b>		<u>\$ 14,575,805</u>	<u>100</u>	<u>\$ 13,603,075</u>	<u>100</u>

The accompanying notes to the consolidated financial statements are an integral part of these consolidated financial statements and should be read in conjunction with these consolidated financial statements.

Chairman : Shu-Jam Ma

President : Chong-Yi Chen

Accounting Manager: Xin-Yu Lee

Federal Corporation and Subsidiaries  
Consolidated Income Statements  
For the years ended December 31, 2020 and 2019

(In Thousands of New Taiwan Dollars)  
(Except Earnings per Share (loss) in NT\$)

Item	Note	2020		2019	
		Amount	%	Amount	%
4000 Operating revenues	6 (20)	\$ 5,704,663	100	\$ 4,541,002	100
5000 Operating costs	6 (5)(25) (26)	( 4,402,644)	( 77)	( 3,855,187)	( 85)
5950 Operating gross revenues		<u>1,302,019</u>	<u>23</u>	<u>685,815</u>	<u>15</u>
Operating expenses	6 (25) (26)				
6100 Marketing expenses		( 669,147)	( 12)	( 677,059)	( 15)
6200 Administration expenses		( 251,781)	( 4)	( 256,168)	( 6)
6300 R&D expenses		( 123,761)	( 2)	( 109,799)	( 2)
6450 Expected credit impairment gain (loss)	12(2)	<u>11,985</u>	<u>-</u>	<u>( 28,823)</u>	<u>( 1)</u>
6000 Total operating expenses		<u>( 1,032,704)</u>	<u>( 18)</u>	<u>( 1,071,849)</u>	<u>( 24)</u>
6900 Operating income(loss)		<u>269,315</u>	<u>5</u>	<u>( 386,034)</u>	<u>( 9)</u>
Non-operating income and expenditures					
7100 Interest incomes	6 (21)	8,161	-	11,988	-
7010 Other incomes	6 (22)	15,037	-	34,830	1
7020 Other gains and loss	6 (23)	( 62,773)	( 1)	( 244,845)	( 5)
7050 Financial costs	6 (24)	( 64,751)	( 1)	( 78,367)	( 2)
7000 Total non-operating incomes		<u>( 104,326)</u>	<u>( 2)</u>	<u>( 276,394)</u>	<u>( 6)</u>
7900 <b>Income (loss) before tax</b>		<u>164,989</u>	<u>3</u>	<u>( 662,428)</u>	<u>( 15)</u>
7950 Tax (expenses) gains	6 (27)	<u>( 29,044)</u>	<u>( 1)</u>	<u>1,658</u>	<u>-</u>
8000 <b>Net income ( loss) for the period from continuing operations</b>		<u>135,945</u>	<u>2</u>	<u>( 660,770)</u>	<u>( 15)</u>
8100 Discontinued department loss	6 (6)	<u>( 24,468)</u>	<u>-</u>	<u>( 8,793)</u>	<u>-</u>
8200 <b>Net income (loss)</b>		<u>\$ 111,477</u>	<u>2</u>	<u>( \$ 669,563)</u>	<u>( 15)</u>

(Continued)

Federal Corporation and Subsidiaries  
Consolidated Income Statements  
For the years ended December 31, 2020 and 2019

(In Thousands of New Taiwan Dollars)  
(Except Earnings per Share (loss) in NT\$)

Item	Note	2020		2019	
		Amount	%	Amount	%
<b>Other comprehensive income(net)</b>					
<b>Items that are not reclassified to profit or loss</b>					
8311	Re-measurement on defined benefit plans	6 (16)	(\$ 20,541)	-	(\$ 9,661) -
8316	Unrealized gains or losses on investments in equity instruments measured at fair value through other comprehensive income or loss	6 (3)	124,373	2	11,951 -
8310	Total items not reclassified to profit or loss		103,832	2	2,290 -
<b>Items that may be reclassified subsequently to profit or loss</b>					
8361	Exchange differences on translation of financial statements of foreign operating institutions		8,326	-	(52,290) (1)
8300	<b>Other comprehensive income(net)</b>		\$ 112,158	2	(\$ 50,000) (1)
8500	<b>Total comprehensive income</b>		\$ 223,635	4	(\$ 719,563) (16)
Net income (loss) attributable to :					
8610	Parent company owner		\$ 111,477	2	(\$ 669,563) (15)
Total comprehensive income attributable to :					
8710	Parent company owner		\$ 223,635	4	(\$ 719,563) (16)
Earnings per share (loss)					
9710	Continued Operating segment net income (net loss)	6 (28)	\$ 0.30		(\$ 1.44)
9720	Discontinued Operating segment net loss		(0.06)		(0.02)
9750	Basic Earnings per share(loss) Total		\$ 0.24		(\$ 1.46)
9810	Continuing Operating segment net income (net loss)		\$ 0.30		(\$ 1.44)
9820	Discontinued Operating segment net loss		(0.06)		(0.02)
9850	Diluted Earnings per share (loss) Total		\$ 0.24		(\$ 1.46)

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

Chairman : Shu-Jam Ma

President : Chong-yi Chen

Accounting Manager : Xin-Yu Lee



FEDERAL CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 For the years ended December 31, 2020 and 2019

Expressed in thousands of New Taiwan dollars

Note	Interests attributable to parent company owner									
	Share capital-common stock	Capital Surplus	Retained earnings			Other equity			Treasury Stocks	Total Equity
			Legal Reserve	Special Reserve	(Accumulated deficit) Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on valuation of financial assets at fair value through other comprehensive Income			
<u>2019</u>										
January 1, 2019 Balance	\$ 4,733,292	\$ 145,746	\$ 732,944	\$ 1,911,517	\$ 618,996	(\$ 168,802)	\$ 237,677	(\$ 183,035)	\$ 8,028,335	
net loss	-	-	-	-	( 669,563 )	-	-	-	( 669,563 )	
Other comprehensive income	-	-	-	-	( 9,661 )	( 52,290 )	11,951	-	( 50,000 )	
Total comprehensive income	-	-	-	-	( 679,224 )	( 52,290 )	11,951	-	( 719,563 )	
Results from gift receiving	6 (18)	11,018	-	-	-	-	-	-	11,018	
December 31, 2019 Balance	\$ 4,733,292	\$ 156,764	\$ 732,944	\$ 1,911,517	(\$ 60,228)	(\$ 221,092)	\$ 249,628	(\$ 183,035)	\$ 7,319,790	
<u>2020</u>										
January 1, 2020 Balance	\$ 4,733,292	\$ 156,764	\$ 732,944	\$ 1,911,517	(\$ 60,228)	(\$ 221,092)	\$ 249,628	(\$ 183,035)	\$ 7,319,790	
Net Income	-	-	-	-	111,477	-	-	-	111,477	
Other comprehensive income	-	-	-	-	( 20,541 )	8,326	124,373	-	112,158	
Total comprehensive income	-	-	-	-	90,936	8,326	124,373	-	223,635	
December 31, 2020 Balance	\$ 4,733,292	\$ 156,764	\$ 732,944	\$ 1,911,517	\$ 30,708	(\$ 212,766)	\$ 374,001	(\$ 183,035)	\$ 7,543,425	

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

FEDERAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2020 and 2019

Expressed in thousands of New Taiwan dollars

	Note	For the year ended December 31, 2020	For the year ended December 31, 2019
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Continued Operating segment Income (loss) before tax		\$ 164,989	(\$ 662,428 )
Discontinued Operating segment net loss before tax		( 22,106 )	( 4,946 )
Income (loss) before tax		142,883	( 667,374 )
Adjustments to reconcile profit before income tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Net Gain (loss) on valuation of finance assets and liabilities at fair value through profit or loss	6 (2) (22)	( 1,290 )	1,802
Expected credit losses	12 (2)	( 11,985 )	28,823
Depreciation on Property, Plant and Equipment	6 (7)(25)	425,848	474,935
Depreciation on Right-of-use Assets	6 (8)(25)	18,713	20,243
Amortization expense on Intangible Assets	6 (11)		
	(25)	8,130	10,223
Amortization expense on Other Non Current Assets	6 (25)	77,134	129,048
Investment property at fair value adjustment(gains)loss	6 (10)(23)	( 5,479 )	8,726
Disposal (gains) loss of Property, Plant and Equipment	6 (23)	( 665 )	4,813
Interest income	6 (21)	( 8,180 )	( 12,029 )
Dividend income	6 (22)	( 6,324 )	( 6,324 )
Non Financial Assets Impairment loss	6 (9)(23)	-	213,847
Interest expense	6 (24)	64,779	78,413
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial Assets at fair value through profit or loss			
-Current		1,915	( 2,406 )
Notes Receivable		8,141	122,128
Accounts Receivable	(	126,934 )	71,382
Other receivables	(	2,364 )	7,088
Inventories	(	99,042 )	( 46,663 )
Prepayments	(	29,136 )	49,000
Other Current Assets		-	965
Net change in liabilities related to operating activities			
Contract Liabilities-Current		10,988	5,176
Notes Payable	(	12,251 )	23,691
Accounts Payable		48,507	64,671
Other Payable		192,125	23,433
Other Current Liabilities-Other	(	31,496 )	( 10,950 )
Net defined benefit Liabilities-Non Current	(	22,936 )	( 46,793 )
Cash flow from operating		641,081	545,868
Interest received		8,182	12,032
Dividends received		6,324	6,324
Income tax paid		4,028	( 18,906 )
Interest Paid	(	65,637 )	( 78,274 )
Net cash flow from operating activities		593,978	467,044

(Continued)

FEDERAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2020 and 2019

Expressed in thousands of New Taiwan dollars

	Note	For the year ended December 31, 2020	For the year ended December 31, 2019
<u>Investment activities cash flows</u>			
Increase in financial assets measured at amortized cost		(\$ 103,664)	(\$ 6,509)
Acquisition of Property, Plant and Equipment	6 (29)	( 45,000)	-
Proceeds of Property, Plant and Equipment disposal		282,947	( 244,987)
Increase in Refundable Deposits		705	1,839
Decrease in Refundable Deposits		( 6,013)	( 3,527)
Other noncurrent assets – increase in others		6,204	10,692
Net Cash outflow from investment activities		( 127,845)	( 17,536)
		( 558,560)	( 260,028)
<u>Cash flows from financing activities</u>			
Increase in short-term borrowings	6 (30)	410,435	65,201
Proceeds from Long-term Loans		115,969	-
Repayments from Long-term Loans		( 188,833)	( 62,702)
Deposits received increase		183	991
Deposits received decrease		( 36)	( 1,954)
Repayments of Lease principal	6 (30)	( 18,094)	( 19,646)
Results of receiving a gift	6 (18)	-	11,018
Net cash flow (out) from Financing Activities		319,624	( 7,092)
Exchange differences		3,203	( 6,743)
Increase in cash and cash equivalents		358,245	193,181
Beginning cash and cash equivalents balance		1,325,434	1,132,253
Ending cash and cash equivalents balance		<u>\$ 1,683,679</u>	<u>\$ 1,325,434</u>
Cash and cash equivalents consist of			
Cash and cash equivalents in the balance sheet		\$ 1,681,441	\$ 1,319,655
Cash and cash equivalents of assets (or disposal groups) classified as held for sale (non-current)		2,238	5,779
Cash and cash equivalents at end of year		<u>\$ 1,683,679</u>	<u>\$ 1,325,434</u>

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

Chairman : Shu-Jam Ma

President : Chong-yi Chen

Accounting Manager : Xin-Yu Lee

## INDEPENDENT AUDITORS REPORT

(2021)No. Finance-Audit-report20004601

To the Board of Directors and Stockholders of Federal Corporation,

### **Opinion**

We have audited the accompanying individual balance sheets of Federal Corporation which comprise the balance sheets as of December 31, 2020 and 2019, and the individual statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the individual financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors please refer to the Other matter section, the accompanying individual financial statements present fairly, in all material respects, the individual financial position of the Federal Corporation as of December 31, 2020 and 2019, and its individual financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (“IFRS”),.

### **Basis of Opinion**

We conducted our audits in 2020 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the ROC. ; for the audits conducted in 2019 was in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Financial Supervisory Commission letter dated 25 February 2020 No. Financial-Supervisory-Securities-Auditing-1090360805 and the ROC Generally Accepted Accounting Principles (ROC GAAP) .Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of

Professional Ethics for Certified Public Accountant of the ROC, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key audit matters**

### **Item description**

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

The key audited items in the Federal Company's individual financial statements for 2020 are as follows:

### **Key Audit Item 1: Valuation of net realizable value of inventories**

#### **Description**

Please refer to Notes 4 (12), 5 and 6 (5) to the financial statements for the accounting policies, significant accounting estimates and uncertainties in assumptions regarding the valuation of inventories and accounting entries.

The Federal Company's main business is the design, development and sale of various types of tires. The Federal Company measures its inventories at the lower of cost or net realizable value, with inventories older than a specified period at the net realizable value of similarly sized items.

Because tires are the primary product sold by the Federal Company and management's assessment of their net realizable value involves subjective judgment, which has a significant impact on the valuation of inventories, we consider the assessment of net realizable value of inventories to be our key audit matters.

### Response to the audit procedures

The procedures that we have performed at the specific level described in the critical review above are summarized as follows.

1. To obtain information about the Company's policy for recording allowance for losses on inventories and to compare it with the financial statements for the same period.
2. To understand the inventory management process, review its annual inventory plan and participate in the annual inventory count, and verify the inventory details to evaluate the effectiveness of management in segregating and controlling obsolete inventories.
3. To obtain a statement of net realizable value of inventories as of the end of the financial reporting period, to sample sources of information such as selling prices of commodities or purchase prices used for net realizable value, and to recalculate the inventory allowance for impairment loss to confirm that such accounting estimates have been performed in a manner consistent with its policies.

### **Key Audit Item 2: Accuracy of sales revenue cut-off**

Please refer to Notes 4(26) and 6(19) to the individual financial statements for the accounting policies and accounting entries related to revenue recognition.

Sales to customers involve different types of transaction terms. Sales to customers are recognized as revenue based on the transfer of significant risks and rewards of the goods shipped to the buyer based on the transaction terms agreed upon by the individual customer, particularly whether the significant risks and rewards of the goods shipped prior to the end of the reporting period are transferred to the buyer based on the agreed upon transaction terms. Therefore, we consider the correctness of the sales revenue cutoff to be one of the critical items to be audited.

### **Response to the audit procedures**

The procedures that we have performed at the specific level described in the key audit items above are summarized as follows.

1. To understand and evaluate the operating procedures and relevant internal controls over sales revenue
2. To review the details of post-period sales returns to confirm that there were no significant abnormal sales returns.
3. Perform cut-off tests on sales revenue transactions for the period immediately preceding or following the end of the financial reporting period, including the reconciliation of purchase orders, customer orders and customs declarations, and review the terms of the transactions to confirm that revenue is recognized in the appropriate period.
4. To perform the balance confirmation test for accounts receivable as of the end of the financial reporting period to confirm that the accounts receivable and sales revenue are recorded in the correct period to meet the point of revenue recognition.

### **Management's and Governance's Responsibility for the Individual Financial Statements**

Management's responsibility is to prepare individual financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, and Interpretations and Interpretations issued by the Financial Supervisory Commission, and to maintain such internal control relevant to the preparation of individual financial statements as is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual financial statements, management's responsibility also includes assessing the ability of the Federal Company to continue as a going concern, the disclosure of related matters, and the adoption of the going concern basis of accounting, unless management intends to liquidate the Federal Company or cease operations, or there is no practical alternative to liquidation or discontinuation of operations.

The governance unit (audit committee) of the Federal Company has the responsibility for overseeing the financial reporting process.

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

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to our auditors' report to the related disclosures in the financial statements, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. We have obtained sufficient and appropriate auditing evidence of the financial information of the constituent entities of the Company to express our opinions on the individual financial statements. We are responsible for the guidance, supervision and execution of the Company's audits and we are responsible for providing auditing opinions with the Company.

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

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

From the matters communicated with those charged with governance, we determine those

matters that were of most significance in the audit of the 2019 financial statements and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Taiwan

DU, Pei-ling

CPA

LIN, Jung-Yao

The Ex-Securities and Futures Commission, Ministry of  
Finance

Approved-certified No.:(84) No.

Taiwan-Financial-Securities-VI-13377

(85) No. Taiwan-Financial-Securities-VI-68702

March 26, 2021

Federal Corporation and Subsidiaries  
Individual Balance Sheets  
For the years ended December 31, 2020 and 2019  
(In thousands of New Taiwan Dollars)

Assets	Note	December 31, 2020		December 31, 2019		
		Amount	%	Amount	%	
<b>Current Assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 774,103	5	\$ 310,020	2
1110	Financial assets at fair value through profit or loss - current	6(2)	45,038	-	663	-
1136	Financial assets at amortized cost - current	6(1) and 8	1,156	-	611	-
1150	Net Notes Receivable	6(4)	2,441	-	2,781	-
1170	Net Accounts Receivable	6(4)	960,232	7	683,685	5
1180	Net accounts receivable – related party	7	646,970	5	441,589	4
1200	Other Receivables		1,856	-	590	-
1220	Tax Assets		161	-	-	-
130X	Inventories	6(5)	649,093	5	825,405	7
1410	Prepayments		117,945	1	93,637	1
1460	Pending sale of noncurrent Assets net	6(6)	429,966	3	437,467	3
1470	Other Current Assets		172,472	1	-	-
11XX	<b>Total current assets</b>		<u>3,801,433</u>	<u>27</u>	<u>2,796,448</u>	<u>22</u>
<b>Non Current Assets</b>						
1517	Financial assets at fair value through other comprehensive income or loss – Non Current	6(3)	391,450	3	267,077	2
1550	Investments accounted for using the equity method	6(7)	2,994,327	22	3,056,560	24
1600	Property, Plant and Equipment	6(8) and 8	6,396,230	46	6,461,985	50
1755	Right-of-use Assets	6(9)	9,396	-	17,809	-
1780	Intangible Assets	6(10)	10,531	-	18,661	-
1840	Deferred tax assets	6(26)	98,853	1	112,804	1
1920	Refundable Deposits	7 and 8	12,965	-	11,781	-
1990	Other Non Current Assets – Other	6(十一)	169,194	1	104,040	1
15XX	<b>Total noncurrent assets</b>		<u>10,082,946</u>	<u>73</u>	<u>10,050,717</u>	<u>78</u>
1XXX	<b>Total Assets</b>		<u>\$ 13,884,379</u>	<u>100</u>	<u>\$ 12,847,165</u>	<u>100</u>

(Continued)

Federal Corporation and Subsidiaries  
Individual Balance Sheets  
For the years ended December 31 2020 and 2019  
(In thousands of New Taiwan Dollars)

	Liabilities and Equity	Note	December 31 2020		December 31 2019	
			Amount	%	Amount	%
	<b>Current Liabilities</b>					
2100	Short-term loans	6 (12)	\$ 926,441	7	\$ 467,933	4
2130	Liabilities Contract—Current	6 (19)	32,320	-	23,271	-
2170	Accounts Payable		293,643	2	247,460	2
2180	Accounts Payable—Related party	7	68	-	1,328	-
2200	Other Payables	6 (13)	567,452	4	385,451	3
2220	Other Payables—Related party	7	11,973	-	12,010	-
2280	Lease Liabilities—Current		6,416	-	9,316	-
2320	Long-term Liabilities due within one year or one business cycle	6 (14)	297,593	2	123,810	1
2399	Other Current Liabilities—Other		248,187	2	48,199	-
21XX	<b>Current Liabilities Total</b>		<u>2,384,093</u>	<u>17</u>	<u>1,318,778</u>	<u>10</u>
	<b>Non Current Liabilities</b>					
2540	Long-term Loans	6 (14)	3,805,271	28	4,051,918	32
2580	Lease Liabilities—Non Current		3,079	-	8,614	-
2640	Defined Benefit Liabilities—Non Current	6 (15)	145,852	1	145,408	1
2645	Deposits received		2,659	-	2,657	-
25XX	<b>Total noncurrent liabilities</b>		<u>3,956,861</u>	<u>29</u>	<u>4,208,597</u>	<u>33</u>
2XXX	<b>Liabilities Total</b>		<u>6,340,954</u>	<u>46</u>	<u>5,527,375</u>	<u>43</u>
	<b>Equity</b>					
	Capital stock	6 (16)				
3110	Common Stock		4,733,292	34	4,733,292	37
	Capital Surplus	6 (17)				
3200	Capital Surplus		156,764	1	156,764	1
	Retained earnings	6 (18)				
3310	Legal reserve		732,944	5	732,944	6
3320	Appropriated Retained Earnings		1,911,517	14	1,911,517	15
3350	Unappropriated earnings(Losses to be covered)		30,708	-	(60,228)	(1)
	<b>Total noncurrent liabilities</b>					
3400	<b>Liabilities Total</b>		161,235	1	28,536	-
3500	<b>Equity</b>	6 (16)	(183,035)	(1)	(183,035)	(1)
3XXX	Capital stock		<u>7,543,425</u>	<u>54</u>	<u>7,319,790</u>	<u>57</u>
	Significant Contingent Liabilities and Unrecognized Contractual Commitments	9				
	Significant events after the reporting period	11				
3X2X	<b>Total Liabilities and Equity</b>		<u>\$ 13,884,379</u>	<u>100</u>	<u>\$ 12,847,165</u>	<u>100</u>

The accompanying notes to the individual financial statements are an integral part of these individual financial statements and should be read in conjunction with these individual financial statements.

Chairman : Shu-Jam Ma      President : Chong-Yi Chen      Accounting Manager: Xin-Yu Lee

Federal Corporation and Subsidiaries  
Individual Income Statements  
For the years ended December 31, 2020 and 2019  
(In Thousands of New Taiwan Dollars)  
(Except Earnings per Share (loss) in NT\$)

Item	Note	2020		2019		
		Amount	%	Amount	%	
4000	Operating revenues	6 (19) and 7	\$ 5,399,165	100	\$ 4,274,885	100
5000	Operating costs	5, 6 (24), (25) and 7	( 4,209,110)	( 78)	( 3,699,089)	( 87)
5950	Operating gross revenues		1,190,055	22	575,796	13
	Operating expenses	6 (24 (25) and 7				
6100	Marketing expenses		( 610,194)	( 11)	( 589,032)	( 14)
6200	Administration expenses		( 204,657)	( 4)	( 187,476)	( 4)
6300	R&D expenses		( 123,761)	( 2)	( 109,800)	( 2)
6450	Expected credit impairment gain (loss)		2,556	-	( 25,254)	( 1)
6000	Total operating expenses		( 936,056)	( 17)	( 911,562)	( 21)
6900	Operating income(loss)		253,999	5	( 335,766)	( 8)
	Non-operating income and expenditures					
7100	Interest incomes	6(20)	876	-	1,180	-
7010	Other incomes	6(21) and 7	12,994	-	11,699	-
7020	Other gains and loss	6(22)	( 66,391)	( 2)	( 21,485)	-
7050	Financial costs	6(23)	( 64,011)	( 1)	( 77,406)	( 2)
7070	Share of profits and losses of subsidiaries, affiliates and joint ventures recognized under the equity method	6(7)	( 12,039)	-	( 259,153)	( 6)
7000	Total non-operating income and expenses		( 128,571)	( 3)	( 345,165)	( 8)
7900	<b>Income (loss) before tax</b>		125,428	2	( 680,931)	( 16)
7950	Tax (expenses) gains	6(26)	( 13,951)	-	11,368	-
8200	<b>Net income (loss)</b>		\$ 111,477	2	\$ 669,563	( 16)
	<b>Other comprehensive income(net)</b>					
	<b>Items that are not reclassified to profit or loss</b>					
8311	Re-measurement on defined benefit plans	6(15)	(\$ 19,050)	-	(\$ 5,686)	-
8316	Unrealized gains or losses on investments in equity instruments measured at fair value through other comprehensive income or loss	6(3)	124,373	2	11,951	-
8330	Share of other comprehensive income or loss of subsidiaries, affiliates and joint ventures recognized under the equity method - not reclassified to profit or loss		( 1,491)	-	( 3,975)	-
8310	Total items not reclassified to profit or loss		103,832	2	2,290	-
	<b>Items that may be reclassified subsequently to profit or loss</b>					
8361	Exchange differences on translation of financial statements of foreign operating institutions		8,326	-	( 52,290)	( 1)
8300	<b>Other comprehensive income(net)</b>		\$ 112,158	2	\$ 50,000	( 1)
8500	<b>Total comprehensive income</b>		\$ 223,635	4	\$ 719,563	( 17)
	Basic Earnings per share(loss)	6(27)				
9750	Basic Earnings per share(loss)		\$ 0.24		(\$ 1.46)	
	Diluted Earnings per share (loss)	6(27)				
9850	Diluted Earnings per share (loss)		\$ 0.24		(\$ 1.46)	

The accompanying notes are an integral part of these individual financial statements.

Chairman : Shu-Jam Ma

President : Chong-yi Chen

Accounting Manager : Xin-Yu Lee

FEDERAL CORPORATION AND SUBSIDIARIES  
INDIVIDUAL STATEMENTS OF CHANGES IN EQUITY  
For the years ended December 31, 2020 and 2019

Expressed in thousands of New Taiwan dollars

Note	Share capital-common stock	Capital Surplus	Retained earnings			Other equity			Treasury Stocks	Total Equity
			Legal Reserve	Special Reserve	(Accumulated deficit) Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on valuation of financial assets at fair value through other comprehensive Income			
<u>2019</u>										
January 1, 2019 Balance	\$ 4,733,292	\$ 145,746	\$ 732,944	\$ 1,911,517	\$ 618,996	(\$ 168,802 )	\$ 237,677	(\$ 183,035 )	\$ 8,028,335	
net loss	-	-	-	-	( 669,563 )	-	-	-	( 669,563 )	
Other comprehensive income	-	-	-	-	( 9,661 )	( 52,290 )	11,951	-	( 50,000 )	
Total comprehensive income	-	-	-	-	( 679,224 )	( 52,290 )	11,951	-	( 719,563 )	
Results from gift receiving	6(17)	11,018	-	-	-	-	-	-	11,018	
December 31, 2019 Balance	\$ 4,733,292	\$ 156,764	\$ 732,944	\$ 1,911,517	(\$ 60,228 )	(\$ 221,092 )	\$ 249,628	(\$ 183,035 )	\$ 7,319,790	
<u>2020</u>										
January 1, 2020 Balance	\$ 4,733,292	\$ 156,764	\$ 732,944	\$ 1,911,517	(\$ 60,228 )	(\$ 221,092 )	\$ 249,628	(\$ 183,035 )	\$ 7,319,790	
Net Income	-	-	-	-	111,477	-	-	-	111,477	
Other comprehensive income	-	-	-	-	( 20,541 )	8,326	124,373	-	112,158	
Total comprehensive income	-	-	-	-	90,936	8,326	124,373	-	223,635	
December 31, 2020 Balance	\$ 4,733,292	\$ 156,764	\$ 732,944	\$ 1,911,517	\$ 30,708	(\$ 212,766 )	\$ 374,001	(\$ 183,035 )	\$ 7,543,425	

The accompanying notes are an integral part of these individual financial statements.

Chairman : Shu-Jam Ma

President : Chong-yi Chen

Accounting Manager : Xin-Yu Lee

FEDERAL CORPORATION AND SUBSIDIARIES  
INDIVIDUAL STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2020 and 2019

Expressed in thousands of New Taiwan dollars  
For the year  
ended December  
31, 2020

For the year  
ended December  
31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

	Note		
Income (loss) before tax		\$ 125,428	(\$ 680,931)
Adjustments			
Income and expense items			
Net loss on valuation of finance assets and liabilities at fair value through profit or loss	6(2)(22)	( 1,290 )	1,802
Expected credit loss impairment (benefit) loss		( 2,555 )	25,254
Share of profit or loss of subsidiaries recognized under the equity method	6(7)	12,039	259,153
Depreciation on Property, Plant and Equipment	6(8)(24)	413,713	442,526
Deprecation on Right-of-use Assets	6(9)(24)	7,654	8,968
Amortization expense on Intangible Assets	6(10)(24)	8,130	10,223
Amortization expense on Other Non Current Assets	6(24)	74,190	123,399
Disposal loss of Property, Plant and Equipment	6(22)	40	4,712
Interest income	6(20)	( 876 )	( 1,180 )
Dividend income	6(3)(21)	( 6,324 )	( 6,324 )
Interest expense	6(23)	64,011	77,406
Net changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial Assets at fair value through profit or loss -Current		1,915	( 2,406 )
Notes Receivable		340	( 19 )
Accounts Receivable		( 136,703 )	54,987
Accounts Receivable – Related party		( 115,884 )	( 122,124 )
Other receivables		( 1,291 )	51
Inventories		3,840	( 40,293 )
Prepayments		( 28,744 )	37,676
Net change in liabilities related to operating activities			
Contract Liabilities		9,049	2,351
Accounts Payable		46,184	63,923
Accounts Payable – Related party		( 1,261 )	372
Other Payable		106,823	34,392
Other Payable –Related party		( 37 )	1,768
Other Current Liabilities-Other		( 26,798 )	4,074
Net defined benefit Liabilities		( 18,606 )	( 45,979 )
Net cash flow from operating activities		532,987	253,781
Interest received		826	1,191
Dividends received		6,324	6,324
Cash dividends received from investments recognized under the equity method		34,996	17,380
Interest paid		( 65,226 )	( 77,512 )
Income Tax Refunds		12	131
Net cash flows from operating activities		<u>509,919</u>	<u>201,295</u>

(Continued)

FEDERAL CORPORATION AND SUBSIDIARIES  
INDIVIDUAL STATEMENTS OF CASH FLOWS  
For the years ended December 31, 2020 and 2019

Expressed in thousands of New Taiwan dollars  
For the year  
ended December  
31, 2020

For the year  
ended December  
31, 2019

	Note	For the year ended December 31, 2020	For the year ended December 31, 2019
<u>Investment activities cash flows</u>			
Increase in financial assets measured at amortized cost		(\$ 545)	(\$ 300)
Acquisition of financial assets at fair value through profit or loss		( 45,000)	-
Return of shares in liquidation of equity-method investee company	6(7)	29,673	-
Acquisition of Property, Plant and Equipment	6(28)	( 280,812)	( 190,632)
Proceeds of Property, Plant and Equipment disposal		-	1,700
Decrease in Refundable Deposits		5,065	9,042
Increase in Refundable Deposits		( 6,249)	( 1,825)
Other noncurrent assets – increase in others		( 125,786)	( 16,736)
Net Cash outflow from investment activities		( 423,654)	( 198,751)
<u>Cash flows from financing activities</u>			
Increase in short-term borrowings	6(29)	458,508	17,726
Proceeds from Long-term Loans	6(29)	115,969	-
Repayments from Long-term Loans	6(29)	( 188,833)	( 62,702)
Deposits received decrease		( 18)	( 833)
Deposits received increase		20	951
Repayments of Lease principal	6(29)	( 7,828)	( 9,083)
Results of receiving a gift	6(17)	-	11,018
Net cash flow (out) from Financing Activities		377,818	( 42,923)
Increase (decrease) in cash and cash equivalents		464,083	( 40,379)
Beginning cash and cash equivalents balance		310,020	350,399
Ending cash and cash equivalents balance		\$ 774,103	\$ 310,020

The accompanying notes are an integral part of these individual financial statements.

Chairman : Shu-Jam Ma

President : Chong-yi Chen

Accounting Manager : Xin-Yu Lee



## Attachment 4

**FEDERAL CORPORATION**  
**Table for Earning Distribution**  
**2020**

Unit: NTD

Items		Amount	
Beginning Retained Earnings		(60,228,417)	
Add: Adjustments to Retained Earnings of 2020		(20,540,636)	
Adjusted Retained Earnings		(80,769,053)	
Add: Net Profit after Tax		111,476,822	
Less:	Legal Reserve	(3,070,777)	
	Special Reserve	(1,591,590)	
Distributable Earnings		26,045,402	
Distribution Items:			
	Shareholders' Dividend-Cash	NTD 0.02	(9,466,584)
	Shareholders' Dividend-Share	NTD 0	0
Ending Undistributed Earnings		16,578,818	

Note 1

Note 2

Note 1: For the adjusted other comprehensive gain/loss-actuarial gain/loss in 2019-FEDERAL: NTD (19,049,631), FEDEREX: NTD (1,491,005), Total: (20,540,636)

Note 2: The special reserve for benefits assessed at fair value for the subsidiary JIALILAI DEVELOPMENT LIMITED is NTD 1,591,590.

Note 3: This cash dividend will be distributed in cash in the unit of NTD (portions lower than NTD 1 will be round off) by this Corporation following the shareholders' shareholding proportion on shareholders' roster on ex-dividend date. Fractional shares lower than NTD 1 will be recognized as other income of this Corporation.

Note 4: Where there is change to dividend rate to shareholders due to total number of outstanding shares of this Corporation resulting from this Corporation's repurchase of company shares or treasury share transfer, exchange and cancellation and transfer of domestic convertible company bonds to shares, relevant affairs shall be handled by the Chairman under full authorization.

Chairman: Ma, Shu-Jian

General Manager: Chen, Chung-Yi    Accounting Manager: Li, Xin-Yu

# Appendix

## Appendix 1

### FEDERAL CORPORATION Articles of Incorporation

- Article 1 This Corporation is incorporated in accordance with the Company Act and registered under the business name of 泰豐輪胎股份有限公司(泰豐輪胎公司 in short), with English name of “FEDERAL CORPORATION”.
- Article 2 This Corporation’s scope of services is set out hereunder :
1. C804010: Tyres Manufacturing.
  2. C804020: Industrial Rubber Products Manufacturing.
  3. C804990: Other Rubber Products Manufacturing.
  4. F114030: Wholesale of Motor Vehicle Parts and Motorcycle Parts, Accessories.
  5. F114050: Wholesale of Tires.
  6. F214030: Retail Sale of Motor Vehicle Parts and Motorcycle Parts, Accessories.
  7. F214050: Retail Sale of Tires.
  8. F401010: International Trade.
  9. ZZ99999: All business items that are not prohibited or restricted by law, except those that are subject to special approval.
- Article 3 The total amount of this Corporation’s re-investments to the external shall not be restricted by regulations as provided by the Company Act.
- Article 4 This Corporation may make endorsements or guarantees externally as the needs of the business may require.
- Article 5 This Corporation shall have its head office and factories in Taoyuan City, the Republic of China, and may, pursuant to a resolution adopted at the meeting of the Board of Directors, set up branch offices or factories and branches within or outside the territory of the Republic of China when deemed necessary °
- Article 6 Public announcements by this Corporation shall be made in accordance with the Company Act and other relevant laws and regulations.
- Article 7 The total amount of this Corporation’s capital is NTD 10,000,000,000, which is divided into 1,000,000,000 shares, with a value per share of NTD 10, to be issued by installments by the Board of Directors under authorization, of which may contain part of preferred shares.
- Article 7-1 This Corporation may issue Series A preferred stock, whose rights, obligations and other significant issuance conditions are as follows:
1. Dividend of this preferred stock contains a maximum at 8 percent of the annual rate, calculated at the issuance price per share. Dividends may be distributed in one cash payment annually. The Board of Directors or Chairman under authorization by resolution of the Board of Directors shall set forth a record date for payment of dividend in the previous year available for distribution. The year of issuance and distribution of reclaimed dividend of the year will be calculated on basis of actual issuance date of the year.
  2. This Corporation has discretion over the dividend distribution for this preferred stock. Where the Board of Directors has resolved not to distribute

preferred stock due to lack of earnings in final accounts or deficiency in earnings available for preferred stock distribution or other considerations necessary for this Corporation, such resolution does not compose a breach of contract. This preferred stock is of non-cumulative type, whose dividend as resolved not to distribute or insufficient in distribution, will not be cumulated in the amount for deferred payments in the following year(s) which there are earnings.

3. Shareholders of this preferred stock, except for the dividends as mentioned in the subparagraph 1 of this paragraph, are not entitled to distributions of common stock concerning earnings and capital reserve in cash and capitalization.
4. This preferred stock may not be converted to common stock.
5. The priority of shareholders of this preferred stock is higher than common stock shareholders in distribution of the remaining properties of this Corporation, and the shareholders of various preferred stock issued by this Corporation are of identical compensation order and are preceded by general creditors; however, the amount shall be limited to the values as calculated by issuance price of the issued and outstanding preferred shares upon distribution.
6. Shareholders of this preferred stock do not have the voting and election rights in a common stock shareholders' meeting; however, the said shareholders have the voting rights in a preferred stock shareholders' meeting and a shareholders' meeting whose resolutions might have disadvantage to rights and obligations of preferred stock shareholders.
7. This preferred stock does not have a maturity date, and shareholders of this preferred stock may not require this Corporation to redeem this preferred stock at his/her possession; however, this Corporation may redeem all or part of this preferred stock any time after five years of issuance at the actual issuance price. Rights and obligations under the issuance conditions as prescribed in subparagraphs of this paragraph remain effective to unredeemed portions of this preferred stock. In case this Corporation has resolved the dividend distribution for the year, the dividend required to be distributed as of redemption date shall be calculated based on actual days of issuance of the year.
8. Capital reserve for the issuance of this preferred stock at premium may not be capitalized throughout the issuance period of this preferred stock, except for covering losses.

Name, issuance date and concrete issuance condition(s) of this preferred stock are decided based on capital market circumstances and subscription willingness by the investors in accordance with these Articles of Incorporation and relevant laws and regulations by the Board of Directors at actual issuance.

Article 7-2 This Corporation may issue Series B preferred stock, whose rights, obligations and other significant issuance conditions are as follows:

1. Dividend of this preferred stock contains a maximum at 8 percent of the annual rate, calculated at the issuance price per share. Dividends may be distributed in one cash payment annually. The Board of Directors or Chairman under authorization by resolution of the Board of Directors shall set forth a record date for payment of dividend in the previous year available for

- distribution. The year of issuance and distribution of reclaimed dividend of the year will be calculated on basis of actual issuance date of the year.
2. This Corporation has discretion over the dividend distribution for this preferred stock. Where the Board of Directors has resolved not to distribute preferred stock due to lack of earnings in final accounts or deficiency in earnings available for preferred stock distribution or other considerations necessary for this Corporation, such resolution does not compose a breach of contract. This preferred stock is of non-cumulative type, whose dividend as resolved not to distribute or insufficient in distribution, will not be cumulated in the amount for deferred payments in the following year(s) which there are earnings.
  3. Shareholders of this preferred stock, except for the dividends as mentioned in the subparagraph 1 of this paragraph, are not entitled to distributions of common stock concerning earnings and capital reserve in cash and capitalization.
  4. This preferred stock may not be converted within three years from issuance date. The duration which this preferred stock may be converted is set forth in actual issuance conditions by the Board of Directors under authorization. Shareholders of the convertible preferred shares may, in accordance with issuance condition, convert part or all the preferred stock in possession into the common stock by the ratio of one preferred stock to one common stock (conversion ratio is 1:1). Rights and obligations for the convertible preferred stock after converted into common stock are equivalent to those of common stock. Where this preferred stock has been converted to common stock prior to ex-right (dividend) date in the year of conversion. In case the common stock earnings and capital reserve distribution of the year is participated, participation to preferred stock dividend distribution may not be made. Where this preferred stock is converted into common stock after the ex-right (dividend) date of the year and is in participation of preferred stock distribution of the year may not participate in common stock earnings and capital reserve distribution of the year. Dividends (interests) for preferred stock and common stocks of the same year are in principle not distributed repetitively.
  5. The priority of shareholders of this preferred stock is higher than common stock shareholders in distribution of the remaining properties of this Corporation, and the shareholders of various preferred stock issued by this Corporation are of identical compensation order and are preceded by general creditors; however, the amount shall be limited to the values as calculated by issuance price of the issued and outstanding preferred shares upon distribution.
  6. Shareholders of this preferred stock have the voting and election rights in a common stock shareholders' meeting, which are equivalent to common stock shareholders.
  7. This preferred stock does not have a maturity date, and shareholders of this preferred stock may not require this Corporation to redeem this preferred stock at his/her possession; however, this Corporation may redeem all or part of this preferred stock any time after five years of issuance at the actual issuance price. Rights and obligations under the issuance conditions as prescribed in subparagraphs of this paragraph remain effective to unredeemed

portions of this preferred stock. In case this Corporation has resolved the dividend distribution for the year, the dividend required to be distributed as of redemption date shall be calculated based on actual days of issuance of the year.

8. Capital reserve for the issuance of this preferred stock at premium may not be capitalized throughout the issuance period of this preferred stock, except for covering losses.

Name, issuance date and concrete issuance condition(s) of this preferred stock are decided based on capital market circumstances and subscription willingness by the investors in accordance with these Articles of Incorporation and relevant laws and regulations by the Board of Directors at actual issuance.

Article 7-3 This Corporation may issue Series A preferred stock, whose rights, obligations and other significant issuance conditions are as follows:

1. Dividend of this preferred stock contains a maximum at 4 percent of the annual rate, calculated at the issuance price per share. Dividends may be distributed in one cash payment annually. The Board of Directors or Chairman under authorization by resolution of the Board of Directors shall set forth a record date for payment of dividend in the previous year available for distribution. The year of issuance and distribution of reclaimed dividend of the year will be calculated on basis of actual issuance date of the year.
2. In case there is no earnings in the final account of the year, and capital reserve of this preferred stock is not sufficient for distribution of dividend of this preferred stock, the dividend undistributed or insufficient for distribution shall be accumulated and complemented in priority in the following year(s) which there are earnings.
3. Shareholders of this preferred stock, except for the dividends as mentioned in the subparagraph 1 of this paragraph, are not entitled to distributions of common stock concerning earnings and capital reserve in cash and capitalization.
4. This preferred stock may not be converted within three years from issuance date. The duration which this preferred stock may be converted is set forth in actual issuance conditions by the Board of Directors under authorization. Shareholders of the convertible preferred shares may, in accordance with issuance condition, convert part or all the preferred stock in possession into the common stock by the ratio of one preferred stock to one common stock (conversion ratio is 1:1). Rights and obligations for the convertible preferred stock after converted into common stock are equivalent to those of common stock. Where this preferred stock has been converted to common stock prior to ex-right (dividend) date in the year of conversion. In case the common stock earnings and capital reserve distribution of the year is participated, participation to preferred stock dividend distribution may not be made. Where this preferred stock is converted into common stock after the ex-right (dividend) date of the year and is in participation of preferred stock distribution of the year may not participate in common stock earnings and capital reserve distribution of the year. Dividends (interests) for preferred stock and common stocks of the same year are in principle not distributed repetitively.
5. The priority of shareholders of this preferred stock is higher than common

stock shareholders in distribution of the remaining properties of this Corporation, and the shareholders of various preferred stock issued by this Corporation are of identical compensation order and are preceded by general creditors; however, the amount shall be limited to the values as calculated by issuance price of the issued and outstanding preferred shares upon distribution.

6. Shareholders of this preferred stock have the voting and election rights in a common stock shareholders' meeting, which are equivalent to common stock shareholders.
7. This preferred stock does not have a maturity date, and shareholders of this preferred stock may not require this Corporation to redeem this preferred stock at his/her possession; however, this Corporation may redeem all or part of this preferred stock any time after five years of issuance at the actual issuance price. Rights and obligations under the issuance conditions as prescribed in subparagraphs of this paragraph remain effective to unredeemed portions of this preferred stock. In case this Corporation has resolved the dividend distribution for the year, the dividend required to be distributed as of redemption date shall be calculated based on actual days of issuance of the year.
8. Capital reserve for the issuance of this preferred stock at premium may not be capitalized throughout the issuance period of this preferred stock, except for covering losses.

Name, issuance date and concrete issuance condition(s) of this preferred stock are decided based on capital market circumstances and subscription willingness by the investors in accordance with these Articles of Incorporation and relevant laws and regulations by the Board of Directors at actual issuance.

Article 8 Stocks of the Company are in form of registered shares, and the share certificates shall be affixed with the signatures or personal seals of directors this Corporation, numbered, and shall be duly certified or authenticated by the competent authority to certify shares under the laws before issuance thereof. This Corporation may print its share certificate in combined form following total number of shares in each issuance of new shares and may also be exempted from printing its share certificate, and shall register the issued shares with a centralized securities depository enterprise, and shall transact following regulations of such enterprise.

Article 9 Transfers of ownership or via inheritance or gift, making of pledge, loss, or other stock affairs of this Corporation's stocks shall be conducted in accordance with the Company Act and relevant laws and regulations. Taiwan Depository & Clearing Corporation may request a merger for reissuance of securities in larger denominations.

Article 10 Shareholders' meetings of this Corporation are of two kinds: (1) regular meeting and (2) special meeting. Shareholders' meetings of this Corporation shall be convened as provided by the Company Act. Matters relating to the resolutions of a shareholders meeting shall be recorded in the meeting minutes, whose distribution may be made in public announcements.

A special shareholders' meeting may be convened in accordance with relevant laws and regulations when necessary.

Article 11 Except in the circumstances of restrictions or otherwise provided for in relevant laws and regulations, a shareholder of this Corporation shall have one voting power in respect of each share in his/her/its possession.

Article 12 If a shareholders' meeting or a Board of Directors meeting is convened, the meeting shall be chaired by the chairperson of the Board. When the chairperson of the Board is on leave, the chairperson shall appoint one of the directors to act as chair, or, if there are no managing directors, one of the directors shall be appointed to act as chair. If no such designation is made by the chairperson, the directors shall select one person from among themselves to serve as chair

Article 13 This Corporation shall have 7 to 11 directors to be elected at the shareholders meeting from among the individuals of legal capacity, with the term of three years. All Directors shall be eligible for re-election. Total number of registered shares held by all directors may not be less than a certain percentage of the total amount of paid-in capital of this Corporation, which shall be provided by the competent authority.

The number of directors as set forth in the preceding paragraph shall contain no fewer than three independent directors, which is no less than one-fifth of all directors. Elections of directors at this Corporation shall be conducted in accordance with the candidate nomination system and procedures set out in Article 192-1 of the Company Act. Shareholders shall elect the directors and independent shareholders from the list of candidates, whose acceptance of nomination, public announcement and other relevant affairs shall be handled in compliance with the Company Act, Securities and Exchange Act and other relevant rules and relevant regulations.

The "audit committee" established by this Corporation pursuant to Article 14-4 of the Securities and Exchange Act shall be composed of the entire member of independent directors °

Number of members, terms, duties and rules for meeting procedure of the audit committee shall be transacted in accordance with organic regulations set forth with reference to Regulations Governing the Exercise of Powers by Audit Committees of Public Companies.

Article 14 The Directors shall constitute the Board of Directors and shall elect one Chairman of the Board from among themselves by a majority at a meeting attended by at least two-thirds of the Directors. The Chairman shall externally represent this Corporation.

Article 15 Where a director of this Corporation concurrently serves as a managerial role or employee, in addition to travel expenses for directors, he/she is entitled to salary and subsidies equivalent to general employees of this Corporation.

Article 16 The Board of Directors shall perform their duties as empowered by the Company Act and shareholders' meeting of this Corporation. In case a Board of Directors meeting cannot be convened after convening in accordance with relevant laws and regulations and with the reasons for convening such meeting listed, the Chairman under authorization may make decisions within the scope under the original reasons for convening the meeting, with the decisions made submitted for ratification after the Board of Directors meeting has been convened.

Article 17 Where a Board of Directors is convened, a director may appoint another director to attend a meeting of the board of directors in his/her behalf ; however, a director may



accept the appointment to act as the proxy of one other director only. The notice for calling a meeting of the directors may be effected by means of writing, electronic email or facsimile.

Article 18 This Corporation may obtain all directors and significant managerial roles liability insurance.

Article 19 Where the Chairman and the directors of this Corporation perform duties of this Corporation, this Corporation shall provide compensations whose amount is set forth by the Board of Directors under authorization on basis of such duty's involvement in operations of this Corporation and value of contribution as well as general level of compensation as provided in the same industry.

Article 20 This Corporation may have managerial officers. Appointment, discharge and the compensation of the managerial officers shall be effected by resolution of the Board of Directors.

Article 21 The fiscal year of this Corporation starts on 1st of January of each year and ends on 31st of December of the same year. After the close of each fiscal year, relevant reports and statements shall be prepared by the Board of Directors, and shall be submitted to the regular meeting of shareholders for acceptance following legal procedure.

Article 22 If there is profit (i.e. benefits of profit before tax before deduction of employees' and directors' compensation) at the end of each fiscal year, a ratio of profit of the current year distributable as employees' and directors' compensation shall be appropriated. The distribution ratio for employees' compensation shall not be less than 1% and the directors' compensation distributed shall not be more than 3%. However, this Corporation's accumulated losses (incl. adjustment to undistributed earnings) shall have been covered first.

Parties entitled to receive shares or cash as employees' compensation as mentioned in the preceding paragraph may include the employees of parents or subsidiaries of the Company meeting certain specific requirements, and the directors' compensation as mentioned in the preceding paragraph shall only be distributed in cash.

The distributions as mentioned in the preceding two paragraphs shall be resolved by the Board of Directors before submitting to the shareholders' meeting.

Article 22-1 After closing of accounts, if there are earnings, this Corporation shall first pay the tax, make up the losses for the preceding years, set aside a legal reserve of 10% of the net profit, and then designate special reserves following relevant regulations; if there are still earnings, this Corporation may in priority distribute the dividends for preferred shares of the current year, and then the Board of Directors shall propose distribution of earnings (including the adjustment to undistributed earnings) herein before reporting to the shareholders' meeting for resolution on distribution of shareholders' dividends. In case a cash dividend is to be distributed, such distribution shall be adopted by a majority of directors in the board of directors' meeting attended by more than two-third of all directors before reporting to the shareholders' meeting.

As the industry this Corporation is under is currently in maternity, in consideration of future capital needs and financial planning, as well as shareholders' equity, the Board of Directors of this Corporation shall, depending on operation circumstances,

set aside an earning distribution between the proportion between 5% and 50% before submitting to the regular shareholders' meeting. Earnings distribution shall be in priority in form of cash dividend and may be made in equity, which shall be in principle not more than 80% of the total dividend; however, the earnings may be retained for this Corporation's material investment plans and future development, etc.

- Article 23 These Articles of Incorporation shall be effected by resolution in a shareholders' meeting.
- Article 24 In regard to all matters not provided for in these Articles of Incorporation, the Company Act and other relevant laws and regulations shall govern
- Article 25 These Articles of Incorporation are agreed to and signed on September 19, 1955.46th Amendment was made on June 19, 2020.

## Appendix 2

### FEDERAL CORPORATION

#### Rules of Procedure for Shareholders' Meeting

- Article 1 Except as otherwise provided by relevant laws and regulations, this Corporation's shareholders meetings shall be convened as provided in these Rules.
- Article 2 Shareholders as referred to in these Rules refers to the shareholder him/herself and his/her proxy for attending the shareholders' meetings.
- Article 3 Where a shareholder attends the meeting, he/she shall present attendance card, or hand in a sign-in card in lieu of signing in. Where a sign-in card is handed in will be deemed the attendance of shareholder or his/her proxy as stated on such card in presence, and this Corporation will not be liable under such circumstances. The number of shares in attendance shall be calculated according to the shares indicated by the sign-in cards handed in plus the number of shares whose voting rights are exercised by correspondence or electronically.
- Article 4 Attendance at shareholders meetings shall be calculated based on numbers of shares. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders meeting, only one of the representatives so appointed may speak on the same proposal.
- Article 5 The venue for a shareholders meeting shall be the premises (office building or factory) of this Corporation, or a place easily accessible to shareholders and suitable for a shareholders meeting. The meeting may begin no earlier than 9 a.m. and no later than

3 p.m.

Article 6 If a shareholders meeting is convened by the board of directors, the meeting shall be chaired by the chairperson of the board. When the chairperson of the board is on leave or for any reason unable to exercise the powers of the chairperson, the chairperson shall delegate one director to serve as chair; Where the chairperson does not make such a designation, the managing directors or the directors shall select from among themselves one person to serve as chair. If a shareholders meeting is convened by a party with power to convene but other than the board of directors, the convening party shall chair the meeting. When there are two or more such convening parties, they shall mutually select a chair from among themselves.

Article 7 The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements as referred to in the preceding paragraph, but the attending shareholders represent one third or more of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of this Corporation A

Article 8 If a shareholders meeting is convened by the board of directors, the meeting agenda shall be set by the board of directors. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting. The provisions of the preceding paragraph apply mutatis mutandis to a shareholders meeting convened by a party with the power to convene that is not the board of directors.

The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs, except by a resolution of the shareholders meeting. After the meeting is adjourned, shareholders may not elect a new chair and resume the meeting at the same or another venue.

Article 9 Deleted.

Article 10 The chairman may reject the request on the head count of attending shareholders as made by shareholders. Where the resolution of a proposal has been made by a quorum, such proposal will be deemed as passed.

Article 11 Before speaking, an attending shareholder must specify on a speaker's slip the subject of the speech, his/her attendance card number, and name. The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. For any restriction to a

shareholder's proxy within the proxy form or in other ways, speaking or voting by the proxy in the meeting shall prevail, without regards to acknowledgement of this Corporation.

- Article 12 Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes. If the shareholder's speech violates the rules or exceeds the scope of the agenda item as stated in the preceding paragraph, the chair may terminate the speech.
- Article 13 After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.
- Article 14 Any matter which is not a proposal will not be discussed or put into a vote. Upon discussion of proposals, the chair may announce the discussion closed. Where the proposals with discussion closed are called for a voting through ballots, voting on the proposals may be made simultaneously but shall be made separately.
- Article 15 Except as otherwise provided in the regulations, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders (or their proxies). Any proposal without objection shown by any attending shareholder upon inquiry by the chair is deemed as passed, whose effects are equivalent to proposals adopted via voting. When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected, and no further voting shall be required.
- Article 16 A shareholder shall be entitled to one vote for each share held, except when the shares are restricted shares or under relevant laws and regulations.
- Article 17 Except as otherwise provided in the Company Act and in this Corporation's Articles of Incorporation, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders.
- Article 18 Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of this Corporation. The results of the voting shall be announced on-site at the meeting and made into records.
- Article 19 This Corporation may appoint its attorneys, certified public accountants, or related persons retained by it to attend a shareholders meeting. Staff handling administrative affairs of a shareholders meeting shall wear identification cards or arm bands.
- Article 20 This Corporation shall make an uninterrupted audio and video recording of the proceedings of the shareholders meeting. The recorded materials of the proceedings shall be retained for at least one year.
- Article 21 The chair may direct the proctors or security personnel to help maintain order at the meeting place. When proctors or security personnel help maintain order at the meeting place, they shall wear an armband bearing the word "Proctor" or an identification card.

- Article 22 When a meeting is in progress, the chair may announce a break based on time considerations.
- Article 23 Matters not attended by these Rules shall be handled in compliance with the Company Act and other relevant rules and relevant regulations.
- Article 24 These Rules shall take effect after having been submitted to and approved by a shareholders meeting. Subsequent amendments thereto shall be effected in the same manner.
- 1st Amendment was made on June 15, 2015.

**FEDERAL CORPORATION**  
Directors' Shareholding Table

Record Date: April 19, 2021

Role	Name		Shares Held on Book Closure Date
			Shares
Chairman	Ma, Shu-Jian		4,004,160
Director	Representatives of Ma Chi-Shan Foundation	Wu, De-Feng	2,760,901
Director		Chen, Chung-Yi	
Director	Representative of MAXON CORPORATION	Ma, Shu-Zhuang	12,732,548
Director	Da-Tian Investment Co., Ltd.	Ma, Pei-Jun	1,742,861
Director	NANKANG RUBBER TIRE CORP., LTD.	Zhao, Guo-Shuai	93,688,000
Independent Director	Tso, Wei-Li		20
Independent Director	Zhou, Xin-Ru		0
Independent Director	Li, Tian-Hsiang		0
Total Shares Held by All Directors (not incl. Independent Director)			93,688,000
Regulatory Minimum of Shares Held by All Directors			16,000,000
Shares Issued			473,329,207