

Stock : 2102

FEDERAL CORPORATION

2020 Annual Report

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<http://www.federalcorporation.com>

1. Spokesperson and Deputy Spokesperson:

| Item | Spokesperson | Deputy Spokesperson |
|--------|--------------------------------------|---------------------------------|
| Name: | Ling-Yun Wu | Chia-Yuan Chang |
| Title | Deputy General Manager | Director of Management |
| Tel: | (03)452-2156*11003 | (03)452-2156*14000 |
| Email: | williamwu@ federalcorporation.com.tw | yuan@ federalcorporation.com.tw |

2. The contact information of Headquarters and Plant:

| Name | Address | Tel. |
|-----------------|--|--------------|
| Headquarters | No. 369, Sec. 2, Zhonghua Rd., Zhongli Dist., Taoyuan City , Taiwan (R.O.C.) | (03)452-2156 |
| Zhongli factory | No. 369, Sec. 2, Zhonghua Rd., Zhongli Dist., Taoyuan City , Taiwan (R.O.C.) | (03)452-2156 |
| Guanyin factory | No. 369, Huanxi Rd., Guanyin Dist., Taoyuan City , Taiwan (R.O.C.) | (03)473-8555 |

3. Stock Transfer Agent:

Name : Yuanta Securities Co., Ltd. Stock transfer agent

Address : B1F., No. 210, Sec. 3, Chengde Rd., Datong Dist., Taipei City, Taiwan (R.O.C.)

Tel. : (02)2586-3117

Website : www.yuanta.com.tw

4. Contact Information of the CPA for the Latest Financial Report

Name : Pei-Ling Du, Jun-Yao Lin

Firm name : PwC Taiwan

Address : 27F., No. 333, Sec. 1, Keelung Rd., Xinyi Dist., Taipei City, Taiwan (R.O.C.)

Taipei World Trade Center International Trade Building

Tel. : (02)2729-6666

Website : www.pwc.com

5. Overseas trade places for listed negotiable securities: None.**6. Company website:**

Website : [http:// www.federalcorporation.com](http://www.federalcorporation.com)

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I. Letters to the Shareholders

Dear Mr. and Ms. Shareholders:

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 revenue 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% |
| Gross profit | 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.

Here’s wishing you all well.

II. Company Profile

1. Date of Establishment: November 23, 1955

2. Company History

The company was formerly known as Tai Feng Rubber Industry Co., Ltd., which was founded by Mr. Ma, Chi Shan in November 1955, with a registered capital of NT\$ 3 million, and was assisted by Mr. Ma, Chi Shan in building the factory. The factory is located in Chongli City, Taoyuan County, to produce industrial rubber belts as the main products; due to the gradual prosperity of the domestic economy and the increasing number of vehicles, in order to meet the social and economic development and market needs, the manufacture of automobile tires started in 1959, and the name was changed in October 1964 to be Tai Feng Tire Co., Ltd.

In order to absorb tire manufacturing technology and improve quality, the company successively cooperated with Japan Ishibashi Tire Co., Ltd. and Sumitomo Rubber Industry Co., Ltd. in 1960 and 1981. In recent years, it has developed various high-performance and high additional value tires to expand product categories for market share.

In order to implement the professional division of labor and improve the operating efficiency of assets, the company transferred the land and buildings held by the company to Tai Shin Development Co., Ltd., which is 100% held by the company, on October 31st, 2003 in accordance with Article 28 of the Corporate Mergers and Acquisitions Act. In order to rationalize the division of labor and adjust business operations, on December 31st, 2004, in accordance with the relevant provisions of the Corporate Mergers and Acquisitions Act, the land and buildings except for the industrial and commercial complex were divided and newly established Tai Cheng Development Co., Ltd., which is 100% owned by the company

The land in Taoyuan Science and Technology Industrial Zone was purchased on March 8th, 2012, and the construction of a new factory was started on October 11th, 2014. The use license and factory registration certificate were successively obtained in 2017.

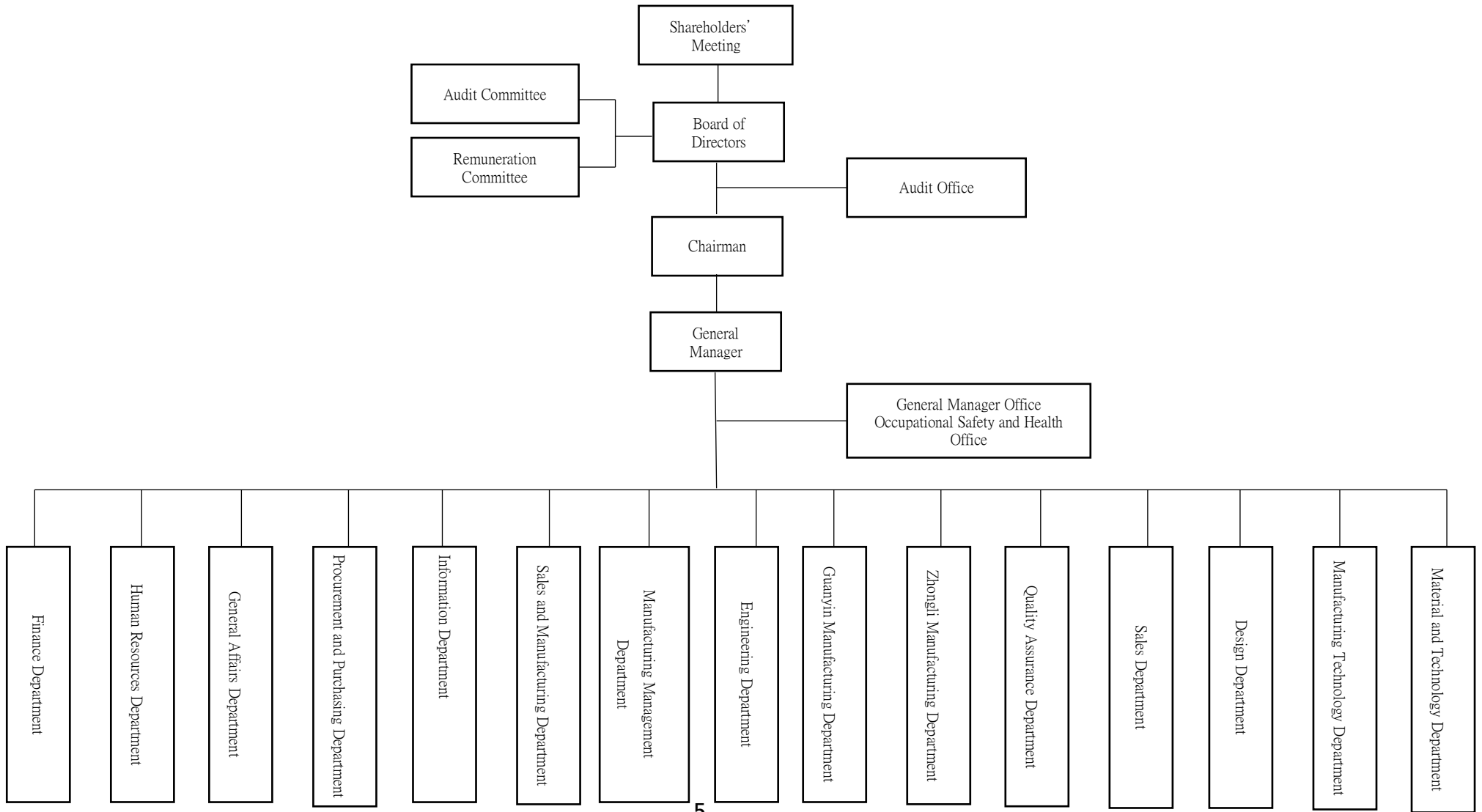
Due to business needs, the company's paid-in capital has reached NT\$ 4,733,292,070 on the day of publication of the annual report after repeated capital increase over the years.

III. Corporate Governance

1. Company Organization:

- (1) The organization and staffing of the company is based on the principles of business management, efforts to reduce manpower, and pay attention to the balance and coordination among departments, and emphasizes the team effectiveness of the overall operation.
- (2) The Responsible Business of Each Main Department, as follows:
 - 1) Audit Office:
Responsible for the supervision, implementation and planning of the internal audit system.
 - 2) Finance Department:
Responsible for fund scheduling, credit management, accounting system, cost and account settlement, management report preparation, tax management, import and export declaration and customs declaration operations, etc.
 - 3) Information Department:
Responsible for computerization and automation management, planning and execution of computer-related business in various departments.
 - 4) Sales and Manufacturing Department:
Responsible for production and sales planning, raw materials, mold management, warehousing and transportation management, shipping, storage and transportation related businesses.
 - 5) Manufacturing Management Department:
Responsible for production control and mold management.
 - 6) General Affairs Department:
Responsible for assets and general affairs, and good-neighborly relations.
 - 7) Procurement and Purchasing Department:
Procurement and management of raw materials and general supplies.
 - 8) Human Resources Department:
Responsible for the formulation, promotion and management of personnel policies, employee benefits, etc.
 - 9) Sales Department:
Responsible for the operation and development of the export market.
 - 10) Design Department:
Responsible for the design and development, verification and practicality of new products.
 - 11) Material and Technology Department:
Responsible for the development and research of raw materials, specification setting and cost reduction.
 - 12) Manufacturing Department:
Responsible for the processing, molding and shaping of production raw materials.
 - 13) Engineering Department:
Responsible for the development, improvement, installation and maintenance of production equipment.
 - 14) Manufacturing Technology Department:
Responsible for the trial production of newly developed products, the revision and release of production process standards, etc.
 - 15) Quality Assurance Department:
Responsible for quality assurance, engineering work standards setting and inspection, planning and supervision of international quality certification, etc.
 - 16) Occupational Safety and Health Office
Responsible for factory environmental protection, safety and hygiene management.

FEDERAL CORPORATION Chart of Organization Structure



Information of Directors, General Manager, Deputy General Manager, Associates, Department and Branch Directors

(1) Information of Directors

April 18, 2021

Unit Thousands of Shares ; %

| Title (Note 1) | Nationality | Name | Gender | Date of First Elected (Note 2) | Date Elected/ Appointed | Term (Years) | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Major Education Background and Education (Note 3) | Concurrent Position of the Company or Other Company | Executives or Directors who are Spouses or within Two Degree of Kinship | | | Remark(Note 4) |
|-------------------|-------------------|----------------------------------|--------|--------------------------------|-------------------------|--------------|---------------------------|------|----------------------|------|-----------------------------|---|-------------------------------------|------|---|---|---|------|--------------|----------------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship | |
| Chairman | Republic of China | Shu Jiam Ma | Male | May 15, 1999 | June 19, 2020 | 3 | 4,066 | 0.86 | 4,004 | 0.85 | 4,712 | 1 | 0 | 0 | Major in Accounting, University of California, Berkeley | Chairman of Tai Cheng Development Co., Ltd., Tai Shin Development Co., Ltd., Federex Marketing Corporation and etc. & Director of Federal International Holdings 、 Amberg Investments 、 Jiangxi Federal Tire Ltd. 、 Karroy Development Ltd. 、 Winberg Investments Pte.Ltd. and etc. | None | None | None | |
| Director | Republic of China | Maxon Corporation | | June 13, 2008 | June 19, 2020 | 3 | 12,733 | 2.69 | 12,733 | 2.69 | 0 | 0 | 0 | 0 | None | None | None | None | None | |
| | Republic of China | Representative Shu Zhuang Ma | Male | August 25, 2009 | June 22, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Master of Business Administration, MIT | CEO of Nutritec-Enjoy Corporation | None | None | None | |
| Director | Republic of China | Da Tien Investment Co., Ltd. | | June 19, 2020 | June 19, 2020 | 3 | 1,743 | 0.37 | 1,743 | 0.37 | 0 | 0 | 0 | 0 | None | None | None | None | None | |
| | Republic of China | Representative Pei Jun Ma | Female | June 19, 2020 | June 19, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 2,226 | 0.47 | Major in Economics, Carnegie Mellon University | Director of Da Yuan Construction Co., Ltd., Yuan Long Construction Development Co., Ltd., Da Tien Investment and Chung Hua Culture Foundation. Supervisor of Shin Yuan International Investment Co., Ltd. | None | None | None | |
| Director | Republic of China | Ma Chi Shan Education Foundation | | June 12, 2014 | June 19, 2020 | 3 | 2,761 | 0.58 | 2,761 | 0.58 | 0 | 0 | 0 | 0 | None | None | None | None | None | |

| Title (Note 1) | Nationality | Name | Gender | Date of First Elected (Note 2) | Date Elected/ Appointed | Term (Years) | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Major Education Background and Education (Note 3) | Concurrent Position of the Company or Other Company | Executives or Directors who are Spouses or within Two Degree of Kinship | | | Remark(Note 4) |
|----------------------|-------------------|----------------------------------|--------|--------------------------------|-------------------------|--------------|---------------------------|------|----------------------|-------|-----------------------------|---|-------------------------------------|---|--|--|---|------|--------------|----------------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship | |
| | Republic of China | Representative Ter Feng Wu | Male | June 19, 2020 | June 19, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Executive Master of Business Administrative, College of Management, National Taiwan University | Honorary President of Chung Hwa Institute of International Taxation Associate Professor of Department of Accounting, Soochow University Associate Professor of Department of Accounting, Chung Yuan Christian University | None | None | None | |
| Director | Republic of China | Ma Chi Shan Education Foundation | | June 12, 2014 | June 19, 2020 | 3 | 2,761 | 0.58 | 2,761 | 0.58 | 0 | 0 | 0 | 0 | None | None | None | None | None | |
| | Republic of China | Representative Chung Yi Chen | Male | June 19, 2020 | June 19, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Bachelor in Industrial Engineering, Tung Hai University | General Manager of Federal Corporation | None | None | None | |
| Director | Republic of China | Nankang Rubber Tire Corp. Ltd. | | June 19, 2020 | June 19, 2020 | 3 | 44,074 | 9.31 | 93,688 | 19.79 | 0 | 0 | 0 | 0 | None | None | None | None | None | |
| | Republic of China | Representative Guo Shuai Zhao | Male | June 30, 2020 | June 30, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | MBA of National Cheng Chi University | Vice Chairman of Nankang Rubber Tire Corp. Ltd. President of Chinese Culture University Alumni Association | None | None | None | |
| Independent Director | Republic of China | Xing Ru Zhou | Female | June 19, 2020 | June 19, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Master of Accounting, National Cheng Chi University | None | None | None | None | |
| Independent Director | Republic of China | Tien Shang Lee | Male | June 19, 2020 | June 19, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | PhD, Institute of Business and Management, Southern Cross University, Australia | Principal and Professor of Kun Shan University | None | None | None | |
| Independent Director | Republic of China | Wei Li Zuo | Female | June 15, 2017 | June 19, 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Master of General Operational Management, Business Management Class, National | Independent Director of Hong Jing Construction Co., Ltd. | None | None | None | |

| Title (Note 1) | Nationality | Name | Gender | Date of First Elected (Note 2) | Date Elected/ Appointed | Term (Years) | Shareholding When Elected | | Current Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Major Education Background and Education (Note 3) | Concurrent Position of the Company or Other Company | Executives or Directors who are Spouses or within Two Degree of Kinship | | | Remark(Note 4) |
|-------------------|-------------|------|--------|--------------------------------|-------------------------|--------------|---------------------------|---|----------------------|---|-----------------------------|---|-------------------------------------|--------------------|---|---|---|------|--------------|----------------|
| | | | | | | | Shares | % | Shares | % | Shares | % | Shares | % | | | Title | Name | Relationship | |
| | | | | | | | | | | | | | | Central University | | | | | | |

Note 1: Legal person shareholders should list the names of legal person shareholders and their representatives separately (if they are legal person shareholders' representatives, the names of legal person shareholders should be indicated).

Note 2: Fill in the time of first serving as a director of the company. If there is any interruption, it should be noted.

Note 3: The experience related to the current position, if you have worked in the auditing certified public accountant firm or affiliated company during the previous disclosure period, the title and the responsible position should be stated.

Note 4: If the chairman of the company and the general manager or the person with equivalent positions (the top manager) are the same person, each other's spouse or relatives, the reason, rationality, necessity and relevant information on corresponding measures (such as increasing the number of independent directors, and there should be more than half of the directors not serving as employees or managers, etc.) should be disclosed.

Table 1: Institutional Shareholder and its Major Shareholders

April 18, 2021

| Name of Institutional Shareholders (Note 1) | Major Shareholder of Institutional Shareholders (Note 2) |
|---|---|
| Maxon Corporation | Shao Hsiang Ma (2.54%) |
| Ma Chi Shan Education Foundation | Federal Corporation donates TWD 30 Million and Shao Jinn Ma donates TWD 1 Million |
| Da Tien Investment Co., Ltd. | Hsiang Ling Hsiao(59.62%), Rui Chen Ma (0.7%), Pei Jun Ma(0.67%) |
| Nankang Rubber Tire Corp. Ltd. | Nan Guan Tire Co., Ltd. (18.13%), Yuan Rui Development Industrial Co., Ltd.(9.79%), Yuan Hung Development Industrial Co., Ltd (9.83%), Zhi Kai Development Co., Ltd. (9.45%), Quan Ye Investment Co., Ltd. (4.07%), Jun Ying Lin (2.27%), Yi Gui Investment Co., Ltd.(1.81%), JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.06%), JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds (1.15%), Guo Qiang Da Technology Co., Ltd.(1.21%) |

Note 1: If the director is a representative of a legal person shareholder, the name of the legal person shareholder should be filled in.

Note 2: Fill in the name of the main shareholder of the legal person shareholder (its shareholding ratio accounts is in the top ten) and its shareholding ratio. If the main shareholder is a legal person, the following table 2 should be filled in.

Note 3: If a legal person shareholder is not a company organizer, the name of the shareholder and shareholding ratio that should be disclosed before is the name of the investor or donor and the ratio of capital contribution or donation.

Table 2: Major Shareholders as Institutional Shareholders and its Major Shareholders

April 18, 2021

| Name of Institutional Shareholders (Note 1) | Major Shareholder of Institutional Shareholders (Note 2) |
|---|--|
| Nan Guan Tire Co., Ltd. | Nankang Rubber Tire Corp. Ltd. (20.37%), Jun Ying Lin (22.96%) |
| Yuan Rui Development Industrial Co., Ltd. | Yuan Hung Development Industrial Co., Ltd (0.02%) |
| Yuan Hung Development Industrial Co., Ltd | Yuan Rui Development Industrial Co., Ltd. (0.1%) |
| Zhi Kai Development Co., Ltd. | Yuan Hung Development Industrial Co., Ltd (0.1%) |
| Quan Ye Investment Co., Ltd. | Yuan Rui Development Industrial Co., Ltd. (0.1%) |
| Guo Qiang Da Technology Co., Ltd. | Nankang Rubber Tire Corp. Ltd. (46.18%) |
| Yi Gui Investment Co., Ltd. | Breeze Venture Capital Co., Ltd. (4.55%) |

Note 1: As shown in Table 1 above, if the main shareholder is a legal person, the name of the legal person should be filled in.

Note 2: Fill in the name of the main shareholder of the legal person (its shareholding ratio accounts is in the top ten) and its shareholding ratio.

Note 3: If a legal person shareholder is not a company organizer, the name of the shareholder and shareholding ratio that should be disclosed, which is the name of the investor or donor and the ratio of capital contribution or donation.

Information of Directors

April 18, 2021

| Criteria Name | Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience | | | Independence Criteria (Note 1) | | | | | | | | | | | | Number of other Public Companies in which the Individual is Concurrently Serving as an Independent Director |
|----------------------|--|--|---|--------------------------------|---|---|---|---|---|---|---|---|----|----|----|---|
| | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, CPAs, or Other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
| Shu Jam Ma | | | V | V | | | V | V | V | | | V | V | V | V | None |
| Shu Zhuang Ma | | | V | V | V | V | V | V | V | V | V | V | V | V | V | None |
| Pei Jun Ma | | | V | V | | V | V | | V | V | V | V | V | V | V | None |
| Ter Feng Wu | V | | V | V | V | V | V | V | V | V | V | V | V | V | V | None |
| Chung Yi Chen | | | V | | V | V | | V | V | V | V | V | V | V | V | None |
| Guo Shuai Zhao | | | V | V | V | V | V | V | V | V | V | V | V | V | V | 1 |
| Xing Ru Zhou | | | V | V | V | V | V | V | V | V | V | V | V | V | V | None |
| Tien Shang Lee | V | | | V | V | V | V | V | V | V | V | V | V | V | V | None |
| Wei Li Zuo | | | V | V | V | V | V | V | V | V | V | V | V | V | V | 1 |

Note 1: Please “✓” the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company or any of its affiliates. Not applicable in cases where the person in an independent director of the company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent of subsidiary.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under other’s names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds 5% or more of the total number of outstanding shares of the company, rank as of its top five shareholders, or has representative director(s) serving on the company’s board based on Paragraph 1 and 2 of the Article 27(do not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).
- (6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution which has a financial or business relationship with the company (do not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).
- (7) Not a chairman, general manager, or person holding an equivalent position of the company and a person in any of those positions or another company or institution are the same person or are spouses: a director (or governor), supervisor, or employee of that other company or institution. (do not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).
- (8) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company(do not apply to independent directors appointed in accordance with the Act or the laws and regulations of the local country by, and concurrently serving as such at, the company and its parent or subsidiary or a subsidiary of the same parent).
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof; provided, this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company
- (11) Not been a person of any conditions defined in Article 30 of the Company Act

(12) Not a governmental, legal person or its representative as defined in Article 27 of the Company Act.

(2) Information of General Manager, Deputy General Manager, Associates, Department and Branch Directors

April 18, 2021

Unit: Thousands of Shares;%

| Title (Note 1) | Nationality | Name | Gender | Date Elected or Appointed | Shareholding | | Spouse & Minor Shareholding | | Shareholding by Nominee Arrangement | | Experience (Education) (Note 2) | Currently holding the position of other companies | Managers who are Spouses or within Two Degrees of Kinship | | | Remark (Note 3) |
|---|-------------------|-----------------|--------|---------------------------------|--------------|---|--------------------------------|---|---|---|--|---|--|------|----------|--------------------|
| | | | | | Shares | % | Shares | % | Shares | % | | | Title | Name | Relation | |
| General Manager | Republic of China | Chung Yi Chen | Male | May 08, 2020 | 0 | 0 | 0 | 0 | 0 | 0 | Department of Industrial Engineering, Tunghai University | None | None | None | None | |
| Deputy General Manager (Concurrent as Director of Finance Office) | Republic of China | Ling Yun Wu | Male | August 12, 2020 | 0 | 0 | 6 | 0 | 0 | 0 | Master of Finance, University of Illinois at Urbana-Champaign | None | None | None | None | |
| Plant Director | Republic of China | Xian Shun Peng | Male | February 25, 2013 | 0 | 0 | 0 | 0 | 0 | 0 | Industrial Management Division, Tamsui Vocational High School | None | None | None | None | |
| Deputy Director of Finance Office | Republic of China | Xin Yi Lu | Male | November 01, 2019 | 15 | 0 | 0 | 0 | 0 | 0 | Department of Accounting, Chung Yuan University | None | None | None | None | |
| Director of Management Office | Republic of China | Chia Yuan Chang | Male | August 01, 2015 | 11 | 0 | 0 | 0 | 0 | 0 | Department of Manufacturing Management, Yuan Ze University | None | None | None | None | |
| Deputy Director of Management Office | Republic of China | Jia Shen Liu | Male | June 01, 2017 | 0 | 0 | 0 | 0 | 0 | 0 | Department of Industrial Management of Lien Ho College of Technology | None | None | None | None | |
| Director of Foreign Office | Republic of China | Yan Lin | Male | July 1, 2019 | 0 | 0 | 0 | 0 | 0 | 0 | Department of Business Management, Chung Hsing University | None | None | None | None | |
| Director of Research & Development Office | Republic of China | Hong Cheng Wu | Male | December 01, 2017 | 0 | 0 | 0 | 0 | 0 | 0 | Chemical Engineering Department of Longhua Engineering College | None | None | None | None | |
| Deputy Director of Research & Development Office | Republic of China | De Zheng Gu | Male | November 16, 2017 | 0 | 0 | 0 | 0 | 0 | 0 | Department of Textiles, Feng Chia University | None | None | None | None | |
| Deputy Plant Director | Republic of China | Bang Ming Dai | Male | September 1, 2016 | 0 | 0 | 0 | 0 | 0 | 0 | Department of Electrical Engineering, Qingyun University of Technology | None | None | None | None | |

Note 1: It should include the general manager, deputy general manager, associate manager, various departments and branch organization director information, and any position equivalent to general manager, deputy general manager or associate, regardless of job title, should also be disclosed.

Note 2: The experience related to the current position, if you have worked in a certification audit firm or an affiliated company during the previous disclosure period, you should state the title and the responsible position.

Note 3: If the chairman of the company and the general manager or the person with equivalent positions (the top manager) are the same person, each other's spouse or relatives, the reason, rationality, necessity and relevant information on corresponding measures (such as increasing the number of independent directors, and there should be more than half of the directors not serving as employees or managers, etc.) should be disclose

| Title | Name | Remuneration | | | | | | | | Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10) | Relevant Compensation Received by Directors Who are Also Employees | | | | | | Ratio of Total Remuneration and Compensation (A+B+C+D+E+F+G) to Net Income (%) (Note 10) | | |
|--|---|--------------------------------|---|-------------------|---|-------------------------------------|---|------------------------|---|---|--|---|-------------------|---|------------------------------------|---|--|--|---|
| | | Base Compensation (A) (Note 2) | | Severance Pay (B) | | Directors Remuneration (C) (Note 3) | | Allowance (D) (Note 4) | | | Salary, Bonuses and Allowance (E) (Note 5) | | Severance Pay (F) | | Employee Compensation (G) (Note 6) | | | | |
| | | The Company | Companies in the consolidated financial statements (Note 7) | The Company | Companies in the consolidated financial statements (Note 7) | The Company | Companies in the consolidated financial statements (Note 7) | The Company | Companies in the consolidated financial statements (Note 7) | | The Company | Companies in the consolidated financial statements (Note 7) | The Company | Companies in the consolidated financial statements (Note 7) | The Company | Companies in the consolidated financial statements (Note 7) | | The Company | Companies in the consolidated financial statements (Note 7) |
| | | | | | | | | | | | | | | Cash Amount | Stock Amount | Cash Amount | The Company | Companies in the consolidated financial statements | |
| Director | Nankang Rubber Tire Corp. Ltd. Representative: Qing Xing Jiang (Dismissal on June 30, 2020) | | | | | | | | | | | | | | | | | | |
| Director | Huan Xiang Investment Co., Ltd. Pei Jun Ma (Dismissal on June 19, 2020) | | | | | | | | | | | | | | | | | | |
| Director | Huan Xiang Investment Co., Ltd. Representative: Su Yun Liao (Dismissal on June 19, 2020) | | | | | | | | | | | | | | | | | | |
| Independent Director | Yin Zhong Zhou (Dismissal on June 19, 2020) | | | | | | | | | | | | | | | | | | |
| Independent Director | Tien Shang Lee (Appointed on June 19, 2020) | | | | | | | | | | | | | | | | | | |
| Independent Director | Wei Li Zuo (Re-elected on June 19, 2020) | | | | | | | | | | | | | | | | | | |
| Independent Director | Xing Ru Zhou (Appointed on June 19, 2020) | | | | | | | | | | | | | | | | | | |
| <p>1. Please state the policy, system, standard and structure of the remuneration payment for independent directors, and state the relevance to the amount of remuneration based on the responsibilities, risks, investment time and other factors:</p> <p>a. The board of directors shall, in accordance with the provisions of the company's articles of association, determine the extent of its participation in the company's operations and the value of its contribution, and refer to the usual standards of the industry.</p> <p>b. The company's articles of association also clearly stipulate that no more than 3% of the annual profit shall be the director's remuneration.</p> <p>2. Except as disclosed in the above table, the remuneration received by the directors of the company for providing services to all companies in the financial report (such as serving as a consultant for non-employees, etc.) in the most recent year: None.</p> | | | | | | | | | | | | | | | | | | | |

| Range of Remuneration Paid for Each Directors of the Company | Name of Directors | | | |
|--|---|---|--|--|
| | Total Amount of the Above-Stated Four Items of Remuneration (A+B+C+D) | | Total Amount of the Above-Stated Seven Items of Remuneration and Compensation (A+B+C+D+E+F+G) | |
| | The Company (Note 8) | Companies in the Consolidated Financial Statement (Note 9) | The Company(Note 8) | Companies in the Consolidated Financial Statement (Note 9) |
| Under TWD1,000,000 | Shao Jinn Ma, Shu Jam Ma, Gong Ping Chen, Pei Jun Ma, Su Yun Liao, Ter Feng Wu, Chung Yi Chen, Guo Shuai Zhao, Qing Xing Jiang, Wei Li Zuo, Yin Zhong Zhou, Tien Shang Lee, Xing Ru Zhou, Maxon Corporation, Da Tien Investment Co., Ltd. | Shao Jinn Ma, Shu Jam Ma, Gong Ping Chen, Pei Jun Ma, Su Yun Liao, Ter Feng Wu, Chung Yi Chen, Guo Shuai Zhao, Qing Xing Jiang, Wei Li Zuo, Yin Zhong Zhou, Tien Shang Lee, Xing Ru Zhou, Maxon Corporation, Da Tien Investment Co., Ltd. | Gong Ping Chen, Pei Jun Ma, Su Yun Liao, Ter Feng Wu, Guo Shuai Zhao, Qing Xing Jiang, Wei Li Zuo, Yin Zhong Zhou, Tien Shang Lee, Xing Ru Zhou, Maxon Corporation, Da Tien Investment Co., Ltd. | Gong Ping Chen, Pei Jun Ma, Su Yun Liao, Ter Feng Wu, Guo Shuai Zhao, Qing Xing Jiang, Wei Li Zuo, Yin Zhong Zhou, Tien Shang Lee, Xing Ru Zhou, Maxon Corporation, Da Tien Investment Co., Ltd. |
| TWD1,000,000 (Included) ~ TWD2,000,000 (Excluded) | | | | |
| TWD 2,000,000 (Included) ~ TWD 3,500,000 (Excluded) | | | Shao Jinn Ma, Chung Yi Chen | Shao Jinn Ma, Chung Yi Chen |
| TWD 3,500,000 (Included) ~ TWD 5,000,000 (Excluded) | | | | |
| TWD 5,000,000 (Included) ~ TWD 10,000,000 (Excluded) | | | Shu Jam Ma | Shu Jam Ma |
| TWD 10,000,000 (Included) ~ TWD 15,000,000 (Excluded) | | | | |
| TWD 15,000,000 (Included) ~ TWD 30,000,000 (Excluded) | | | | |
| TWD 30,000,000 (Included) ~ TWD 50,000,000 (Excluded) | | | | |
| TWD 50,000,000 (Included) ~ TWD 100,000,000 (Excluded) | | | | |
| Over TWD 100,000,000 | | | | |

Note 1: The names of directors should be listed separately (corporate shareholders should list the names of corporate shareholders and their representatives separately), and general directors and independent directors should be listed separately, and the payment amounts should be disclosed in a summary manner.

Note 2: Refers to the remuneration of directors in the most recent year (including directors' salaries, post bonuses, severance payments, various bonuses, incentives, etc.).

Note 3: This is the amount of directors' remuneration approved by the board of directors in the most recent year.

Note 4: Refers to the director's relevant business execution expenses in the most recent year (including carriage fees, special expenses, various allowances, dormitories, car allocation, etc.). When providing housing, cars and other means of transportation or exclusive personal expenses, the nature and cost of the assets provided, the actual or fair market price rent, fuel and other payments should be disclosed. In addition, if there is a driver, please note the relevant remuneration paid by the company to the driver, but it is not included in the remuneration.

Note 5: Refers to the salary received by concurrent directors (including concurrent general manager, deputy general manager, other managers and employees) in the most recent year, including salary, post bonus, severance payment, various bonuses, incentives, carriage fees, special expenses, various allowances, dormitories, car distribution, etc. When providing housing, cars and other means of transportation or exclusive personal expenses, the nature and cost of the assets provided, the actual or fair market price rent, fuel and other payments should be disclosed. In addition, if there is a driver, please note the relevant remuneration paid by the company to the driver, but it will not be included in the remuneration. In addition, salary expenses recognized in accordance with IFRS 2 "Share based payment", including obtaining employee stock options, restricting employee rights, new shares, and participating in cash capital increase subscription for shares, should also be included in the remuneration.

Note 6: Refers to directors serving concurrently as employees (including concurrently serving as general manager, deputy general manager, other managers and employees) who have received employee remuneration (including stocks and cash) in the most recent year. The amount of employee remuneration approved by the board of directors in the most recent year shall be disclosed. If it is not possible to estimate, the proposed distribution amount for this year shall be calculated based on the actual distribution amount last year, and the attached table 1-3 shall be filled in.

Note 7: The total amount of remuneration paid to the directors of the company by all companies (including the company) in the consolidated report should be disclosed.

Note 8: The company pays the total amount of remuneration to each director, and reveals the name of the director in the attribution level.

Note 9: The total amount of remuneration paid to each director of the company by all companies (including the company) in the consolidated report should be disclosed, and the names of the directors should be disclosed in the attribution level.

Note 10: Net profit after tax refers to the net profit after tax of the individual or individual financial report in the most recent year.

Note 11:

- a. This column should clearly state the amount of relevant remuneration received by the directors of the company from the non-subsidiary transfer investment business or the parent company (if none, please fill in "none").
- b. If the directors of the company receive remuneration from the investment business outside the subsidiary or receive related remuneration from the parent company, the remuneration received by the director of the company for the investment business outside the subsidiary or the parent company should be included in the the column I of the table, and change the name of the column to "Parent Company and All Reinvested Businesses".
- c. Remuneration means the remuneration (including remuneration for employees, directors and supervisors) received by the directors of the company for serving as a business other than a subsidiary company or as a

director, supervisor or manager of the parent company, and the payment they received related to business execution expenses.

(B) Compensation of General Manager and Deputy General Manager

Unit: TWD Thousands

| Title | Name | Salary(A) (Note 2) | | Severance Pay (B) | | Bonus, Allowance and etc. (Note 3) | | Employee Compensation(D) (Note 4) | | | | Ratio of total compensation (A+B+C+D) to net income (%) (Note 8) | | Compensation paid from an invested company other than the company's subsidiary or the parent company (Note 9) |
|------------------------|---------------|--------------------|---|-------------------|---|------------------------------------|---|-----------------------------------|--------------|---|--------------|--|--|---|
| | | The Company | Companies in the consolidated financial statements (Note 5) | The Company | Companies in the consolidated financial statements (Note 5) | The Company | Companies in the consolidated financial statements (Note 5) | The Company | | Companies in the consolidated financial statements (Note 5) | | The Company | Companies in the consolidated financial statements | |
| | | | | | | | | Cash Amount | Stock Amount | Cash Amount | Stock Amount | | | |
| General Manager | Chung Yi Chen | 3,402 | 3,402 | 153 | 153 | 982 | 982 | 15 | 0 | 15 | 0 | 4.08 | 4.08 | None |
| Deputy General Manager | Ling Yun Wu | | | | | | | | | | | | | |

* Regardless of job title, anyone whose position is equivalent to general manager or deputy general manager (for example: president, chief executive officer, director... etc.) should be disclosed.

| Range of Remuneration Paid for Each General Manager and Deputy General Manager of the Company | Name of General Manager and Deputy General Manager | |
|---|--|--|
| | The Company (Note 6) | Companies within the Consolidated Financial Statement (Note 7) |
| Under TWD1,000,000 | | |
| TWD1,000,000 (Included) ~ TWD2,000,000 (Excluded) | Ling Yun Wu | Ling Yun Wu |
| TWD 2,000,000 (Included) ~ TWD 3,500,000 (Excluded) | Chung Yi Chen | Chung Yi Chen |
| TWD 3,500,000 (Included) ~ TWD 5,000,000 (Excluded) | | |
| TWD 5,000,000 (Included) ~ TWD 10,000,000 (Excluded) | | |
| TWD 10,000,000 (Included) ~ TWD 15,000,000 (Excluded) | | |
| TWD 15,000,000 (Included) ~ TWD 30,000,000 (Excluded) | | |
| TWD 30,000,000 (Included) ~ TWD 50,000,000 (Excluded) | | |
| TWD 50,000,000 (Included) ~ TWD 100,000,000 (Excluded) | | |
| Over TWD 100,000,000 | | |

Note 1: The names of the general manager and deputy general managers should be listed separately, and the payment amounts should be disclosed in a summary manner.

Note 2: It is to fill in the most recent annual general manager and deputy general manager salaries, job bonuses, and severance pay.

Note 3: The amount of bonuses, incentives, carriage fees, special expenses, allowances, dormitories, car distribution, etc., provided by the general manager and deputy general managers in the most recent year, and other remunerations are listed. When providing housing, cars and other means of transportation or exclusive personal expenses, the nature and cost of the assets provided, the actual or fair market price rent, fuel and other payments should be disclosed. In addition, if there is a driver, please note that the company pays the driver to the relevant remuneration, but it will not be included in the remuneration. In addition, salary expenses recognized in accordance with IFRS 2 "Share Basic Benefits", including obtaining employee stock options, restricting employee rights, new shares, and participating in cash capital increase subscription for shares, should also be included in remuneration.

Note 4: Fill in the amount of employee compensation (including stocks and cash) approved by the board of directors to distribute the general manager and deputy general managers in the most recent year. If it cannot be estimated, the proposed distribution amount for this year will be calculated based on the actual distribution amount last year. Fill out the sixth schedule. Net profit after tax refers to the net profit after tax in the most recent year; if IFRS has been adopted, net profit after tax refers to the net profit after tax of the individual or individual financial report in the most recent year.

Note 5: The total amount of remuneration paid to the general manager and deputy general managers of the company by all companies (including the company) in the consolidated report should be disclosed.

Note 6: The company pays the total amount of remuneration to each general manager and deputy general manager, and reveals the names of the general manager and deputy general managers in the attribution level.

Note 7: The total amount of remuneration paid to each general manager and deputy general manager of the company by all companies (including the company) in the consolidated report should be disclosed, and the names of the general manager and deputy general managers should be disclosed in the attribution level.

Note 8: Net profit after tax refers to the net profit after tax in the most recent year; if IFRS has been adopted, net profit after tax refers to the net profit after tax of the individual or individual financial report in the most recent year.

Note 9:

- a. This column should clearly indicate the amount of remuneration received by the general manager and deputy general managers of the company from the subsidiary's out-of-investment business.
- b. If the general manager and deputy general managers of the company receive relevant remuneration from the subsidiary's out-of-investment business, the remuneration received by the company's general manager and deputy general manager from the subsidiary's out-of-investment business shall be incorporated into the remuneration scale table Column E, and change the name of the column to "All reinvested businesses".
- c. Remuneration refers to the remuneration received by the general manager and deputy general managers of the company as directors or managers of non-subsidiary investment businesses, remuneration (including remuneration for employees and directors), and business execution expenses and other related remunerations.

i. Employees' Profit Sharing Bonus Paid to Management Team

Unit: TWD

| | Title (Note 1) | Name (Note 1) | Stock Amount | Cash Amount | Total Employees' Profit Sharing Bonuses | Total Employees' Profit Sharing Bonus Paid to Management Team as a % of Annual Net Income |
|---------|--|-----------------|--------------|-------------|---|---|
| Manager | General Manager | Chung Yi Chen | None | 53,342 | 53,342 | 0.05 |
| | Deputy General Manager (Director of Finance) | Ling Yun Wu | | | | |
| | Plant Director | Xian Shun Peng | | | | |
| | Deputy Director of Finance Office | Xin Yi Lu | | | | |
| | Director of Management Office | Chia Yuan Chang | | | | |
| | Deputy Director of Management Office | Jia Shen Liu | | | | |
| | Director of Foreign Office | Yan Lin | | | | |
| | Director of Research and Development Office | Hong Cheng Wu | | | | |
| | Deputy Director of Research and Development Office | De Zheng Gu | | | | |
| | Deputy Plant Director | Bang Ming Dai | | | | |
| | Head of Accounting | Xin Yu Li | | | | |

Note 1: Individual names and titles should be disclosed, but the profit distribution situation can be disclosed in a summary manner.

Note 2: The amount of employee compensation (including stocks and cash) approved by the board of directors for the distribution of managers in the most recent year is listed. If it is impossible to estimate, the proposed distribution amount for this year will be calculated based on the actual distribution amount last year. Net profit after tax refers to the net profit after tax in the most recent year; if IFRS has been adopted, net profit after tax refers to the net profit after tax of the individual or individual financial report in the most recent year.

Note 3: The scope of application of managers in accordance with regulations in Taiwan Financial Certificate Third Tier No. 0920001301 is as follows:

- (1) General manager and equivalent
- (2) Deputy General Manager and equivalent
- (3) Associate manager and equivalent
- (4) Head of Finance Department
- (5) Head of Accounting Department
- (6) Other persons who have the right to manage affairs and sign for the company

Note 4: If the director, general manager and deputy general manager receive employee remuneration (including stock and cash), in addition to filling in the attached table one and two, this form should be filled in.

- (4) Individually compare the analysis of the proportion of the total remuneration paid to the directors, general managers and deputy general managers of the company in the most recent two years by the company and all companies in the consolidated statement accounted for the proportion of net profit after tax, and also explains the remuneration policies, standards and combinations, the procedures for determining remuneration, and its correlation with business performance and future risks:

- A. Analysis of the proportion of the total remuneration paid by the company and all companies in the consolidated statement to the company's directors, general managers and deputy general managers in the net profit after tax:

| Item | The Company | | Companies within the Consolidated Financial Statement | |
|--|-------------|------|---|------|
| | 2020 | 2019 | 2020 | 2019 |
| The ratio of directors' total remuneration to net profit after tax | 12.36 | - | 15.18 | - |
| The total remuneration of the general manager and deputy general managers accounted for the percentage of net profit after tax | 4.08 | - | 4.08 | - |

Note: 2019 was a net loss after tax, so there is no information on the percentage of the net profit after tax. The data for 2020 is calculated based on the net profit of the individual after tax for 2020 of NT\$ 111,477,000.

- B. Remuneration policies, standards and combinations, procedures for determining remuneration, and their relevance to business performance and future risks:
- i. The proportion of remuneration distributed by the directors and managers of the company is in accordance with Article 22 of the company's articles of association. If the company makes a profit (referring to the pre-tax benefits minus the benefits before the remuneration of employees and directors' remuneration), it shall not be appropriated. Less than 1% is employee compensation and no more than 3% is director's compensation. However, when the company still has accumulated losses (including adjustments to undistributed surplus), it shall reserve the compensation amount in advance.
 - ii. In accordance with Article 7 of the Organizational Rules of the Remuneration Committee of the Company, the performance evaluation and compensation of directors and managers of the Remuneration Committee shall refer to the usual level of payment in the industry, and consider individual performance, degree of participation, and value of contribution, the company's operating performance and the reasonableness of the connection of future risks, regularly evaluate the remuneration of the company's directors and managers, and submit the recommendations to the board of directors for discussion.
 - iii. In accordance with Article 19 of the Articles of Association of the Company, the remuneration of the chairman and directors shall be authorized by the board of directors to determine the extent of their participation in the operation of the company and the value of their contributions, and in accordance with the usual standards of the industry.
 - iv. According to Article 20 of the Articles of Association of the Company, the company may appoint a number of managers, and the appointment, dismissal and remuneration shall be determined by the resolution of the board of directors.

There are three types of remuneration paid to directors:

- (1) The ride-hailing fee for each board of directors to attend each meeting is NT\$ 5,000 per seat.
- (2) The fixed monthly remuneration for directors is NT\$ 20,000 per seat, and the remuneration for independent directors is NT\$ 50,000 per seat.
- (3) In accordance with the dividend policy of the company's articles of association, the remuneration of the directors of the surplus distribution shall not exceed 3%. As for individual directors, after the shareholders' meeting has passed the surplus distribution proposal, appropriate adjustments will be made based on the difference in their contribution.

2. Implementation of Corporate Governance

(1) Operation of the Board of Directors' Meeting

There were 6(A) board meetings in 2020, attendance was as follows:

| Title | Name (Note 1) | Attendance in Person(B) | By Proxy | Attendance Rate in Person(%) 【B/A】 (Note 2) | Remark |
|----------------------|---|-------------------------|----------|--|-----------------------------|
| Chairman | Shu Jam Ma | 6 | 0 | 100 | Re-elected on June 19, 2020 |
| Director | Shao Jinn Ma | 0 | 3 | 0 | Dismissal on June 19, 2020 |
| Director | Maxon Corporation Representative Shao Hsiang Ma | 4 | 0 | 100 | Dismissal on June 22, 2020 |
| Director | Maxon Corporation Representative Shu Zhuang Ma | 2 | 0 | 100 | Appointed on June 22, 2020 |
| Director | Huan Xiang Investment Co., Ltd. Representative Pei Jun Ma | 3 | 0 | 100 | Dismissal on June 19, 2020 |
| Director | Da Tien Investment Co., Ltd. Representative Pei Jun Ma | 3 | 0 | 100 | Appointed on June 19, 2020 |
| Director | Ma Chi Shan Education Foundation Representative Gong Ping Chen | 3 | 0 | 100 | Dismissal on June 19, 2020 |
| Director | Huan Xiang Investment Co., Ltd. Representative Su Yun Liao | 3 | 0 | 100 | Dismissal on June 19, 2020 |
| Director | Ma Chi Shan Education Foundation Representative Ter Feng Wu | 3 | 0 | 100 | Appointed on June 19, 2020 |
| Director | Ma Chi Shan Education Foundation Representative Chung Yi Chen | 3 | 0 | 100 | Appointed on June 19, 2020 |
| Director | Nankang Rubber Tire Corp. Ltd. Representative Qing Xing Jiang | 1 | 0 | 100 | Dismissal on June 30, 2020 |
| Director | Nankang Rubber Tire Corp. Ltd. Representative Guo Shuai Zhao | 2 | 0 | 100 | Appointed on June 30, 2020 |
| Independent Director | Yin Zhong Zhou | 3 | 0 | 100 | Dismissal on June 30, 2020 |
| Independent Director | Tien Shang Lee | 3 | 0 | 100 | Appointed on June 19, 2020 |
| Independent Director | Xing Ru Zhou | 3 | 0 | 100 | Appointed on June 19, 2020 |
| Independent Director | Wei Li Zuo | 5 | 1 | 83 | Re-elected on June 19, 2020 |

Other matters to be recorded:

- If the operation of the board of directors is in any of the following circumstances, the date, period, proposal content, all independent directors' opinions and the company's handling of independent directors' opinions shall be stated:
 - Matters listed in Article 14-3 of the Securities and Exchange Act: The content of the resolutions is shown on pages 41-43 of the annual report, and all independent directors passed without objections to the matters listed in Article 14-3 of the Securities and Exchange Law.
 - In addition to the previous matters, other board meeting decisions that have been opposed or reserved by independent directors and have records or written statements: none.
- The implementation of the director's recusal of the interested proposal shall state the name of the director, the content of the proposal, the reason for the avoidance of interests and the voting status: none.
- The listed company shall disclose the evaluation cycle and period, evaluation scope, method and evaluation content of the board of directors' self (or peer) evaluation, and fill in the implementation status of the board of directors evaluation: as shown in Appendix 1.
- Evaluation of the objectives and implementation of strengthening the functions of the board of directors in the current and recent years
 - In order to enable the members of the board of directors to perform their functions effectively, the company encourages the directors of the company to continue to learn to master the latest knowledge and improve their ability to respond. The directors of 2020 also conduct further education according to individual needs. The total number of directors is 9 and the number of training courses is 86 hours.
 - On August 12th, 2020, the board of directors formulated the "Board Performance Evaluation Measures."

Note 1: If the director is a legal person, the names of the legal person shareholders and their representatives should be disclosed.

Note 2: (1) If a director resigns before the end of the year, the date of resignation should be indicated in the remarks column. The actual attendance rate (%) is calculated based on the number of board meetings during the term of office and the actual number of attendance sessions.

- (2) Before the end of the year, if any director is re-elected, both the new and old directors should be listed, and the remarks column should indicate whether the director is the old, new or re-elected and the date of re-election. The actual attendance rate (%) is calculated based on the number of meetings of the board of directors and the actual number of attendances during the term of office.

Attachment Table 1: Implementation of Self-Evaluation and Peer-Evaluation of the Board of Directors

| Evaluation Cycle | Evaluation Period | The Scope of Evaluation | Method of Evaluation | Content of Evaluation |
|------------------|--------------------------------------|--|--|--|
| Once per Year | January 1, 2020 to December 31, 2020 | Entire Board of Directors | Self-Evaluation of the Board of Directors | <ol style="list-style-type: none"> 1. Participation in the Operation of the Company 2. Quality of the Board of Directors, Decision Making 3. Composition and Structure of the Board of Directors 4. Election and Continuing Education of the Directors 5. Internal Control |
| Once per Year | January 1, 2020 to December 31, 2020 | Individual Members of the Board of Directors | Self-Evaluation of Directors | <ol style="list-style-type: none"> 1. Alignment of the Goals and Missions of the Company 2. Awareness of the Duties of a Director 3. Participation in the Operation of the Company 4. Management of Internal Relationship and Communication 5. The Director's Professionalism and Continuing Education 6. Internal Control |
| Once per Year | January 1, 2020 to December 31, 2020 | Each Functional Committee | Internal Self-Evaluation of Functional Committee | <ol style="list-style-type: none"> 1. Participation in the Operation of the Company 2. Awareness of the Duties of the Functional Committee 3. Quality of Decisions made by the Functional Committee 4. Composition of the Functional Committee 5. Election of the Members of Functional Committee 6. Internal Control |

The company's board of directors held on August 12, 2020 passed the "Board Performance Evaluation Measures" and will evaluate the overall performance of the board of directors year by year starting in 2020. Please refer to the above table for the details of the evaluation. The above performance evaluation method uses internal questionnaires, and the evaluation results will be provided to the directors, which can be used as a reference for directors and remuneration committees to make decisions, so that the board can improve the quality of its decision-making, and can be used as a reference for nominating directors or selecting remuneration committees. The performance evaluation content has been reported to the board of directors on March 26, 2021.

(2) Operation of Audit Committee

There were 4(A) Audit Committee meetings in 2020, the attendance of independent directors was as follows:

| Title | Name | Attendance in Person (B) | By Proxy | Attendance Rate in Person (%) 【B/A】(Note) | Remark |
|----------------------|----------------|--------------------------|----------|--|-----------------------------|
| Independent Director | Yin Zhong Zhou | 2 | 0 | 100 | Dismissal on June 19, 2020 |
| Independent Director | Wei Li Zuo | 4 | 0 | 100 | Re-elected on June 19, 2020 |
| Independent Director | Xing Ru Zhou | 2 | 0 | 100 | Appointed on June 19, 2020 |
| Independent Director | Tien Shang Lee | 2 | 0 | 100 | Appointed on June 19, 2020 |

The audit committee of the company is composed of 3 independent directors. The purpose of the audit committee is to assist the board of directors to perform "supervise the company's quality and integrity in the implementation of accounting, auditing, financial reporting processes and financial control".

The matters reviewed by the Audit Committee mainly include:

1. To formulate or amend the internal control system in accordance with Article 14-1 of the Securities and Exchange Law.
2. Evaluation of the effectiveness of the internal control system.
3. In accordance with the provisions of Article 36-1 of the Securities and Exchange Act, stipulate or amend the processing procedures for the acquisition or disposal of assets, derivative commodity transactions, fund

- lending to others, endorsement of others or providing guarantees for major financial business activities.
4. Matters involving the interests of the directors themselves.
 5. Major asset or derivative commodity transactions.
 6. Significant capital loans, endorsements or guarantees.
 7. Raising, issuing or private placement of equity securities.
 8. Appointment, dismissal or remuneration of certified public accountants.
 9. Appointment and removal of financial, accounting or internal audit supervisors.
 10. Annual financial report signed or stamped by the chairman, manager and accounting supervisor, and financial report subject to verification by accountants.
 11. Business report and supplementary statement of profit and loss.
 12. Other major matters specified by the company or the competent authority.

The focus of the annual work is summarized as shown below:

- Review financial reports

The board of directors has prepared the company's 2020 business report, financial statements, and earnings distribution proposal, among which the financial statements have been entrusted to "PwC Taiwan Accounting Firm" to verify and issue a verification report.

The above-mentioned business report, financial statement and surplus distribution proposal have been checked by the Audit Committee, and there is no discrepancy in content.

- Assess the effectiveness of the internal control system

The audit committee evaluated the effectiveness of the company's internal control system policies and procedures (including finance, operations, risk management, information security, outsourcing vendors, compliance with laws and regulations, and control measures), and reviewed the company's audit department and CPA, as well as regular reports from supervisors, including risk management and compliance with laws and regulations. With reference to the internal control system (Internal Control-Integrated Framework) issued by The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, the Audit Committee believes that the company's risk management and internal control systems are effective, and the company has adopted the necessary Control mechanisms to monitor and correct violations.

- Appoint a certified accountant

The audit committee is assigned the responsibility of supervising the independence of the accounting firm to ensure the fairness of the financial statements. Generally speaking, CPA is not allowed to provide other services except for tax-related services or specially approved items. All services provided by accounting firm must be approved by the audit committee.

In order to ensure the independence and competence of the accounting firm's CPA, in accordance with the company's "CPA Independence and Competency Assessment Method", the 23rd Board of Directors reviewed and confirmed the "CPA of PwC Taiwan Accounting Firm" on March 26, 2021. "CPA Du Peiling" and "Lin Junyao" all meet the independence assessment standards, and are sufficient to serve as the company's financial and tax CPA.

Other matters to be recorded:

1. If the operation of the audit committee is under any of the following circumstances, the date and period of the board of directors, the content of the proposals, the results of the audit committee's resolutions, and the company's handling of the audit committee's opinions should be stated.
 - (1) Matters listed in Article 14-5 of the Securities and Exchange Act: Note 1 in detail, the Audit Committee passed without objection to the matters listed in Article 14-5 of the Securities and Exchange Act.
 - (2) Except for the previous matters, other matters that have not been approved by the Audit Committee and approved by more than two-thirds of all directors: none.
2. The implementation status of independent directors' avoidance of an interest proposal shall state the name of the independent director, the content of the proposal, the reasons for the avoidance of interests, and the voting status: none.
3. The communication status between independent directors and internal audit supervisors and accountants (should include major matters, methods and results of communication on the company's financial and business conditions, etc.):
 - (1) The head of internal audit attends the audit committee quarterly to report on audit business in accordance with regulations, and communicates with independent directors through the audit committee.
 - (2) The company's certified accountants report the results of the audit of the financial statements of the year at the annual audit committee meeting, and other communication matters required by relevant laws and regulations. The members of the company's audit committee have good communication with the certified accountants.
 - (3) As of the printing date of the annual report in 2020, the summary of previous communications is as (Note 2) and (Note 3)

* If an independent director resigns before the end of the year, the date of resignation should be indicated in the remarks column. The actual

attendance rate (%) is calculated based on the number of meetings of the audit committee during the term of office and the actual number of attendance.

* Before the end of the year, if an independent director is re-elected, both the new and old independent directors should be listed, and the remarks column should indicate whether the independent director is the old, new or re-elected and the date of re-election. The actual attendance rate (%) is calculated on the basis of the number of meetings of the audit committee during his tenure and the actual number of attendance.

Note 1: Major Resolutions of the Audit Committee in 2020 and as until the date of the publication of the Annual Report:

| Audit Committee | Contents of Motion | The Result of the Resolution of the Audit Committee | The company's Handing of the Opinion of the Audit Committee |
|---|--|---|--|
| March 27, 2020 1 st term Session 11 | <ol style="list-style-type: none"> 2019 Consolidated Financial Statement, Parent Only Financial Statement, Business Report and Loss Make-Up ° 2019 Internal Control System Statement Revise the "Procedures for Acquiring or Disposing of Assets". | All members of the committee agreed unanimously. | proposed to the Board of Directors and Approved by the Board of Directors |
| May 08, 2020 1 st term Session 12 | <ol style="list-style-type: none"> It is proposed to issue of Private Placement of Common Stock It is proposed to handle private placement of Type A special shares and/or Type B special shares and/or Type C special shares. | All members of the committee agreed unanimously. | proposed to the Board of Directors and Approved by the Board of Directors |
| August 12, 2020 2 nd Term Session 1 | <ol style="list-style-type: none"> Election of Convener and Chairman of the Meeting in Audit Committee. The Appointment of Director of Finance Whether customers whose accounts receivable exceed the normal credit period for a certain period of time are regarded as financial financing cases in disguised form. | <ol style="list-style-type: none"> Member Xing Ru Zhou was elected by all the attending members as the convener and chairman of the meeting. All attending members of the committee agreed unanimously with the proposal. All attending members of the committee agreed unanimously with the proposal. | proposed to the Board of Directors and Approved by the Board of Directors proposed to the Board of Directors and Approved by the Board of Directors |
| November 12, 2020 2 nd Term Session 2 | <ol style="list-style-type: none"> Proposed the 2021 Audit Plan Phase 2 Expansion of Guan Yin Plant | All attending members of the committee agreed unanimously with the proposal. | proposed to the Board of Directors and Approved by the Board of Directors |
| March 26, 2021 2 nd Term Session 3 | <ol style="list-style-type: none"> 2020 Consolidated Financial Statement, Parent Only Financial Statement and Business Report. 2020 Earnings Distribution ° 2020 Internal Control System Statement End private placement of ordinary shares/special shares approved by the company's shareholders meeting in 2020. Tai Cheng Development Co., Ltd., a 100%-invested subsidiary of the company, plans to divide and reduce capital to establish a new company. | All attending members of the committee agreed unanimously with the proposal. | proposed to the Board of Directors and Approved by the Board of Directors |
| May 07, 2021 2 nd Term Session 4 | <ol style="list-style-type: none"> Replacement of CPAs Handle the case of the issuance of ordinary shares by cash increase in capital by way of enquiry and circle purchase. Issuance of Private Placement of Common Stock | All attending members of the committee agreed unanimously with the proposal. | proposed to the Board of Directors and Approved by the Board of Directors |

Note 2: Summary of communication between independent directors and internal audit supervisors

| Date | Communication Meeting | Communication Items | Communication Results |
|-------------------|-----------------------|--|-----------------------|
| March 27, 2020 | Audit Committee | Report on the Implementation of Auditing of 2019 Quarter 4. Report on the Internal Control System Statement of 2019 | No Objections |
| May 08, 2020 | Audit Committee | Report on the Implementation of Auditing of 2020 Quarter 1. | No Objections |
| August 12, 2020 | Audit Committee | Report on the Implementation of Auditing of 2020 Quarter 2 | No Objections |
| November 12, 2020 | Audit Committee | Report on the Implementation of Auditing of 2020 Quarter 3 | No Objections |
| March 26, 2021 | Audit Committee | Report on the Implementation of Auditing of 2020 Quarter 4 Report on the Internal Control System Statement of 2020 | No Objections |
| May 7, 2021 | Audit Committee | Report on the Implementation of Auditing of 2021 Quarter 1 | No Objections |

Note 3: Summary of communication between independent directors and CPAs

| Date | Communication Meeting | Communication Items | Communication Results |
|----------------|-----------------------|--|-----------------------|
| March 27, 2020 | Audit Committee | 1. Arrange for the accountant to brief and explain to the audit committee on the company's 2019 consolidated and individual financial statements. 2. The accountant discusses and communicates on the issues consulted by the audit committee and participants. | No Objections |
| March 26, 2021 | Audit Committee | 1. Arrange for the accountant to brief and explain to the audit committee on the company's 2020 consolidated and individual financial statements. 2. The accountant discusses and communicates on the issues consulted by the audit committee and participants. | No Objections |

(3) Implementation of Corporate Governance, Any Variance of Such Implementation from the Corporate Governance Best-Practice Principles for TSEC/TPEX Listed Companies, and the Reason for Any Such Variance

| 8 | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons |
|--|------------------------------|----|---|--|
| | Yes | No | Brief Description | |
| 1. Does the company follow the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, and has the company established and disclosed its own Corporate Governance Best Practice Principles? | V | | The company's stipulation of the "Corporate Governance Code" was approved at the 10th meeting of the 22 nd session of the Board of Directors on August 12 th , 2019. The company follows the spirit of the regulations, implements the internal control system and related supervision measures, and discloses them on the public information observatory and the company's website. | None |
| 2. The Company's shareholding structure and shareholders' equity (1) Does the company stipulate internal operating procedures to deal with shareholders' suggestions, doubts, disputes and litigation matters, and implement them according to procedures? (2) Does the company have a list of ultimate controllers of the major shareholders and major shareholders of the actual control company? (3) Does the company establish implement and control the risk control and firewall mechanism between the enterprises? (4) Does the company stipulate internal regulations and prohibit insiders from using the undisclosed information on the market to buy and sell securities? | V V V V | | (1) According to the company's "Corporate Governance Code", the Finance Department is instructed to properly handle shareholder suggestions, doubts and disputes, and related matters are handled in accordance with internal operating procedures. (2) Stay on top of through the shareholder register information provided by the stock affairs agency, and the system for the declaration of changes in equity of insiders. (3) Handle in accordance with the "Financial Management Measures between Parents and Subsidiaries" and "Internal Control Management Rules" stipulated by the company, and regularly check the accounting and internal control systems of related companies, and establish appropriate risk control and firewall mechanisms. (4) The company has formulated the "Operation Procedures for Handling Internal Material Information", which prohibits company insiders from using undisclosed information on the market to buy and sell securities. | None |
| 3. Composition and Responsibilities of the Board of Directors. (1) Does the Board develop and implement a diversified policy for the composition of its members? | V | | (1) The 10th meeting of the 22 nd session of the board of directors of the company on August 12 th , 2019 approved the stipulation of the "Corporate | None |

| 8 | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TP Ex Listed Companies" and Reasons |
|---|-----------------------|----|--|---|
| | Yes | No | Brief Description | |
| (2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee? | | V | (2) Governance Code". In Chapter 3, "Strengthening the Functions of the Board of Directors", a diversification policy is formulated. The nomination and selection of members of the company's board of directors is in compliance with the company's articles of association, and a candidate nomination system is adopted. In addition to evaluating the qualifications of each candidate, the "Director Election Method" and the "Corporate Governance Code" are followed to ensure the Diversity and independence. At present, the board members of the company have experience in various professional fields (degrees include Doctor of Business Management, Master of Business Administration, Master of Business Management, Master of Accounting, Bachelor of Industrial Engineering, etc.), covering operational judgment ability, accounting and financial analysis ability, business management ability, crisis Processing ability, industry knowledge, and four of them have gone abroad for further studies with a considerable international outlook. Directors with employee status accounted for 11%, independent directors accounted for 33%, female directors accounted for 33%, and 2 The term of office of independent directors shall be less than 1 year, and the term of office of 1 independent director shall be less than 4 years. The board of directors drafts a diversified policy on membership and exposes it on the company's website and public information observatory. The company will establish them at an appropriate time and is under active research and development. | |
| (3) Has the Company established a methodology for evaluating the performance of its Board of Directors, performed evaluations on an annual basis, submitted the results of the performance evaluation to the board, and use it as a reference for individual directors' remuneration and renomination | | V | (3) The company has formulated the "Board Performance Evaluation Method" on August 12 th , 2020. The evaluation methods include self-evaluation of the performance of the board of directors, self-evaluation of the performance of board members, self-evaluation of the performance of functional committees, and independent appointment by external professionals. Institutions, experts and scholars or other appropriate methods for performance evaluation, and in accordance with the regulations of the competent authority, self-evaluation of the board of directors, individual directors and functional committees has been carried out on a regular basis every year since 2020. Every three years, external professional institutions or external experts and scholars team Once the evaluation is carried out, the results of the performance evaluation of the board of directors of the company shall be used as the reference basis for selecting or nominating directors; and the results of the performance evaluation of individual directors shall be used as the reference basis for | |

| 8 | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TP Ex Listed Companies" and Reasons |
|--|-----------------------|----|---|---|
| | Yes | No | Brief Description | |
| (4) Does the company regularly evaluate the independence of CPAs? | V | | <p>determining their individual salary.</p> <p>Annual assessment results of 2020:</p> <ol style="list-style-type: none"> 1. The results of the performance evaluation of the board of directors show that the board of directors has the responsibility to guide and supervise the company's strategy, major business and risk management, and is able to establish a proper internal control system, and the overall operation is complete and in line with the requirements of corporate governance. 2. The evaluation results of board members show that directors have positive comments on the efficiency and effectiveness of the operation of various indicators. 3. The functional committee includes the performance evaluation of the audit committee and the remuneration committee. The evaluation results show that the overall operation of the functional committee is perfect, in line with the requirements of corporate governance, and effectively enhance the functions of the board of directors. <p>(4) The certified accountant appointed by the company is not a director, supervisor, manager, employee, or shareholder of the company or its affiliates, and confirms that its non-interested parties comply with the independent judgment requirements of the competent authority. (Please refer to note 1 for the accountant's independence assessment form)</p> <p>The company regularly assesses (once a year) the professionalism and independence of certified public accountants every year. The assessment results for the last two years were completed on March 27th, 2020 and March 26th, 2021, respectively.</p> | |
| 4. Does the company set up a competent and appropriate number of Corporate Governance persons, and designate a Corporate Governance Officer responsible for corporate governance-related matters (including but not limited to providing directors, supervisors with the information needed to perform business, assisting directors, supervisors to follow Decrees, handling matters related to board and shareholder meetings in accordance with law, handling company registration and change registration, making minutes of board and shareholder meetings, etc.) | V | | <p>The company passed a resolution of the board of directors on March 26th, 2021, appointing Deputy General Manager Ling Yun Wu as the head of corporate governance to protect the rights and interests of shareholders and strengthen the functions of the board of directors. Ling Yun Wu, deputy general manager, has been in charge of stock affairs and corporate governance-related affairs in a public offering company for more than three years.</p> <p>The main responsibilities of the corporate governance supervisor are to handle matters related to the board of directors and shareholders meeting in accordance with the law, prepare the minutes of the board of directors and shareholders meeting, assist directors and supervisors in their appointments and continuous education, provide directors and supervisors with information needed to perform their business, assist directors, and supervisors in following the laws and so on.</p> <p>1. Key points of business execution:</p> <p>(1) Handle matters related to the meetings of the board of directors and the shareholders meeting in accordance with the law.</p> | None |

| 8 | Implementation Status | | | Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TP Ex Listed Companies" and Reasons |
|--|-----------------------|----|--|---|
| | Yes | No | Brief Description | |
| | | | (2)Prepare the minutes of the board of directors and shareholders' meetings. (3)Assist the directors to take office and continue their education. (4)Provide information necessary for directors to perform their business. (5)Other matters stipulated in the company's articles of association or contract. 2. Situation of advanced studies: 2021/3/26 new term. | |
| 5. Does the company establish a communication channel and build a designated section on its website for stakeholders includes but not limited shareholders, staffs, customers and suppliers, as well as to handle all the issues they care for in terms of corporate social responsibilities? | V | | The company has a "Stakeholder Area" and "Contact Tai Feng" on the company's website, as well as customer, employee, investor, and supplier suggestion mailboxes, and a dedicated person responds to issues of concern to stakeholders. (Stakeholder Special Area Website: https://www.federalcorporation.com/tc/Stakeholder.php) | None |
| 6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs? | V | | The company appointed Yuanta Securities Co., Ltd. Stock Affairs Agency Department to handle the affairs of the shareholders meeting | None |
| 7. Information Disclosure (1)Does the company have a corporate website to disclose both financial standings and the status of corporate governance? (2) Does the information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences) ? (3) Does the company announce and report the annual financial report within two months after the end of the fiscal year, and announce and report the first, second and third quarter financial reports and operating conditions of each month as early as possible before the dead line ? | V V | | (1) The company set up a website to disclose financial business and corporate governance information. (2) The company set up an English website, and designated a person to be responsible for the collection and disclosure of company information; at present, the company uniformly discloses the information to all investors and the media at the same time by the spokesperson and implements the spokesperson system. (3) The company submits various financial reports and monthly operating conditions within the prescribed time limit. | None |
| 8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)? | V | | (1) Employees' rights and benefits: To ensure the retirement rights of employees under the old system, the company legally allocates retirement funds, and deposits them in a special account in the Bank of Taiwan in the name of the Labor Retirement Reserve Supervision Committee; for the new employees, the labor pension shall be paid to the personal accounts of the employees of the Labor Insurance Bureau in accordance with the law. (2) Employee Care: Appropriate welfare funds in accordance with the law, set up an employee welfare committee, and implement various welfare policies. Additional allowances for employees such as marriage and birthdays, as well as various insurance, pensions, scholarships and other welfare measures are provided. (3) Directors (including independent directors and legal person representatives) training situation: the following table is detailed. (4) The company provides relevant information for the attention of directors at any time, and business | None |

| 8 | Implementation Status | | Brief Description | Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TP Ex Listed Companies” and Reasons |
|--|-----------------------|-----|---|---|
| | Yes | No | | |
| | | (5) | briefings at board meetings from time to time. Circumstances in which the company purchases liability insurance for directors: The company's articles of association expressly provide for the purchase of liability insurance for directors, which was implemented in 2018. | |
| <p>9. Please indicate the improvement of the results of the corporate governance evaluation issued by the Corporate Governance Center in the last year of the Taiwan Stock Exchange Co., Ltd. and provide priority measures and measures for those who have not yet improved.</p> <p>The Company enacted “Self-Evaluation and Peer-Evaluation of the Board of Directors” and disclosed on the Company’s website.</p> | | | | |

Note 1: Evaluation Standard of Independence of the CPAs

| Item |
|--|
| 1. The CPAs have been the CPAs of the Company over 7 Years as of the Most Recent Certified Operation. |
| 2. The CPAs have direct or indirect financial interest with the Company. |
| 3. The CPAs and the Company have inappropriate interests. |
| 4. The CPAs should hold their assistants honest, just and independent. |
| 5. The CPAs serve the Company within two years before the practice. |
| 6. The CPAs permit others to practice under their name. |
| 7. The CPAs do not hold shares of the company or its affiliated businesses. |
| 8. The CPAs have no capital loans from the company or affiliated companies |
| 9. The CPAs have no co-investment or benefit-sharing relationship with the company or related companies. |
| 10. The CPAs aren't concurrently work in the company or related companies, and receive a fixed salary. |
| 11. The CPAs aren't involved in the management function of the company or related companies to make decisions. |
| 12. The CPAs aren't concurrently operating other businesses that may lose their independence. |
| 13. The CPAs have no spouses, direct blood relatives, direct in-laws or second relatives within the management of the company. |
| 14. The CPAs haven't received commissions related to the business have been collected. |
| 15. The CPAs have no punishment or circumstance that undermines the principle of independence as of now. |

Continued Studies of Directors in 2020:

| Title | Name | Date | | Host by | Training/Speech Title | Duration (Hours) |
|----------|---------------|-------------------|-------------------|---|---|------------------|
| | | Starting | Ending | | | |
| Director | Shu Jam Ma | August 07, 2020 | August 07, 2020 | Taiwan Institute of Directors | 2020 Annual Meeting of the Institute of Directors: A Turning Point in Taiwanese Corporate Strategies Under a Major Pandemic | 3 |
| | | July 22, 2020 | July 22, 2020 | Taiwan Corporate Governance Association | Competition for the Right of Management and Case Study | 3 |
| Director | Ter Feng Wu | December 22, 2020 | December 22, 2020 | Taiwan Corporate Governance Association | The Role of Independent Directors in Business Operations and Corporate Governance | 3 |
| | | December 11, 2020 | December 11, 2020 | Taiwan Corporate Governance Association | Advanced Practice Sharing of Audit Committee-Merger & Acquisition Review and Directors' Responsibilities | 3 |
| | | November 27, 2020 | November 27, 2020 | Taiwan Corporate Governance Association | Advanced Practice Sharing of Audit Committee-Towards 3.0 (Best Practices of Audit Committee Convenor) | 3 |
| | | July 22, 2020 | July 22, 2020 | Taiwan Corporate Governance Association | Competition for the Right of Management and Case Study | 3 |
| Director | Shu Zhuang Ma | December 30, 2020 | December 30, 2020 | Taiwan Investor Relations Institute | Strategies for Enterprise Operation and News Crisis Management | 3 |
| | | December 11, 2020 | December 11, 2020 | Taiwan Corporate Governance Association | Advanced Practice Sharing of Audit Committee-Merger & Acquisition Review and Directors' Responsibilities | 2 |

| Title | Name | Date | | Host by | Training/Speech Title | Duration (Hours) |
|----------------------|----------------|--------------------|--------------------|---|---|------------------|
| | | Starting | Ending | | | |
| | | October 27, 2020 | October 27, 2020 | Taiwan Corporate Governance Association | ESG Development Trend and Social Responsible Investment (SRI) | 3 |
| | | September 01, 2020 | September 01, 2020 | Taiwan Corporate Governance Association | 【CGP-Advanced】 Discussion and Case Studies of Legal Liability of Insider Trading | 3 |
| | | July 22, 2020 | July 22, 2020 | Taiwan Corporate Governance Association | Competition for the Right of Management and Case Study | 3 |
| Director | Chung Yi Chen | December 04, 2020 | December 04, 2020 | Securities & Futures Institute | Intellectual Property Rights Management and Company Operating Risks | 3 |
| | | November 27, 2020 | November 27, 2020 | Taiwan Corporate Governance Association | Advanced Practice Sharing of Audit Committee-Towards 3.0 (Best Practices of Audit Committee Convenor) | 3 |
| | | November 24, 2020 | November 24, 2020 | Taiwan Corporate Governance Association | Corporate Governance 3.0-Blueprint for Sustainable Development | 3 |
| | | July 22, 2020 | July 22, 2020 | Taiwan Corporate Governance Association | Competition for the Right of Management and Case Study | 3 |
| Director | Guo Shuai Zhao | September 24, 2020 | September 24, 2020 | Taipei Exchange (TPEX) | OTC “Corporate Governance 3.0-Blueprint for Sustainable Development” Summit Forum Agenda | 3 |
| | | September 11, 2020 | September 11, 2020 | Taiwan Association of Board Governance | The 2nd Board of Directors Governance Efficiency Forum | 3 |
| Director | Pei Jun Ma | August 21, 2020 | August 21, 2020 | Taiwan Corporate Governance Association | 【CGP-Advanced】 How Does the Company Do a Good Job in Fraud Detection and Prevention, and Establish a Whistle-Blowing Mechanism to Strengthen Corporate Governance | 3 |
| | | July 29, 2020 | July 29, 2020 | Taiwan Securities Association | Money Laundering Prevention Regulations and Latest Development | 3 |
| Independent Director | Tien Shang Lee | December 30, 2020 | December 30, 2020 | Taiwan Investor Relations Institute | Strategies for Enterprise Operation and News Crisis Management | 3 |
| | | December 29, 2020 | December 29, 2020 | Taiwan Investor Relations Institute | Management Rights Disputes - Corporate Governance and Independent Directors’ Responsibilities and Powers | 3 |
| | | December 24, 2020 | December 24, 2020 | Taiwan Corporate Governance Association | Prevention for Insider Trading | 3 |
| | | December 09, 2020 | December 09, 2020 | Securities & Futures Institute | Corporate Merger & Acquisition Practice Sharing-Centered on Hostile Merger & Acquisition | 3 |
| Independent Director | Xing Ru Zhou | December 24, 2020 | December 24, 2020 | Taiwan Corporate Governance Association | Prevention for Insider Trading | 3 |
| | | December 09, 2020 | December 09, 2020 | Securities & Futures Institute | Corporate Merger & Acquisition Practice Sharing-Centered on Hostile Merger & Acquisition | 3 |

| Title | Name | Date | | Host by | Training/Speech Title | Duration (Hours) |
|----------------------|------------|--------------------|--------------------|---|---|------------------|
| | | Starting | Ending | | | |
| | | September 11, 2020 | September 11, 2020 | Taiwan Corporate Governance Association | A Case Study of Corporate Governance-Corporate Culture and Shareholder Activism | 3 |
| | | July 22, 2020 | July 22, 2020 | Taiwan Corporate Governance Association | Competition for the Right of Management and Case Study | 3 |
| Independent Director | Wei Li Zuo | September 11, 2020 | September 11, 2020 | Taiwan Corporate Governance Association | A Case Study of Corporate Governance-Corporate Culture and Shareholder Activism | 3 |
| | | July 22, 2020 | July 22, 2020 | Taiwan Corporate Governance Association | Competition for the Right of Management and Case Study | 3 |

(4) Content, Responsibilities, and Operations of the Remuneration Committee

The company established the "Regulations for the Remuneration Committee" on December 27th, 2011 to establish the Remuneration Committee. Ms. Wei Li Zuo, Ms. Xing Ru Zhou and Mr. Tien Shang Lee are now appointed as members of the Remuneration Committee. Its responsibility is to formulate and regularly review the company's directors and managers' performance evaluation and remuneration policies, and to evaluate their remuneration.

A. Information on Members of Remuneration Committee

| Status (Note 1) | Criteria Name | Over 5 years of working experience or the professional qualifications listed below | | | Conforms with Independence (Note 2) | | | | | | | | | | Number of concurrently serving as members of the remuneration committees of other public offering companies | Remarks | | |
|----------------------|------------------|---|---|--|-------------------------------------|---|---|---|---|---|---|---|---|----|---|---------|---|--|
| | | Lecturers or above in public and private colleges and universities in business, legal, financial, accounting or related subjects required by company business | Judges, prosecutors, lawyers, accountants or other professional and technical personnel who have passed the national examination required for business with the company and have certificates | Previous work experience required for business, legal affairs, finance, accounting or corporate business | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | | | |
| Independent Director | Wei Li Zuo | | | V | V | V | V | V | V | V | V | V | V | V | V | V | 1 | |
| Independent Director | Xing Ru Zhou | | | V | V | V | V | V | V | V | V | V | V | V | V | V | 0 | |
| Independent Director | Tien Shang Lee | V | | | V | V | V | V | V | V | V | V | V | V | V | V | 0 | |

Note 1: Please fill in as director, independent director or others.

Note 2: If each member meets the following conditions two years before the election and during his tenure, please tick " " in the space below each condition code.

- (1) Not employees of the company or its affiliates.
- (2) Not directors and supervisors of companies other than the company or its affiliates (but if the company and its parent company, subsidiary, or subsidiary of the same parent company are independent directors set up in accordance with this law or local laws and regulations, this is not the case.).
- (3) Not the person, their spouse, underage children or other natural person shareholders who hold more than 1% of the total issued shares of the company in the name of other or top ten shareholders
- (4) Not managers listed in (1) or spouse, relatives within the second tier or direct blood relatives within the third class of personnel listed in (2) and (3).
- (5) Not directors, supervisors, or employees of corporate shareholders who directly hold more than 5% of the total issued shares of the company, hold the top five shares, or designate representatives as the company's directors or supervisors in accordance with Article 27, Item 1 or Item 2 of the Company Act, Supervisors or employees (except for independent directors established by the company and its parent company, subsidiary or subsidiary of the same parent company in accordance with this law or local laws and regulations).
- (6) Not directors, supervisors or employees of other companies or control more than half of the non-company directors or voting shares (however, if the independent directors of the company or its parent company, subsidiary or subsidiary of the same parent company are set up in accordance with this law or local laws and regulations to concurrently serve each other, this does not apply).
- (7) Not directors, supervisors or employees of other companies or institutions that are the same person or spouse as the chairman, general manager or equivalent positions of the company (but if the company and its parent company, subsidiaries or subsidiaries of the same parent company in accordance with this law or local laws and regulations set up independent directors to concurrently

- serve each other, not subject to this limitation).
- (8) Not directors, supervisors, managers, or shareholders holding more than 5% of shares of a specific company or organization that are in financial or business dealings with the company (but if the specific company or organization holds more than 20%, but not more than 50% of the company's total number of issued shares, and independent directors established by the company and its parent company, subsidiary or subsidiary of the same parent company in accordance with this law or local national laws concurrently serve concurrently, not limited to this).
- (9) Not professionals, sole proprietorships, partnerships, companies or institutions who are professionals, sole proprietors, partnerships, companies or institutions who provide audits for companies or affiliated companies or who have received a cumulative amount of remuneration not exceeding NT\$500,000 in the past two years. Business owners, partners, directors, supervisors, managers and their spouses. However, this does not apply to members of the Remuneration Committee, Public Acquisition Review Committee, or M&A Special Committee who perform their duties in accordance with the Securities and Exchange Act or the relevant laws and regulations of the Corporate Mergers and Acquisitions Act.
- (10) None of the items in Article 30 of the Company Act.

B. Information on the operation of the Remuneration Committee

- i. There are three members of the Remuneration Committee of the company.
- ii. The term of office of the current members: From June 19th, 2020 to June 18th, 2023, the Remuneration Committee held 6(A) meetings in 2020. The qualifications and attendance of the members are as follows:

| Title | Name | Attendance in Person (B) | By Proxy | Actual Attendance (%) (B/A) (Note) | Remark |
|----------|----------------|--------------------------|----------|--|-----------------------------|
| Convener | Yin Zhong Zhou | 3 | 0 | 100 | Dismissal on June 19, 2020 |
| Convener | Wei Li Zuo | 6 | 0 | 100 | Re-elected on June 19, 2020 |
| Member | Xing Ru Zhou | 3 | 0 | 100 | Appointed on June 19, 2020 |
| Member | Tien Shang Lee | 6 | 0 | 100 | Re-elected on June 19, 2020 |

Terms of reference of the remuneration committee:

- (1) The committee shall, with the attention of good managers, faithfully perform the following functions and powers, and submit its suggestions to the board of directors for discussion:
1. Regularly review the organization rules of the Remuneration Committee and propose amendments.
 2. To formulate and regularly review the company's directors and managers' performance evaluation and remuneration policies, systems, standards and structures.
 3. Regularly evaluate the remuneration of the company's directors and managers.
- (2) When performing the functions and powers mentioned in the preceding paragraph, the committee shall follow the following principles:
1. Ensure that the company's salary and remuneration arrangements comply with relevant laws and regulations and are sufficient to attract outstanding talents.
 2. The performance evaluation and salary remuneration of directors and managers should refer to the usual level of payment in the industry, and consider individual performance, the degree of participation, the value of contribution, the company's operating performance and the reasonableness of the relationship between future risks.
 3. Directors and managers should not be guided to engage in behaviors that exceed the company's risk appetite in pursuit of remuneration.
 4. The ratio of the short-term performance of directors and senior managers and the payment time of part of the variable remuneration should be determined in consideration of the characteristics of the industry and the nature of the company's business.
 5. The members of this committee shall not participate in discussion and voting on their personal salary and remuneration decisions.

Other matters to be recorded:

The function of the company's salary and remuneration committee is to evaluate the company's directors and managers' salary and remuneration policies and systems with a professional and objective status. It meets at least three times a year and may hold meetings at any time as needed to make recommendations to the board of directors as reference for its decision-making.

1. If the board of directors does not adopt or amend the recommendations of the Remuneration Committee, it shall state the date of the board of directors, the date, the content of the proposal, the results of the resolutions of the board of directors, and the company's handling of the opinions of the Remuneration Committee (if the compensation approved by the board of directors is better than that of the Remuneration Committee suggestions, they should state their differences and reasons): None
2. If members have objections or reservations on resolutions of the Remuneration Committee and have records or written declarations, the Remuneration Committee should state the date, period, proposal content, all members' opinions and the handling of members' opinions: None, please refer to Note 1 for details.

Note 1: Important Resolutions of the Remuneration Committee of 2020 as of the publish date

| Remuneration Committee | Content of Motion | Resolution | The company's handling of the Remuneration Committee's opinions |
|------------------------|--|--|---|
| January 16, 2020 | The company's 2019 year-end bonus payment method for managers. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| March 27, 2020 | The company's 2019 earnings | All members of the | Proposed to the Board of Directors |

| Remuneration Committee | Content of Motion | Resolution | The company's handling of the Remuneration Committee's opinions |
|------------------------|--|--|---|
| | distribution proposal for directors' remuneration and manager's employee remuneration distribution proposal. | committee agreed unanimously. | and Approved by the Entire Attending Board of Directors. |
| May 27, 2020 | The salary review proposal for the appointed general manager of the company. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| | Remuneration review proposal for directors and managers of the company. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| July 22, 2020 | Propose the convener and chairman of the committee. ° | All committee members unanimously approve to elect Wei Li Zuo as the committee's convener and conference chairperson | |
| | In accordance with Article 37 of the Code of Practice for Governance of Listed Companies on the OTC, the "Board Performance Evaluation Method" was formulated. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| August 21, 2020 | The salary review proposal of the company's appointed director of finance | All members of the committee agreed unanimously. | |
| November 3, 2020 | Revised the "Remuneration Committee Organizational Regulations" proposal. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| | The "Employee Stock Ownership Plan" was added. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| January 26 2021 | The company's year-end bonus payment standard for managers in 2020. | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |
| March 17, 2021 | The company's 2020 annual employee compensation and director compensation distribution case | All members of the committee agreed unanimously. | Proposed to the Board of Directors and Approved by the Entire Attending Board of Directors. |

(5) Fulfillment of Social Responsibility:

| Evaluation | Operation Status (Note 1) | | Summary (Note 2) | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/G TSM Listed Companies and the Cause |
|--|---------------------------|----|--|---|
| | Yes | No | | |
| 1.Has the Company conducted risk assessment on environmental social and corporate governance issues related to corporate operations and formulated relevant risk management policies or strategies based on materiality principle? | V | | When the company executes its business, it constantly reviews whether its goals can be achieved, internal and external factors, and evaluates its degree of influence and possibility. After assessing the relevant risks, then we decide how to respond. When selecting countermeasures, factors such as evaluation results, risk appetite and risk tolerance are taken into consideration so that the company can perform necessary control operations in a timely manner. | N/A |
| 2.Has the Company established an exclusively (or concurrently) dedicated unit under supervision of senior management authorized by the Board of Directors to promote CSR and report its implementation to the Board of Directors. | V | | The company established a CSR committee on 2020/12/28, with the general manager as the chairman, responsible for promoting the company's various CSR plans, and formulating and reviewing corporate social responsibility policies and systems. At present, the project committee is being coached by an external consulting company according to the planned | N/A |

| Evaluation | Operation Status (Note 1) | | Summary (Note 2) | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/G TSM Listed Companies and the Cause |
|---|-------------------------------------|----|---|---|
| | Yes | No | | |
| | | | schedule. | |
| <p>3. Environment Issues</p> <p>(1) Does the company establish an appropriate environmental management system based on the characteristics of its industry?</p> <p>(2) Has the company committed to improving resource utilization efficiency and to the use of renewable materials with low environmental impact?</p> <p>(3) Does the company evaluate the current and future potential risks and opportunities of climate change, and adopted countermeasures related to climate issues?</p> <p>(4) Does the Company collect statistics of emissions of greenhouse gas (GHG), the usage of water, and the total weight of waste in the past two years, and formulated energy saving and carbon reduction, GHG reduction, water saving, and other waste management policies?</p> | <p>V</p> <p>V</p> <p>V</p> <p>V</p> | | <p>(1) In addition to complying with domestic environmental safety and sanitation related regulations, the company is also in line with international standards, and has obtained the ISO 14001 environmental management system (valid from 2019/6/1 to 2022/5/31).</p> <p>(2) The company is devoted to improving the utilization efficiency of various resources to achieve the reduction of raw materials and waste in order to reduce the impact on the environment.</p> <p>(3) We have not assessed the potential risks and opportunities of companies for now and in the future in response to climate change, and we have not adopted methods to respond to climate-related issues either. We will gradually improve in the future.</p> <p>(4) The company is not an emission source that announces that it should check the registered greenhouse gas emissions, so the greenhouse gas is self-checked. According to the results of self-checking, the total greenhouse gas emissions in 2019 and 2020 are 14,859.8684 tons of CO₂e and 17,224.9140 tons of CO₂e, respectively. Water consumption in 2019 and 2020 will be 89,921 tons and 121,007 tons, respectively. The total weight of waste in 2019 and 2020 is 958.948 tons and 1,226.36 tons respectively. In response to government policies and corporate energy-saving and carbon-reduction trends, energy-saving equipment and machines are selected and various energy-consuming systems are effectively managed to achieve energy-saving goals, and our goal is to achieve a 1% carbon reduction in 2021. The cooling water of the company's process is recycled, and 100% of the water produced is recycled and reused. About 40% of the water produced in the pure water system is recycled and reused. At the same time, we also promote water conservation, separate recycling in accordance with waste management methods, and regularly promote resource reuse to strengthen employees' concept of resource recycling.</p> | N/A |
| <p>4. Social Issues</p> <p>(1) Has the Company established its management policies and procedures in accordance with relevant laws, regulations, as well as International Covenants on Human Rights?</p> | V | | <p>(1) We support and follow internationally recognized human rights norms and principles, including the United Nations Universal Declaration of Human Rights, the United Nations Global Covenant, the Two International Covenants on Human Rights, and the International Labor Organization Declaration on Fundamental Principles and Rights at Work. We also abide by the labor laws and regulations where the company is located, and prevent any violations of human</p> | N/A |

| Evaluation | Operation Status (Note 1) | | Summary (Note 2) | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Cause |
|--|---------------------------|----|--|--|
| | Yes | No | | |
| (2) Has the Company formulated and implemented reasonable employee welfare measures (including remuneration, rest and annual leave, and other benefits), and appropriately reflected the operating performance or achievements in the employee remuneration? | V | | <p>rights. Implementation of human rights policies and specific plans:</p> <ol style="list-style-type: none"> 1. Newbies training The content includes the prohibition of forced labor, prohibition of child labor, anti-discrimination, anti-harassment, etc. to ensure humane treatment and provide a healthy and safe working environment. 2. Prevent workplace violence Create a friendly working environment by propagating and publicizing statements and exposing the complaint hotline. 3. Occupational Safety Training The content includes health promotion, labor safety and hygiene and fire safety training, and first aid personnel training. 4. Provide a balanced working environment for physical and mental health The company also organizes sports competitions and other activities from time to time. The company set up a breastfeeding room and hires nursing staff to provide health services, as well as a doctor in the factory to provide consulting services to all employees, such as health check, etc. <p>(2)Employee welfare: The company has an employee restaurant and parking lots. All employees have labor insurance; health insurance, group insurance, and everyone also have marriage subsidies, children's education subsidies, and birthday gifts, three times of festival bonus, Discounts for purchasing product, health checks and other benefits. We also set up an employee welfare committee to handle various welfare matters.</p> <p>Pension system: In order to ensure the retirement rights of employees under the old system, the company and domestic subsidiaries allocate 10% and 4% of the total salary to retirement funds on a monthly basis, and deposit them in a special account in the name of the Labor Retirement Reserve Supervisory Committee in Bank of Taiwan; for employees of the new system, 6% of their salary shall be paid monthly to the employee's personal account of the Bureau of Labor Insurance; for those who have voluntarily withdrew their pensions will be withheld from the employees' monthly salary to the individual pension account of the Bureau of Labor Insurance based on the voluntary withholding rate. The company has also established relevant personnel management regulations, including basic wages, working hours, vacations, pension payments, labor and health insurance payments, occupational accident compensation, etc. for hired workers. All contents are in compliance with</p> | |

| Evaluation | Operation Status (Note 1) | | Summary (Note 2) | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Cause |
|---|---------------------------|----|--|--|
| | Yes | No | | |
| | | | <p>the relevant provisions of the Labor Standards Law. According to Article 22 of the company's articles of association, if the company makes profit, it shall allocate no less than 1% as employee compensation, but if the company still has accumulated losses (including adjustments to undistributed surplus), it shall reserve the compensation amount in advance. The company's remuneration policy is based on personal ability, contribution to the company, performance, and the correlation between personal performance and business performance.</p> <p>Employee shareholding trust: In terms of the labor retirement system, in addition to the regular provision of reserves to the statutory retirement account in accordance with the Labor Standards Law and the Labor Retirement Regulations, the company has established a shareholding trust committee, and full-time employees can determine the amount of monthly withdrawals to purchase the company's stocks on a regular basis. In addition, the company allocates a corresponding amount according to the amount of the employee's monthly withdrawal as a share-holding incentive.</p> | |
| (3) Does the company provide a healthy and safe work environment and organize training on health and safety for its employees on a regular basis? | V | | (3) In addition to regular maintenance of fire-fighting facilities and optimization of safety and sanitation equipment, the company also hires nurses and set up AED equipment. In addition, regular health check-ups are carried out for workers, physicians are also invited to provide on-site services, and labor safety and health education and training are held every year to establish hazard prevention awareness. | |
| (4) Has the Company established mechanisms for regular communications with employees and keeping employees informed in a reasonable manner changes in Company operations that might have significant impacts on employees? | V | | (4) In order to meet the company's overall goal development, enrich the knowledge and skills of employees, and improve performance and quality, the company's personnel regulations have formulated the "Education and Training Implementation Measures." Employees must attend a series of complete training programs from the first day of work. The company will provide professional training and counseling on a regular and irregular basis. | |
| (5) Does the Company comply with relevant laws and international standards in health, safety, and privacy of consumers as well as marketing and labeling of its products and services, and establish consumer protection policies and appeals procedures? | V | | (5) The company has set up a special area for interested parties on the company's website, and the complainant can respond to the head of each department by mailbox, e-mail, or fax to deal with the company's consumer rights issues. | |
| (6) Before doing business with suppliers, does the Company assess whether or not the suppliers have had previous | V | | (6) The company has set up a "supplier management policy" to control quality, delivery, service and environmental safety and health. | |

| Evaluation | Operation Status (Note 1) | | Summary (Note 2) | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Cause |
|--|---------------------------|----|---|--|
| | Yes | No | | |
| records of negatively affecting the environment or society? | | | Priority is given to suppliers who have passed ISO9001 quality management system certification and ISO14001 environmental certification and other related qualifications. Suppliers are evaluated regularly and irregularly in accordance with the "Supplier Evaluation Method", and the supplier's deficiencies are put forward <Quality Contact Book> to track and improve, and to regularly implement the related management of joint industry safety and health on suppliers. | |
| 5. Has the Company adopted internationally recognized standards or guidelines to prepare non-financial reports such as corporate social responsibility reports? Has the Company obtained a third-party assurance or verification for such reports? | | V | The company has not disclosed relevant and reliable information on corporate social responsibility. | N/A |
| 6. If the company has its own corporate social responsibility code in accordance with the "Code of Practice for Corporate Social Responsibility of Listed Companies", please state the difference between its operation and the code: The company has established a CSR committee on 2020/12/28, with the general manager as the chairman responsible for promoting the company's various CSR plans, formulating and reviewing corporate social responsibility policies and systems. At present, the project committee is being coached by an external consulting company according to the planned schedule. | | | | |
| 7. Other important information that helps to understand the operation of corporate social responsibility: The company is based on the corporate philosophy of "What taken from the society benefit the Society", and has been actively participating in various charity activities for a long time; for example, assisting in local government's folk activities, donating land, building parks and residents' activity centers, over-employing disabled employees, and organizing various charity activities to give back to the society through the Ma-chi-shan Education Foundation; In terms of environmental protection, we have also spared no effort to invest in new equipment or transformation, hoping to reach the level of a green factory. | | | | |

Note 1: If you check "Yes" in the operation situation, please explain the important policies, strategies, measures and implementation conditions adopted; if you check "No" in the operation situation, please explain the reasons and explain the relevant policies, strategies, measures and plans to be adopted in the future .

Note 2: The Company has prepared a "Corporate Social Responsibility Report", and the operation status can be found in the report and index pages.

Note 3: The principle of materiality refers to those who have a significant impact on the company's investors and other interested parties related to environmental, social and corporate governance issues.

(6) The implementation of ethical management and the measures we took:

In accordance with the "Code of Ethical Management of Listed Companies on the OTC", the Company Law, the Securities & Exchange Act, Guidelines for Business Accounting, the OTC-related regulations and other business conduct related laws and regulations, the company will uphold the principles of integrity, transparency and responsibility as the highest operating principles. At present, the company has incorporated relevant ethical management standards into the internal control system, and requires managers to lead by example, abide by the principle of honesty, in order to establish good corporate governance and risk control mechanisms, and create a sustainable business environment.

The implementation of ethical management

| Evaluation | Operation Status (Note) | | Summary | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|-------------------------|----|---|---|
| | Ye s | No | | |
| <p>1. Formulate policy and program for ethical corporate management</p> <p>(1) Whether the company has explicitly expressed the policy and methods of ethical corporate management in its charter and outbound documents and whether the board of directors and management has fulfilled the commitment to the policy of ethical corporate management?</p> <p>(2) Whether the company has established an assessment mechanism for the risk of dishonesty, regularly analyze and evaluate business activities with a high risk of dishonesty in the business scope, and accordingly formulates a plan to prevent dishonesty, and at least cover the preventive measures for the conduct of the second paragraph of Article 7 of the "Code of Integrity Management of Listed OTC Companies?"</p> <p>(3) Does the company specify the operating procedures, behavior guidelines, disciplinary penalties and grievance system in the plan to prevent dishonesty, and implement it, and regularly review and revise the pre-disclosure plan?</p> | V | V | <p>(1) On August 12, 2019, the board of directors of the company passed the "Code of ethical Management", which clearly stated the policies and practices of ethical management, and the board of directors and senior management's commitment to implement the management policies.</p> <p>(2) On August 12, 2019, the board of directors of the company passed the "Code of ethical Management", which clearly stipulates that the Human Resources Department is responsible for the formulation of the ethical management policy and prevention plan, and regularly reports to the board of directors.</p> <p>(3) In order to implement the company's ethical behavior and integrity management policy, to ensure the sustainable development of the company's foundation, and to encourage the reporting of any illegal and violating code of ethical conduct and integrity management code, the company has specially formulated "Reporting illegal and unethical cases' methods", the responsible department for accepting reports is the "audit room".</p> | N/A |
| <p>2. Implementation of ethical corporate management</p> <p>(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?</p> <p>(2) Does the company establish a dedicated (or non-dedicated) unit under the Board to promote ethical corporate management and report to the Board regularly?</p> | V | V | <p>(1) When the company conducts external commercial activities, the legal affairs team will review the terms of the signed contract to avoid transactions with persons with records of dishonest behavior.</p> <p>(2) Article 17 of the company's "Code of Integrity Management" stipulates that in order to improve the management of integrity management, the Human Resources Department is responsible for the formulation, supervision and implementation of integrity management policies and prevention plans, and regularly (at least once a year) report to the board of directors. '</p> | N/A |

| Evaluation | Operation Status (Note) | | Summary | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|-------------------------|----|---|---|
| | Yes | No | | |
| <p>(3)Has the company established policies to prevent conflicts of interest and provided appropriate communication channels, and implemented them?</p> <p>(4)Has the company established an effective accounting system and internal control system to implement ethical corporate management? Does the internal control unit audit on a regular basis or authorize the accountant to audit?</p> <p>(5)Does the company regularly hold internal and external educational trainings on ethical corporate management?</p> | V | | <p>Related implementation status:</p> <p>i. The policy of integrity operation is clearly stated in the company's website and annual report. The board of directors and management team promise to actively implement it and actually implemented it in internal management and external business activities.</p> <p>ii. Employees can respond to various management levels and human resource department through multiple channels.</p> <p>iii. Training courses for new recruits have been promoted to employees many times.</p> <p>iv. On March 26, 2021, the human resources manager reported the implementation status to the board of directors.</p> <p>(3) If there is a conflict of interest in business, the audit will coordinate with the department head. Anyone who has conflicts of interest in various proposals of the board of directors shall be avoided and shall not participate in discussions or resolutions. If a violation of the integrity regulations is found, a complaint or report can be made in accordance with the company's "Methods for Reporting Illegal and Unethical Cases".</p> <p>(4) In order to ensure the implementation of integrity operation, the company has established an effective accounting system and internal control system. Auditors regularly check its compliance, and accountants will perform routine audits every quarter.</p> <p>(5) The company organized internal and external education and training related to integrity management issues in 2020 (including courses related to integrity management regulations and compliance, food safety and sanitation management and inspection, accounting systems and internal control, etc.) for a total of 106 person-times and a total of 53 person-hours</p> | |
| <p>3. Operation of the Company's offense reporting system</p> <p>(1)Has the company established a specific offense reporting and reward systems, set up convenient offense reporting channels, and appointed an appropriate person for the one who has been reported?</p> <p>(2)Has the company established standard operating procedures as well as a relative protection mechanism for whistleblowers?</p> | V | | <p>(1) The company has set up the "Measures for Handling Reports of Illegal and Unethical Cases", and the unit responsible for handling reports is the "Audit Office".</p> <p>(2) The company has set up the "Measures for Reporting Illegal and Unethical Cases" to accept reports. We will operate in accordance with the standard operating procedures for investigations and related confidentiality mechanisms.</p> | N/A |

| Evaluation | Operation Status (Note) | | Summary | Differences from Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and the Causes |
|---|-------------------------|----|---|---|
| | Yes | No | | |
| (3) Does the company take measures to protect whistleblowers from being inappropriately treated? | V | | (3) The company has an audit unit specifically responsible for handling relevant affairs, and rigorously protects informants from being punished for reporting. | |
| 4. Strengthening information disclosure Has the company disclosed its ethical corporate management policies and the implementation results on the company website and Market Observation Post System? | V | | The company has a website to expose relevant corporate culture and business policies and other information, and a dedicated department is responsible for the information collection and release. | N/A |
| 5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies, please describe the differences between the policies and their implementation: The company has implemented relevant business in accordance with the operating procedures and conduct guidelines for honest operation, and there is no major difference. | | | | |
| 6. Other important information to facilitate a better understanding of the company's ethical corporate management: In accordance with the Company Law, the Securities & Exchange Act, and the relevant laws and regulations related to listing companies, the company publishes important information to help the public understand the company's integrity operation situation. | | | | |

Note: Regardless of whether the operation status is checked "Yes" or "No", it should be stated in the summary description column.

(7) If the company has formulated a corporate governance code and related regulations, it should disclose its inquiry methods:

The company has set up the "Code of Practice for Corporate Governance". You can check the implementation of related projects of the company on MOPS or the company's website.

(<http://www.federalcorporation.com>) °

(8) Other important information that is sufficient to enhance the understanding of corporate governance and operation conditions must be disclosed together:

You can check the implementation status of the company's related projects on MOPS or the company's website. (<http://www.federalcorporation.com>)

(9) Implementation of the internal control system:

(1) Statement on Internal Control Institution:

Federal Tires Co., Ltd.

Statement on Internal Control Institution:

Date : March 26, 2021

The company's internal control system for 2020 is based on the self-assessment and the results are as shown below:

1. The company is fully understands that the establishment, implementation and maintenance of the internal control system are the responsibility of the company's board of directors and managers, and the company has established this system. Its purpose is to achieve the objectives of operation effectiveness and efficiency which include profit, performance and asset safety and so on, and reporting reliability, timeliness, transparency, compliance with relevant regulations and compliance with relevant laws and regulations in order to provide reasonable ensure.
2. The internal control system has its inherent limitations. No matter how perfect the design is, an effective internal control mechanism can only provide a reasonable guarantee for the achievement of the above three objectives; moreover, due to changes in the environment and circumstances, the effectiveness of the internal control mechanism may change at any time. However, the company's internal control method has a self-monitoring mechanism. If there is a defect, we can immediately take corrective action.
3. The company analyzes the effectiveness of the design and implementation of the internal control system based on the judgment item of the effectiveness of the internal control mechanism stipulated in the "Handling Guidelines for the Establishment of Internal Control Systems by Public Offering Companies" (hereinafter referred to as the "Handling Guidelines"). In order to comply with the procedures of management and control, we divide the internal control mechanism into five components: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Audit operations. Each element includes other items. For the items mentioned previously, please refer to the "Handling Guidelines".
4. The company has adopted the internal control mechanism mentioned above to judge the project and evaluate the effectiveness of the design and implementation of the internal control system.
5. Based on the evaluation results mentioned above, we believe that the company's internal control mechanism (including the supervision and management of its subsidiaries) as of December 31, 2020, the extent to which the operational effects and efficiency targets have been achieved, and are reported to be reliable, timely, transparent and compliant with relevant regulations and relevant laws and regulations. The design and implementation of all relevant internal control mechanisms are effective, so that they can reasonably ensure the achievement of the above objectives.
6. This statement will become the main content of the company's annual report and public prospectus, and will be made public. If there are false or concealed content in the above disclosure, it will involve legal liabilities under Article 20, Article 32, Article 171, and Article 174 of the Securities & Exchange Act.
7. This statement was approved by the company's board of directors on March 26, 2021. Among the 9 directors present, 0 of them held objections, and all of them agreed with the content of this statement and made this statement.

Federal Tires Co., Ltd.

Chairman: Ma Shujian

Signature

General Manager: Chen Chongyi

Signature

(2) Those who entrust an accountant to review the internal control system should disclose the accountant's review report: none.

(10) In the most recent year and as of the publication date of the annual report, if the company and its internal personnel have been punished in accordance with the law, or the company has imposed penalties on its internal personnel for violating internal control regulations, the results of which may have a significant impact on shareholder rights or securities prices, the penalties and main deficiencies and improvements should be clearly listed: None

(11) The most recent year and as of the printing date of the annual report, the important resolutions and implementation of the shareholders meeting and board of directors:

Important resolutions and implementation of the shareholders meeting:

| Item | Important Resolutions | Implementation Status |
|------|--|--|
| 1 | Approved the 2019 merger, individual financial statements and business reports | Relevant forms have been submitted to the authorities for inspection and announcement in accordance with the company law and other relevant laws and regulations |
| 2 | Approved the 2019 loss compensation proposal | According to the resolution of the shareholders' meeting on June 19, 2020, all of them will be reserved and will not be distributed |
| 3 | Approved the amendment to the "Articles of Association" | Approved by the Ministry of Economic Affairs for registration and announced on the company website on August 12, 2020 |
| 4 | Approved the amendment to the "Procedures for Acquiring or Disposing of Assets" | It was announced on MOPS and the company's website on July 7, 2020, and was processed in accordance with the revised procedures |
| 5 | Approved the proposal of private placement of ordinary shares | On March 26, 2021, the board of directors passed the "Not renewing the private placement of ordinary shares and special shares within the remaining period", and report to the 2021 regular shareholders meeting |
| 6 | Through the private placement of Type A special shares and/or Type B special shares and/or Type C special shares | On March 26, 2021, the board of directors passed the "Not renewing the private placement of ordinary shares and special shares within the remaining period", and reported at the 2021 regular shareholders meeting |
| 7 | Re-election of the company's directors and independent directors | Approved by the Ministry of Economic Affairs for registration and announced on the company website on August 12, 2020 |
| 8 | Approved the "Removal of the prohibition on competition for new directors and the legal persons they represent" - against Nankang Rubber Tire Co., Ltd. and its representative Jiang Chingsing | Effective after the resolution of the shareholders meeting |
| 9 | Approved if "Removal of the prohibition on competition for new directors and the legal person they represent-Against NANKANG RUBBER TIRE CORP.,LTD. and its representative Jiang Chingsing " cannot be approved by the company's 2020 shareholders meeting to remove the prohibition of non-competition, the proposed exercise of the right of inclusion in the competition with the company's [The new representative director Jiang Chingsing and his legal shareholder NANKANG RUBBER TIRE CORP.,LTD. represented by him] | Currently, the steps, methods and litigation related to the exercise are planned by the lawyer |

Important resolutions of the board of directors:

| Date | Resolution matters |
|------------|--|
| 2020/03/27 | <ol style="list-style-type: none"> 1. Approved [Recommendations of the Salary and Compensation Committee Meeting] 2. Approved [Remuneration Distribution of Employees and Directors of the Company] 3. Approved the 2019 consolidated and individual financial statements and business reports 4. Approved 2019 loss compensation 5. Approved the 2019 "Declaration of Internal Control System" 6. Approved the overall re-election of directors |

| Date | Resolution matters |
|------------|---|
| | <ol style="list-style-type: none"> 7. Approved [Removal of the prohibition on competition for new directors and their representatives] 8. Approval of the date, place, reason for convening the 2020 regular shareholders meeting, acceptance of written proposals from shareholders holding more than 1% of the shares, nomination period and acceptance location 9. Approval of applications for renewal or new financing lines and derivative financial product transaction lines from various financial institutions 10. Approved [the company guarantees that its subsidiaries apply for loan quotas from financial institutions] 11. Approved the review of the independence and competence of the certified public accountant 12. Approved the amendment to the "Procedures for Acquiring or Disposing of Assets" |
| 2020/05/08 | <ol style="list-style-type: none"> 1. Approved the appointment of the general manager 2. Approval of the application for bank financing quota 3. Approved the list of candidates for nominating directors (including independent directors) and their qualification review proposal 4. Passed the acceptance of the review proposal of shareholders holding more than 1% of the shares 5. Approval of the amendment to the "Articles of Association" 6. Approval of the proposed private placement of ordinary shares 7. Approval of the proposed private placement of Type A special shares and/or Type B special shares and/or Type C special shares 8. Approved if the "Removal of the prohibition on competition for new directors and the legal person they represent-against Nangang Tire Co., Ltd. and its representative Kuo Meihang" mentioned by more than 1% of shareholders fails to be approved by the company's 2020 shareholders meeting to remove the prohibition of non-competition, the proposed new representative director Kuo Meihang and her representative who are competing with the company The legal person shareholder (Nankang Rubber Tire Co., Ltd.) exercises the right of inclusion. 9. Approved the lifting of the prohibition on competition for new directors and the legal person they represent-against Nankang Rubber Tire Co., Ltd. and its representative Jiang Cingsing 10. Approved the proposal that if "removal of the prohibition on competition for new directors and the legal persons they represent-Against Nankang Rubber Tire Co., Ltd. and its representative Jiang Cingsing" fails to be approved by the company's 2020 shareholders meeting to remove the prohibition of non-competition, it intends to exercise the right of inclusion against the new representatives of the company "Director Jiang Cingsing and his legal shareholder Nankang Rubber Tire Co., Ltd." 11. Approved the proposed amendments to the reason for the meeting of shareholders in 2020 |
| 2020/06/22 | <ol style="list-style-type: none"> 1. Approved the election of the 23rd chairman of the board 2. Approved the appointment of the general manager 3. Approved the general manager salary review proposal 4. Approved the proposal of appointing salary committee 5. Approved the remuneration review proposal for directors and managers 6. Approved the independent director salary review proposal |
| 2020/08/12 | <ol style="list-style-type: none"> 1. Approved the formulation of "Board Performance Evaluation Measures" 2. Approve "Financial supervisor inauguration" 3. Approved [Whether customers whose accounts receivable exceed the normal credit period for a certain period of time shall be regarded as financial financing in disguise] |
| 2020/11/12 | <ol style="list-style-type: none"> 1. Approved 2021 Audit Plan 2. Approved [Guanyin Factory Phase II Expansion Project] 3. Approved the employee stock ownership plan 4. Approved the amendment to the "Salary and Compensation Committee Organization Rules" proposal 5. Approved the revision of the "procedures for handling important internal information" |
| 2021/02/04 | <ol style="list-style-type: none"> 1. Pass the 2020 manager year-end bonus payment standard |
| 2021/03/26 | <ol style="list-style-type: none"> 1. Approved the 2020 merger, individual financial statements and business reports 2. Approved the 2020 surplus distribution proposal 3. Approved the remuneration distribution plan for employees and directors in 2020 4. Approved the date, place, reason for convening the 2021 regular shareholders meeting, and the acceptance period and the place for accepting written proposals from shareholders holding more than 1% of the shares 5. Approved to apply to various financial institutions for contract renewal or new financing quota 6. Approved the capital loan and 100% holding of Federal Tire North America LLC, a subsidiary in the United States 7. Approved the 2020 "Declaration of Internal Control System" 8. Approved the review of CPA's independence and competency assessment 9. Approved the appointment of the head of corporate governance 10. Approved the suspension of the private placement of common stocks/preferred stocks approved by the company's 2020 shareholders meeting 11. Approved amendments to some articles of the "Articles of Association" 12. Approved amendments to the "Rules of Procedures for Shareholders' Meetings" 13. Passed [In order to handle the rezoning of the self-run city, authorize the chairman to select a professional company to implement the rezoning of the land] |

| Date | Resolution matters |
|------------|--|
| | 14. Approved [The company's 100%-invested subsidiary Tai Cheng Development Co., Ltd. intends to divide and reduce its capital to establish another new company |
| 2021/04/26 | <ol style="list-style-type: none"> 1. Approved the shareholders' proposal to "dismiss Lee Tiansiang, an independent director" and the board of directors' proposal to "invite external professionals to conduct a forensic accounting project to clarify that independent directors did not propose the reasons for the dismissal of the allegations by shareholders" 2. Approved the shareholders' proposal to "dismiss the independent director Zuo Weili" and the board of directors' proposal to "appoint external professionals to conduct a forensic accounting project to clarify that independent directors did not propose the reasons for the dismissal of the allegations by shareholders" 3. Approved the shareholders' proposal to "dismiss Chou Singru, an independent director" and the board of directors' proposal to "appoint external professionals to conduct a forensic accounting project to clarify that independent directors did not propose the reasons for the dismissal of the allegations by shareholders" 4. Approved the proposal by shareholders –"Removed from the directorship of Nankang Rubber Tires Co., Ltd. (hereinafter referred to as Nankang Tire) and its designated representatives (including the currently designated representative Chao Guoshuai and his subsequent designated representatives)" 5. Approved the shareholder proposal to "exercise the right of inclusion against the corporate shareholder Nankang Rubber Tire Co., Ltd. (hereinafter referred to as Nankang Tire)" 6. Approved the amendment to the meeting place and reason for the 2021 regular shareholders meeting |
| 2021/05/07 | <ol style="list-style-type: none"> 1. Approved replacement of certified accountants 2. Approved [Cash capital increase and issuance of ordinary shares by way of enquiry and circle purchase] 3. Approved private placement of ordinary shares 4. Approved the amendments to the meeting time and reason for the 2021 regular shareholders meeting |

12. In the most recent year and up to the date of publication of the annual report, if the directors have different opinions on important resolutions passed by the board of directors and have records or written statements, the main contents are:

| Date | Resolution matters | Speech summary |
|------------|--|---|
| 2020/11/12 | Guanyin Factory Phase II Expansion Project | Director, Chao Guoshuai : The amount of investment in this case is quite large. My opinion is to evaluate carefully and I suggest deferring the discussion. |
| 2021/03/26 | Apply to various financial institutions for contract renewal or new financing quota | Director, Chao Guoshuai : It is recommended to vote one by one |
| 2021/03/26 | Loan funds to a 100% owned subsidiary in the U.S.A. - Federal Tire North America LLC | Director, Chao Guoshuai : Anti-dumping has a great impact on the company's business in the future. I oppose this proposal. |
| 2021/05/07 | Handle cash increase and issue common shares by way of enquiry and circle purchase | Director, Chao Guoshuai : This proposal asks all shareholders to "abandon" the preemptive options that were originally enjoyed under Article 267 of the Company Law. I oppose this proposal. |
| 2021/05/07 | Handling private placement of common stock | Director, Chao Guoshuai : After the issuance quota of this proposal is added to the enquiry circle purchase case, it accounts for 32% of the total issued shares of Taifeng. I oppose this proposal. |
| 2021/05/07 | Amendments to the meeting time and reasons for the 2021 regular shareholders meeting | Director, Chao Guoshuai : According to Article 172-1 of the current company law, the board of directors can only conduct formal review when reviewing proposals which proposed by shareholders, not substantive review |

13. Summary of the resignation and dismissal of the company's chairman, general manager, accounting supervisor, financial supervisor, internal audit supervisor, and R&D supervisor in the most recent year and as of the printing date of the annual

report

Summary Table of Resignation and Dismissal of Relevant Persons in the Company

| Title | Name | Onboard Date | Dismissal date | Reasons for resignation or dismissal |
|----------------------|----------------|---------------------|-----------------------|---|
| General Manager | Ma Shujian | 2002/05/17 | 2020/05/08 | Job adjustment |
| Financial Supervisor | Yang Jianchong | 2016/11/11 | 2020/08/12 | Job adjustment |

Note: The relevant persons of the company refer to the chairman, general manager, accounting supervisor, financial supervisor, internal audit supervisor, corporate governance supervisor and R&D supervisor, etc.

4.Accountant Information

- (1) If the non-audit public expenses of the certified public accountant, the firm of which the certified public accountant belongs and its affiliated companies account for more than one-quarter of the public audit fee, the amount of audit and non-audit public expenses and the content of non-audit services shall be disclosed:

Unit: NTD, Thousand

| Accounting firm name | Accountant name | Public audit | non-audit public expenses | | | | | Accountant's review period | Remark |
|----------------------|----------------------------|--------------|---------------------------|-----------------------|-----------------|----------------|----------|----------------------------|---|
| | | | System Design | Business registration | Human Resources | Other (Note 2) | Subtotal | | |
| PwC Taiwan. | Pee-ling - Du Jun- Yao-lin | 4,640 | | | | 875 | 875 | 2020/1/1~2020/12/31 | 1. The transfer price is 685 thousand yuan. 2. The business tax of concurrently operating business person adopts the direct deduction method to check the visa service of 160 thousand yuan. 3. Review the salary information checklist for full-time employees who are not in supervisory positions at 30 thousand yuan. |

Note 1: If the company has changed accountant or accounting firm this year, please list the inspection period separately, explain the reason for the replacement in the remarks column, and disclose the audit and non-audit public fees paid in order.

Note 2: Please list the non-audit public expenses separately according to the service items. If the "other" item of the non-audit public expenses reaches 25% of the total amount of the non-audit public expenses, the service content should be listed in the remarks column.

- (2) If the accounting firm is replaced and the public audit fees paid during the replacement year are less than the public audit fees of the previous year, the amount, proportion and reason for the reduction in public audit fees shall be disclosed: None.
- (3) If the public audit expenses are reduced by more than 10% compared with the previous year, the amount, proportion and reasons for the reduction of the public audit expenses shall be disclosed: decrease about 554,000 NTD which is 10.67% less, mainly because there were no public audit expenses for the supplementary explanation of the business income tax in 2020.

CPA Audit Fee Range Chart

| Accounting Firm | Accountant Name | Audit Period | Remark |
|-----------------|-------------------------|---------------------|--------|
| PwC Taiwan | Du Peiling Lin Junyao | 2020.1.1~2020.12.31 | |

Unit: NTD, Thousand

| Fee Range | Fee Items | Audit Fee | Non-audit Fee | Total |
|-----------|-------------------------------------|-----------|---------------|-------|
| 1 | Under 2,000 NTD | | V | |
| 2 | 2,000 NTD (inclusive) ~4,000 NTD | | | |
| 3 | 4,000 NTD (inclusive) ~6,000 NTD | V | | V |
| 4 | 6,000 NTD (inclusive) ~8,000 NTD | | | |
| 5 | 8,000 NTD (inclusive) ~10,000 NTD | | | |
| 6 | Over 10,000 NTD (inclusive) | | | |

5. Information on change of accountant

(1) Regarding the former CPA

| | | | |
|---|---|-------------|------------------------------------|
| Replacement Date | April 12, 2021 [From the first quarter of 2021 (inclusive)] | | |
| Reason for replacement and description | Internal organization adjustment of accounting firm | | |
| Describe whether the Company terminated or the CPA did not accept the appointment | Parties | CPA | Appointed person |
| | Situation | | |
| | Termination of appointment | | |
| | No longer accepted (continued) appointment | | |
| Opinions and reasons for the inspection report other than unqualified opinions issued within the latest two years | N/A | | |
| Any disagreement with the issuer | Yes | | Accounting principles or practices |
| | | | Disclosure of financial reports |
| | | | Check scope or steps |
| | | | Other |
| | No | V | |
| | | Description | |
| Other disclosures | None | | |

(1) Regarding the successor CPA

| | |
|---|---|
| Name of accounting firm | PwC Taiwan |
| Name of CPA | Liao Fuming, Lin Junyao |
| Date of appointment | April 12, 2021 [From the first quarter of 2021 (inclusive)] |
| Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement. | None |
| Succeeding CPA's written opinion of disagreement toward the former CPA | None |

(2) Reply from the former accountant: Not applicable

6.If the Company's Chairman, General Manager and Managers Responsible for Financial and Accounting Affairs Have Held Office in the CPA Firm or Any of Its Affiliated Companies Within a Year, Their Names, Job Titles and the Periods During Which They Have Held Such Office Should Be Disclosed: None.

7. Directors, Managers, and Shareholders whose Shareholding Ratio exceeds 10% of the Equity Transfer and Equity Pledge Changes in Recent Years

(1) Changes in the equity of directors, managers and major shareholders

Unit : Thousand shares

| Title (Note 1) | Name | 2020 | | Till 2021/3/31 | |
|---|---|--|---------------------------------------|--|---------------------------------------|
| | | Increase (decrease) in the number of shares held | Increase (decrease) in pledged shares | Increase (decrease) in the number of shares held | Increase (decrease) in pledged shares |
| Chairman | Ma Shujian | 68 | - | (129) | - |
| Director | Ma Shaojin | - | - | - | - |
| Director | Consortium Ma Chishan Foundation Representative: Wu Defong | - | - | - | - |
| Director | Consortium Ma Chishan Foundation Representative: Chen Chungyi | - | - | - | - |
| Director | Maxson enterprise co., ltd. Representative: Ma Shuchung | - | - | - | - |
| Director | Datian Investment Co., Ltd. Representative: Ma Peicjune | - | - | - | - |
| Director | NANKANG RUBBER TIRE CORP.,LTD Representative: Chao Kuoshuai | - | - | - | - |
| Independent Director | Chou Weili | - | - | - | - |
| Independent Director | Chou Singru | - | - | - | - |
| Independent Director | Lee Tiansiang | - | - | - | - |
| General Manager | Chen Chongyi | - | - | - | - |
| VP (Financial Supervisor) | Wu Lingyun | - | - | - | - |
| Plant Manager | Peng Sianshun | 10 | - | (24) | - |
| Deputy Director, Financial Department | Lu Sinyi | 15 | - | - | - |
| Director, Administration Office | Chang Jiayuan | - | - | - | - |
| Deputy Director, Administration Office | Liu Jiashen | - | - | - | - |
| Deputy Director, Foreign Office | Chen Dawu | - | - | - | - |
| Director, D&D | Wu Hongcheng | - | - | - | - |
| Deputy Director, R&D | Gu Dejeng | - | - | - | - |
| Plant Deputy Manager | Tai Bangming | - | - | - | - |
| Accounting Supervisor | Lee Sinyu | - | - | - | - |
| Major Shareholder | NANKANG RUBBER TIRE CORP.,LTD | 71,668 | - | - | - |

Note 1: Shareholders holding more than 10% of the company's total shares should be indicated as major shareholders and listed separately.

(2)Equity transfer information

Unit : Thousand shares

| Name (Note 1) | Reasons for equity transfer (Note 2) | Trading date | Trading Counterpart | The relationship between the trading counterpart and the company, directors, supervisors, managers, and shareholders whose shareholding ratio exceeds 10% | Shares | Trade Price |
|-----------------|--|--------------|---------------------|---|--------|-------------|
| Ma Shujian | Disposal (Gift) | 2021.3.29 | Ma Duanyi | Father-daughter relationship with the director of the company | 129 | - |
| Ma Shujian | Disposal (Gift) | 2020.9.10 | Ma Duanyi | Father-daughter relationship with the director of the company | 106 | - |

Note 1: List the names of the company's directors, supervisors, managers and shareholders whose shareholding ratio exceeds 10%.

Note 2: List the acquisition or disposal.

(3)Equity pledge information: none

8.Information on the relationship among the top ten shareholders whose shareholding ratio is related to each other, spouse, and second degree of kinship

Information on the relationship among the top ten shareholders

April 18th, 2021

Unit : shares ; %

| NAME (NOTE 1) | SHARES | | SPOUSE AND MINOR CHILDREN HOLD SHARES | | TOTAL HOLDING OF SHARES IN THE NAMES OF OTHERS | | THE NAME OR NAME AND RELATIONSHIP OF THE TOP TEN SHAREHOLDERS WHO HAVE THE RELATIONSHIP OF THE RELATED PARTY OF THE FINANCIAL ACCOUNTING STANDARDS BULLETIN NO. 6 OR THE RELATIVE RELATIONSHIP WITHIN THE SPOUSE OR SECOND-DEGREE RELATIVE | | REMARK |
|---|------------------|----------------------|---------------------------------------|----------------------|--|----------------------|--|----------------|--------|
| | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Name | Relationship | |
| NANKANG RUBBER TIRE CORP.,LTD | 93,688,000 | 19.79 | 0 | 0 | 0 | 0 | N/A | N/A | |
| NANKANG RUBBER TIRE CORP.,LTD Representative : Chang Changping | 0 | 0 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Taifu Investment Co., Ltd. | 27,692,991 | 5.85 | 0 | 0 | 0 | 0 | | | |
| Taifu Investment Co., Ltd. | 0 | 0 | 4,537,045 | 0.96 | 0 | 0 | Ma Shaojin | Husband & Wife | |

| NAME (NOTE 1) | SHARES | | SPOUSE AND MINOR CHILDREN HOLD SHARES | | TOTAL HOLDING OF SHARES IN THE NAMES OF OTHERS | | THE NAME OR NAME AND RELATIONSHIP OF THE TOP TEN SHAREHOLDERS WHO HAVE THE RELATIONSHIP OF THE RELATED PARTY OF THE FINANCIAL ACCOUNTING STANDARDS BULLETIN NO. 6 OR THE RELATIVE RELATIONSHIP WITHIN THE SPOUSE OR SECOND-DEGREE RELATIVE | | REMARK |
|---|------------------|----------------------|---------------------------------------|----------------------|--|----------------------|--|--|--------|
| | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Name | Relationship | |
| Representative : Ma Wulu | | | | | | | Ma Shujian | Mother & Son | |
| Huan Xian Investment Co., Ltd. | 15,605,882 | 3.3 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Huan Xian Investment Co., Ltd. Representative : Ma Shaojin | 4,537,045 | 0.96 | 0 | 0 | 0 | 0 | Ma Wulu Ma Shaoshiang Ma Shujian | Husband & Wife Brothers Father & Son | |
| Jikai Development Co., Ltd. | 14,357,000 | 3.03 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Jikai Development Co., Ltd. Representative : Zhongzheng Wang | 0 | 0 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Maxson enterprise co., ltd. | 12,732,548 | 2.69 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Maxson enterprise co., ltd. Representative : Ma Shaoshiang | 1,448,907 | 0.31 | 0 | 0 | 0 | 0 | Ma Shaojin | Brothers | |
| FEDEREX MARKETING Co., Ltd. | 7,842,462 | 1.66 | 0 | 0 | 0 | 0 | | | |
| FEDEREX MARKETING Co., Ltd. Representative : Ma Shujian | 4,004,160 | 0.85 | 4,712,291 | 1 | 0 | 0 | Ma Shaojin Ma Wulu | Father & Son Mother & Son | |
| Yujie Investment Co., Ltd. | 7,600,000 | 1.61 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Yujie Investment Co., Ltd. Representative : Hsiao Jinchang | 0 | 0 | 0 | 0 | 0 | 0 | N/A | N/A | |
| Hsiao Siangling | 6,255,935 | 1.32 | 0 | 0 | 0 | 0 | N/A | N/A | |
| JPMorgan Chase Bank, N.A., Taipei Branch entrusted custody Etron Emerging Market Stock Index Fund Investment Account which is managed by Etron | 5,954,040 | 1.26 | 0 | 0 | 0 | 0 | N/A | N/A | |

| NAME (NOTE 1) | SHARES | | SPOUSE AND MINOR CHILDREN HOLD SHARES | | TOTAL HOLDING OF SHARES IN THE NAMES OF OTHERS | | THE NAME OR NAME AND RELATIONSHIP OF THE TOP TEN SHAREHOLDERS WHO HAVE THE RELATIONSHIP OF THE RELATED PARTY OF THE FINANCIAL ACCOUNTING STANDARDS BULLETIN NO. 6 OR THE RELATIVE RELATIONSHIP WITHIN THE SPOUSE OR SECOND-DEGREE RELATIVE | | REMARK |
|--|------------------|----------------------|---------------------------------------|----------------------|--|----------------------|--|--------------|--------|
| | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Name | Relationship | |
| technology Inc. | | | | | | | | | |
| Tai Cheng Development Co., Ltd. | 5,913,145 | 1.25 | 0 | 0 | 0 | 0 | | | |
| Tai Cheng Development Co., Ltd. Representative : Ma Shujian | 4,004,160 | 0.85 | 4,712,291 | 1 | 0 | 0 | Ma Shaojin | Father & Son | |
| | | | | | | | Ma Wulu | Mother & Son | |

Note 1: All the top ten shareholders shall be listed. If they are legal person shareholders, the names of legal person shareholders and the names of their representatives should be listed separately.

Note 2: The calculation of the shareholding ratio refers to the calculation of the shareholding ratio in their own name, spouse, minor children, or in the name of others.

Note 3: The shareholders listed above, including legal persons and natural persons, shall disclose their relationship in accordance with the issuer's financial report preparation standards.

9. The company, its directors and managers directly or indirectly control the number of shares held in the same reinvested enterprise, and calculate the comprehensive shareholding ratio

Comprehensive shareholding ratio

Unit : shares ; %

| Reinvestment business | The company's investment | | Directors, managers and direct or indirect control of investment business | | Comprehensive investment | |
|------------------------------------|--------------------------|----------------------|---|----------------------|--------------------------|----------------------|
| | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % | Number of shares | Shareholding ratio % |
| FEDEREX MARKETING Co., Ltd. | 19,000,000 | 100 | 0 | 0 | 19,000,000 | 100 |
| Taixin Construction Co., Ltd. | 33,000,000 | 100 | 0 | 0 | 33,000,000 | 100 |
| Tai Cheng Development Co., Ltd. | 16,000,000 | 100 | 0 | 0 | 16,000,000 | 100 |
| Federal International Holding Inc. | 65,331,062 | 100 | 0 | 0 | 65,331,062 | 100 |

IV. Capital Overview

I. Capital and shares

1. Source of Capital

Source of Capital

Until the annual report printing date

Unit: NTD/share

| Date | Issue Price | Approved Capital | | Paid-in Capital | | Remark | |
|-----------------|-------------|------------------|-------------|------------------|-------------|--|-------------------------------------|
| | | Number of Shares | Amount | Number of Shares | Amount | Source of Capital | License number |
| 1955 | 100 | 30,000 | 3,000,000 | 30,000 | 3,000,000 | Establish capital 3,000,000 NTD | CEPD License No.3530 |
| March, 1960 | 100 | 60,000 | 6,000,000 | 60,000 | 6,000,000 | Capital increase 3,000,000 NTD | MOEA Business No. 065 |
| November, 1964 | 100 | 300,000 | 30,000,000 | 300,000 | 30,000,000 | Capital increase 24,000,000 NTD | MOEA Business No. 3846 |
| November, 1965 | 100 | 600,000 | 60,000,000 | 600,000 | 60,000,000 | Surplus capital increase 1,473,000 NTD Capital increase 28,527,000 NTD | MOEA Business No. 0414 |
| June, 1967 | 100 | 800,000 | 80,000,000 | 800,000 | 80,000,000 | Capital increase 20,000,000 NTD | MOEA Business No. 2018 |
| April, 1969 | 100 | 960,000 | 96,000,000 | 960,000 | 96,000,000 | Surplus capital increase 718,400 NTD 及 Capital increase 15,281,600 NTD | Construction Co., License No. 10108 |
| September, 1970 | 100 | 1,200,000 | 120,000,000 | 1,200,000 | 120,000,000 | Capital increase 24,000,000 NTD | Construction Co., License No. 12874 |
| January, 1976 | 100 | 1,500,000 | 150,000,000 | 1,500,000 | 150,000,000 | Surplus capital increase 30,000,000 NTD | MOEA Business No. 11108 |
| April, 1978 | 10 | 30,000,000 | 300,000,000 | 30,000,000 | 300,000,000 | Surplus capital increase 15,000,000 NTD Capital reserve 135,000,000 NTD | MOEA Business No. 13449 |
| April, 1979 | 10 | 35,000,000 | 350,000,000 | 35,000,000 | 350,000,000 | Capital increase 50,000,000 NTD | MOEA Business No. 14764 |
| October, 1980 | 10 | 43,500,000 | 435,000,000 | 43,500,000 | 435,000,000 | Surplus capital increase 35,000,000 NTD Capital increase 50,000,000 NTD | MOEA Business No. 17801 |
| January, 1982 | 10 | 60,000,000 | 600,000,000 | 47,850,000 | 478,500,000 | Surplus capital increase 43,500,000 NTD | MOEA Business No. 10258 |
| September, 1982 | 10 | 60,000,000 | 600,000,000 | 53,592,000 | 535,920,000 | Capital reserve 57,420,000 NTD | MOEA Business No. 21975 |
| April, 1984 | 10 | 61,592,000 | 615,920,000 | 61,592,000 | 615,920,000 | Capital increase 80,000,000 NTD | MOEA Business No. 1005 |
| December, 1987 | 10 | 67,751,200 | 677,512,000 | 67,751,200 | 677,512,000 | Capital increase 61,592,000 NTD | MOEAIC (77) License No. 03553 |
| June, 1990 | 10 | 84,689,440 | 846,894,400 | 84,689,440 | 846,894,400 | Capital increase 169,382,400 NTD | TWSE (1) No. 00621 |
| July, 1991 | 10 | 97,392,856 | 973,928,560 | 97,392,856 | 973,928,560 | Capital reserve 84,689,440 NTD Surplus capital increase 42,344,720 NTD | TWSE (1) No. 01452 |

Those who have not used property other than cash to offset the share capital

| Date | Issue Price | Approved Capital | | Paid-in Capital | | Remark | |
|-----------------------------|-------------|------------------|---------------|------------------|---------------|---|--|
| | | Number of Shares | Amount | Number of Shares | Amount | Source of Capital | License number |
| July, 1993 | 10 | 107,132,140 | 1,071,321,400 | 107,132,140 | 1,071,321,400 | Capital reserve 48,696,420 NTD Surplus capital increase 48,696,420 NTD | MOEAIC (77) License No. 7053 |
| July, 1993 | 10 | 117,845,354 | 1,178,453,540 | 117,845,354 | 1,178,453,540 | Capital reserve 53,566,070 NTD Surplus capital increase 53,566,070 NTD | MOEAIC (77) License No. 06338 |
| June, 1994 | 10 | 129,629,889 | 1,296,298,890 | 129,629,889 | 1,296,298,890 | Capital reserve 58,922,675 NTD Surplus capital increase 58,922,675 NTD | TWSE (1) No. 27769 |
| 1995 | 10 | 142,592,877 | 1,425,928,770 | 142,592,877 | 1,425,928,770 | Capital reserve 64,814,940 NTD Surplus capital increase 64,814,940 NTD | TWSE (1) No. 38908 |
| 1996 | 10 | 199,000,000 | 1,990,000,000 | 156,852,163 | 1,568,521,630 | Capital reserve 71,296,430 NTD Surplus capital increase 71,296,430 NTD | TWSE (1) No. 53682 |
| June, 1997 | 10 | 345,000,000 | 3,450,000,000 | 203,907,812 | 2,039,078,120 | Capital reserve 141,166,950 NTD Surplus capital increase 329,389,540 NTD | TWSE (1) No. 49420 |
| 1998 | 10 | 345,000,000 | 3,450,000,000 | 224,298,593 | 2,242,985,930 | Surplus capital increase 203,907,810 NTD | TWSE (1) No. 53725 |
| 1999 | 10 | 345,000,000 | 3,450,000,000 | 269,158,311 | 2,691,583,110 | Capital reserve 448,597,180 NTD | TWSE (1) No. 61054 |
| November 19, 2003 | 10 | 345,000,000 | 3,450,000,000 | 273,158,311 | 2,731,583,110 | Capital increase 40,000,000 NTD | TWSE (1) No. 0920138728 |
| July 6, 2004 | 10 | 385,000,000 | 3,850,000,000 | 286,816,211 | 2,868,162,110 | Surplus capital increase 136,579,000 NTD | Certificate Period W.1 No. 0930129617 |
| July 1 st , 2005 | 10 | 409,600,000 | 4,096,000,000 | 301,157,011 | 3,011,570,110 | Surplus capital increase 143,408,000 NTD | FSC W.1 License No 0940126559 |
| Auguat 23, 2006 | 10 | 409,600,000 | 4,096,000,000 | 313,203,291 | 3,132,032,910 | Surplus capital increase 120,462,800 NTD | FSC W.1 License No 09501187030 |
| July 12, 2007 | 10 | 409,600,000 | 4,096,000,000 | 324,165,406 | 3,241,654,060 | Surplus capital increase 109,621,150 NTD | FSC W.1 License No 0960035930 |
| July 1 st , 2008 | 10 | 520,000,000 | 5,200,000,000 | 335,511,195 | 3,355,111,950 | Surplus capital increase 113,457,890 NTD | FSC W.1 License No 0970032779 |
| April 9, 2009 | 10 | 520,000,000 | 5,200,000,000 | 335,424,195 | 3,354,241,950 | Cancellation of treasury shares and capital reduction 870,000 NTD | FSC W.3.License No 0970064763 MEA Business No. 09801068360 |
| July 22, 2010 | 10 | 520,000,000 | 5,200,000,000 | 362,258,130 | 3,622,581,300 | Surplus capital increase 268,339,350 NTD | FSC License No. 0990038168 |
| August 8, 2011 | 10 | 520,000,000 | 5,200,000,000 | 378,559,745 | 3,785,597,450 | Surplus capital increase 163,016,150 NTD | FSC License No. 1000036420 |

| Date | Issue Price | Approved Capital | | Paid-in Capital | | Remark | |
|-----------------------------|-------------|------------------|---------------|------------------|---------------|---|-------------------------------|
| | | Number of Shares | Amount | Number of Shares | Amount | Source of Capital | License number |
| July 11, 2012 | 10 | 520,000,000 | 5,200,000,000 | 403,166,128 | 4,031,661,280 | Surplus capital increase 246,063,830 NTD | FSC License No. 1010030740 |
| June 6, 2013 | 10 | 520,000,000 | 5,200,000,000 | 423,324,434 | 4,233,244,340 | Surplus capital increase 201,583,060 NTD | FSC License No. 1020024674 |
| July 3, 2014 | 10 | 520,000,000 | 5,200,000,000 | 457,190,388 | 4,571,903,880 | Surplus capital increase 338,659,540 NTD | FSC License No. 1030025250 |
| July 9, 2015 | 10 | 520,000,000 | 5,200,000,000 | 464,048,243 | 4,640,482,430 | Surplus capital increase 68,578,550 NTD | FSC License No. 1040025770 |
| July 1 st , 2016 | 10 | 520,000,000 | 5,200,000,000 | 473,329,207 | 4,733,292,070 | Surplus capital increase 92,809,640 NTD | Not Applicable |

Unit : NTD ; share

| Type | Approved Capital | | | Remark |
|--------------|---|--------------------------------------|---|---|
| | Outstanding shares | Unissued shares | Total | |
| Common Stock | 473,329,207 shares 4,733,292,070 NTD | 46,670,793 shares 466,707,930 NTD | 520,000,000 shares 5,200,000,000 NTD | The company's stock is a listed company stock |

i. Shareholder Structure

2021/4/18

Unit : shares ; %

| Shareholder structure Q'ty | Government Organization | Financial Institute | Other legal persons | Individual | Foreign institutions and foreigners | Total |
|-------------------------------|-------------------------|---------------------|---------------------|-------------|-------------------------------------|-------------|
| | Number of people | 3 | 1 | 276 | 52,709 | 121 |
| Shares | 1,417 | 2,000,000 | 225,571,493 | 218,799,708 | 26,956,589 | 473,329,207 |
| Ratio (%) | 0 | 0.42 | 47.66 | 46.23 | 5.69 | 100 |

ii. Shareholding Distribution Status

2021/4/18

Unit: 10 NTD per Share

| Shareholding Tiers | Number of shareholders | Number of shares | Ratio (%) |
|--------------------|------------------------|------------------|-----------|
| 1~999 | 39,412 | 4,659,834 | 0.98 |
| 1,000~5,000 | 9,164 | 20,142,808 | 4.26 |
| 5,001~10,000 | 2,057 | 15,128,259 | 3.2 |
| 10,001~15,000 | 789 | 9,719,085 | 2.05 |
| 15,001~20,000 | 408 | 7,246,574 | 1.53 |
| 20,001~30,000 | 400 | 9,984,295 | 2.11 |
| 30,001~40,000 | 181 | 6,372,963 | 1.35 |
| 40,001~50,000 | 144 | 6,600,354 | 1.39 |
| 50,001~100,000 | 248 | 17,762,021 | 3.75 |
| 100,001~200,000 | 136 | 18,568,697 | 3.92 |
| 200,001~400,000 | 70 | 19,615,991 | 4.14 |
| 400,001~600,000 | 24 | 11,547,090 | 2.44 |
| 600,001~800,000 | 12 | 8,531,667 | 1.8 |
| 800,001~1,000,000 | 8 | 7,170,834 | 1.51 |
| 1,000,001 above | 57 | 310,278,735 | 65.57 |
| Total | 53,110 | 473,329,207 | 100 |

(4) List of Major Shareholders

April 18, 2021
Unit: Share: %

| Shares | No. of shareholdings | Shareholding (%) |
|--|----------------------|------------------|
| List of major shareholders | | |
| NANKANG RUBBER TIRE CORP.,LTD. | 93,688,000 | 19.79% |
| Taifu Investment Co. Ltd. | 27,692,991 | 5.85% |
| Huan Xian Investment Co Ltd. | 15,605,882 | 3.30% |
| Chih Kai Development Co. Ltd. | 14,357,000 | 3.03% |
| MAXON CORPORATION | 12,732,548 | 2.69% |
| FEDEREX MARKETING CO.,LTD | 7,842,462 | 1.66% |
| Yu-Chie Investment Co. Ltd. | 7,600,000 | 1.61% |
| Hsiao, Xiang-Ling | 6,255,935 | 1.32% |
| JPMorgan Chase Bank N.A. Taipei Branch in Custody Vanguard Emerging Markets Stock Index Fund | 5,954,040 | 1.26% |
| Tai Cheng Development Co. Ltd. | 5,913,145 | 1.25% |

(5) Stock price, net value, earnings, dividends and related information per share in the last two years

Unit: NT\$: in thousand shares

| Items | | 2020 | 2019 | As of 31 March 2021 |
|----------------------------|------------------------------|---------|----------------|---------------------|
| Stock Price per Share | Highest | 24.5 | 14.9 | 21.8 |
| | Lowest | 9.2 | 10.7 | 16.5 |
| | Average | 17.62 | 12.09 | 18.15 |
| Net value per share | Before distribution | 16.41 | 15.93 | 16.03 |
| | After distribution | 16.39 | 15.93 | - |
| Earnings per share | Weighted Average Shares | 459,574 | 459,574 | 459,574 |
| | Earnings per share | 0.24 | (1.46) | (0.58) |
| Dividend per share | Cash Dividend | 0.02 | 0 | - |
| | Free allotment | - | - | - |
| | | - | - | - |
| | Accumulated unpaid dividends | - | - | - |
| Investment return analysis | Price-to-Earning Ratio | 73.42 | Not applicable | - |
| | Price to dividend ratio | 881 | Not applicable | - |
| | Dividend yield | 0.11% | 0.00% | - |

(6) Dividend Policy and Implementation Status

i. Dividend Policy :

If there is any surplus in the annual general accounts of the Company, in addition to withholding tax according to law, making up the loss in the previous year and allocating 10% of the statutory reserve and the special surplus reserve mentioned in accordance with the provisions, if there is a surplus in the current year, the Company may give priority to the distribution of dividends for the special shares in the current year. In the event of a cash dividend, more than two-thirds of the directors of the Board shall be present, and a majority of the directors shall be present at the resolution and report to the shareholders' meeting.

The company's current industry is in a mature stage, considering future capital needs and financial planning, and taking into account the interests of shareholders. The board of directors plans to make

a profit distribution plan between 5 and 50% depending on the operating situation and submit it to the general meeting of shareholders. Earnings distribution is given priority to cash dividends, and stock dividends can also be distributed. Stock dividends are based on the principle of no more than 80% of the total dividend. However, if there are major investment plans and future development factors, the surplus may be retained.

ii. Implementation Status :

On March 26, 2011, the Board of Directors of the Company approved the proposed allotment of shareholders' cash dividends of NT\$9,466,584 (NT \$0.02 per share), which will be reported to the Annual General Meeting of shareholders for the year 2011.

(7) Impact of free allotment on the Company's business performance and Earnings per share : Not applicable.

(8) The Board of Directors approved the distribution of remuneration :

(i) The percentage or scope of employee bonuses and directors' remuneration as set out in the Articles of Association :

In accordance with the Company's Articles of Incorporation, if the Company earns a profit (defined as profit before taxation before employee compensation and director's compensation) in a year, it shall appropriate not less than 1% as employee compensation and not more than 3% as director's compensation. However, if the Company still has accumulated losses (including adjustment of undistributed earnings), the amount of compensation should be reserved in advance.

Remuneration for employees in the preceding paragraph can be paid in stocks or cash. The payment objects include employees of affiliated companies who meet the conditions set by the board of directors. Directors' remuneration in the preceding paragraph can only be paid in cash.

Both items shall be resolved by the Board of Directors and submitted to the shareholders' meeting.

(ii) The basis for estimating the amount of bonuses to employees and remuneration to directors, the basis for calculating the number of shares to be allotted as stock bonuses, and the accounting treatment if the actual allotment amount differs from the estimated amount: If the estimated amount differs from the actual allotment amount resolved by the board of directors, it is recorded as profit or loss in the following year.

(iii) The Board of Directors approved the distribution of employee and director's remuneration for 2020.

a. Employees and directors' remuneration:

Employees' remuneration: \$665,000.

Directors' remuneration: \$665,000.

The above distributions are paid in cash and will be reported to the annual shareholders' meeting in 2021.

b. The amount of proposed employee stock bonus and its proportion to the total net income after tax and total employee bonus for the period: None.

c. Calculation of Earnings per share after considering the proposed employee bonus and directors' remuneration :

| | |
|--|-----------|
| Net income (Unit: in thousand of NTD) | \$111,477 |
| Weighted average number of shares | |
| Outstanding in 2020 (Unit: in thousand of share) | 459,574 |
| Calculated Earnings per share | |
| (In New Taiwan Dollars) | 0.24 |

(iv) Allocation of employee and director compensation in 2019 :

Employee compensation: 0

Director compensation: 0

The actual amount of employee and director's remuneration for the preceding year was not different from the amount recognized in the financial statements of 2019.

(9) Buyback of the Company's shares: None.

- II. Corporate bonds: None.
- III. Preferred shares: None.
- IV. Global Depositary Receipts: None.
- V. Employee stock options: None.
- VI. Restricted Stock Awards: None.
- VII. Mergers or issuance of new shares due to acquisition of shares of another company: None.
- VIII. Financing Plans and Implementation:
 - 1) Plan Description: The Company has no outstanding issuances or private placements of securities.
 - 2) Implementation status : Not applicable ◦

V. Operation

1. Details of Business :

(1) Business Scope

1) Main Business Scopes

- a. Tire manufacturing industry.
- b. Industrial rubber products manufacturing industry.
- c. Other rubber products manufacturing industry.
- d. Automobile and motorcycle parts and accessories wholesale industry.
- e. Tire wholesale industry.
- f. Automobile and motorcycle parts and accessories retail industry.
- g. Tire retailing.
- h. International trade.
- i. In addition to the permitted business, may operate the business that is not prohibited or restricted by law.

2) At present, the Company's main business products and their proportion: 100% of automobile outer tires °

3) Current products (services) and new products (services) planned to be developed by the Company :

- a. Energy saving and environmental friendly tires.
- b. Snow Tire for Commercial Vehicle.
- c. Asymmetrical pattern car tire.
- d. New pattern for high performance sports tires.

(2) Industry Overview

1) Current status and development of the industry :

At the end of 2020, the U.S. Department of Commerce suddenly issued a preliminary anti-dumping rate of 52.42% to 98.44% against Taiwan, which has affected the tire industry in Taiwan. Due to the influence of the high tax rate of 98.44% by Nankang Tire, one of the responding manufacturers, the company and other manufacturers were also affected by the initial ruling of 88.82%, and before the final judgment of the U.S. Department of Commerce in late May, the company had appointed the U.S. attorney to file a lawsuit and coordinate through the Rubber Association and the Ministry of Economic Affairs.

2) Market Evaluation :

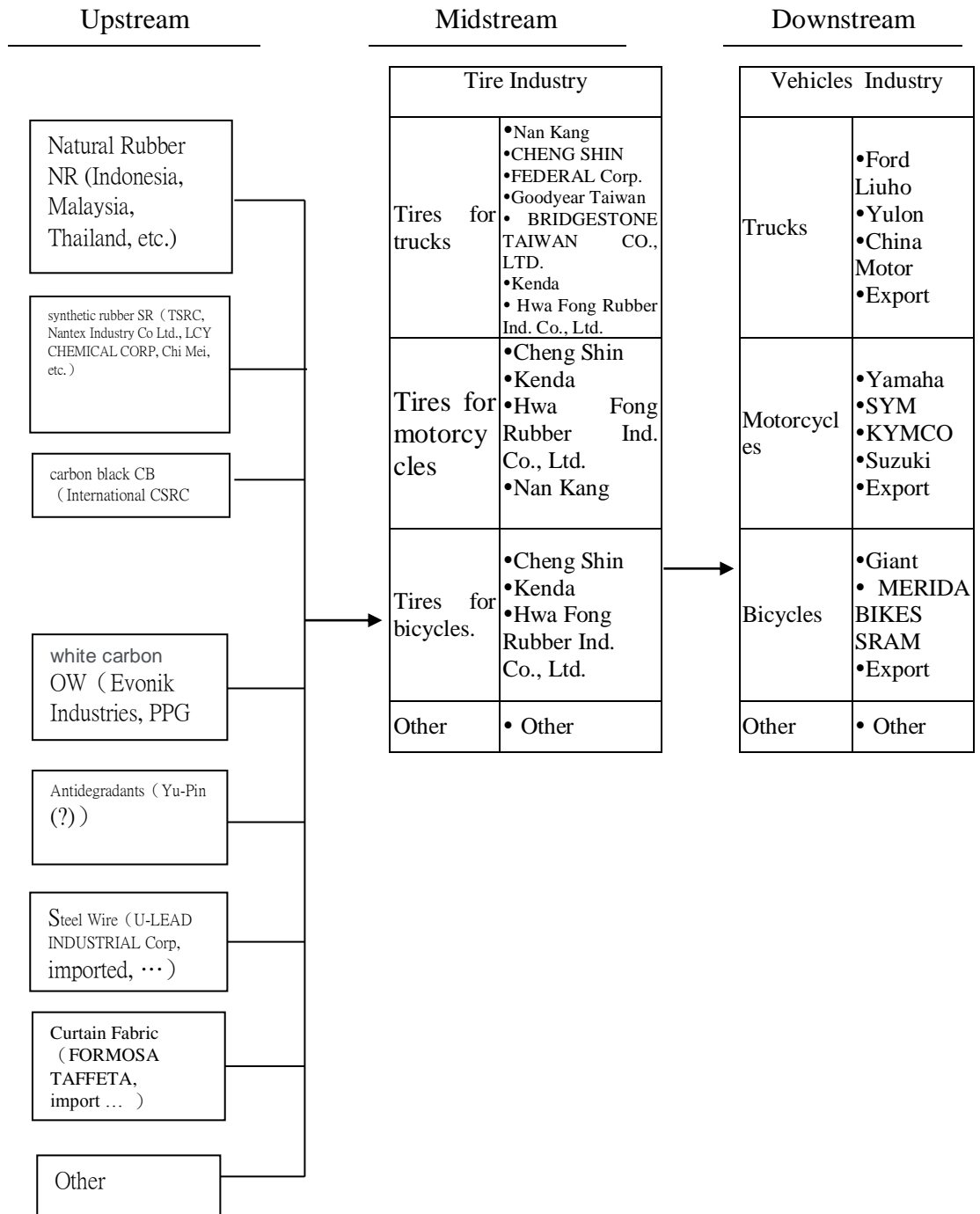
Looking ahead to 2021, the impact of the epidemic is expected to gradually subside in 2021, some production lines are expected to be relocated back to Taiwan, and the demand for emerging technologies is expected to be strong, making Taiwan's export performance to grow significantly.

3) Upstream, midstream and downstream industry linkages :

The upstream raw material suppliers belong to the rubber, carbon fume and steel wire industries, while the downstream customers are

new car factories and dealers, etc. The correlation between the upstream, midstream and downstream industries is as follows.

Domestic Tire Industry Relationship Diagram



- 4) Various development trends and competition of products
 - a. Development trends
 - i. The industry development trends toward energy saving, environmental protection, high quality and highly profitable products. With the increasing awareness of environmental protection, and trying to reduce rolling resistance, we have started to pay attention to the use of non-polluting materials in tire manufacturing and try to prolong the mileages of tires in order to reduce the amount of waste tires. After a significant number of vehicles use green tires, it has a significant effect on fuel saving and reducing pollution. There is absolutely no doubt that

green tires with energy saving and low carbon will become the tire development trend in the future.

- ii. Strengthen research and development to meet the changes in the market. The awareness of environmental protection and energy saving has been generally accepted, and the specification of tire performance of each factory has been developed in the direction of "low noise, low rolling resistance, and low fuel consumption" in order to respond to the changes in market demand.

b. Competition

The Company's major domestic competitors are NANKANG, Hwa Fong Rubber Ind. Co., Ltd., Cheng Shin, Kenda and Bridgestone Taiwan, and the business items of the competitors are listed below.

| Company Name | Main Business Items |
|--------------------------------|--|
| Nan Kang | Car Tires, Light Truck Tires, Motorcycle Tires |
| Hwa Fong Rubber Ind. Co., Ltd. | Bicycle Tires, Motorcycle Tires, Truck Tires, Agricultural Tires |
| Cheng Shin | Bicycle Tires, Motorcycle Tires, Truck Tires, Agricultural Tires |
| Kenda | Motorcycle Tires, Car Tires, Light Truck Tires, Agricultural Tires |
| Bridgestone Taiwan | Car Tires, Light Truck Tires |

(3) Technology and R&D Overview

- 1) Annual investment in research and development expenditures amount
 - a. 2020: \$123,761,000
 - b. As of March 31, 2021: \$26,061,000
- 2) Successfully Developed technologies and products.
 - a. Environmentally friendly formula tires
 - b. Ultra High Performance Tire Series.
 - c. Racing Tire Series.
 - d. High performance asymmetric pattern tire series.

(4) Long- and short-term business development plans

- 1) Short-term plans
 - a. The Company redirected sales to other North American markets (e.g. Canada, etc.) and non-North American markets (e.g. Europe, Central and South America, etc.). The company will launch more niche products that are not affected by the tax rate (e.g. competition tires, UHP, etc.).
 - b. China domestic market entrusts domestic OEMs to supply products with imported tires, so as to continue the RE market and strengthen the existing distributor channels.
 - c. Develop new raw material suppliers to reduce cost. Observe the market trend and grasp the opportunity of new product development. Use software analysis and simulation test to improve development efficiency.
 - d. Implement industrial safety inspection, improve production process and strengthen quality management to improve production efficiency, reduce losses, and strictly control all expenses to reduce costs.
 - e. Accelerate the development of environmentally friendly and low rolling resistance tires in response to increasingly stringent national regulations.

2) (2) Long-term Plan

- a. After the anti-dumping case in the U.S. is confirmed, we will rethink our product direction and sales strategy, and continue to maintain sales channel development and marketing in the North American market.
- b. The European region will be repositioned to actively develop end-users and expand the marketing plan to build a more complete channel.
- c. Continue to promote the "Federal" brand strategy, emphasizing product development and after-sales service excellence.
- d. Flexible use of various marketing strategies, such as sponsorship, participation in events, increased online exposure and customer service, to increase brand visibility and awareness.

II. Market and production and sales overview

(1) Market Analysis.

1) Major sales regions: U.S., Europe, Asia Pacific, Central and South America, CIS, Asia, and Africa, etc.

2) Market ranking and future market supply and demand and growth

a. Market shares.

According to Tire Business magazine, the Company ranked 72nd in the 2020 global tire company ranking.

b. Future market supply and demand and growth.

The global economic climate is still uncertain, and the current Chinese tire market is still oversupplied with production capacity, coupled with the double counter case and the Sino-US trade war affecting tire prices, the future global layout of the tire market, strengthening the layout and operation of markets outside of North America, such as Europe, Asia Pacific, Central and South America, the CIS, Asia and Africa and other regional markets, and actively grasp the customer business opportunities to pursue sustainable sales growth.

3) Competitive niche and development prospect of favorable and unfavorable factors and countermeasures.

a. Competitive niche.

The company uses the new pattern design of independently developed products to improve the performance of various products, so that the tires with different functions can have more perfect performance.

b. Favorable and unfavorable factors of development prospect and countermeasures

(i) Advantages.

The company has a global distribution network and a dense marketing network, with a wide distribution network and better service efficiency, and has obtained their certification from various countries.

The new factory in Taoyuan Science Park has a high degree of automatic and intelligent production equipment, which will help to improve quality and reduce costs in the future.

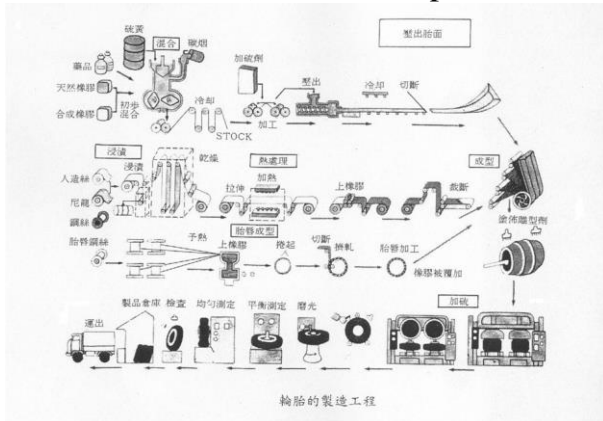
(ii) Disadvantages and Responses.

In the face of unfavorable factors such as fluctuations in raw material prices, the implementation of EU environmental regulations, the unstable global economic situation and price competition due to over capacity of tires in China, the Company has not only actively expanded global sales channels to develop new customers, but also introduced new technologies to improve production efficiency and product development capabilities so as to make products more competitive, and strengthened internal management and strict cost control to enhance profitability.

(2) Significant Applications and Production Processes of Major Products

1) Important Uses: Tires are used for vehicles to support loads on various roads to achieve transportation functions.

2) Production process.



| | |
|----------------|----------------------------|
| 1. 硫磺 | Sulfur |
| 2. 壓出胎面 | Pressing out the tread |
| 3. 混合 | Mixing |
| 4. 碳烟 | Carbon black |
| 5. 加硫劑 | Adding Sulfur |
| 6. 藥品 | Chemicals |
| 7. 天然橡膠 | Natural Rubber |
| 8. 合成橡膠 | Synthetic Rubber |
| 9. 壓出 | Press out |
| 10. 冷卻 | Cold Unloading |
| 11. 切斷 | Cutting |
| 12. 初步混合 | Initial mixing |
| 13. 冷卻 | Cooling |
| 14. 浸漬 | Soakage |
| 15. 乾燥 | Drying |
| 16. 人造絲 | Rayon |
| 17. 尼龍 | Nylon |
| 18. 鋼絲 | Steel Wire |
| 19. 胎唇鋼絲 | Tire bead Steel Wire |
| 20. 浸漬 | Impregnated |
| 21. 胎唇加工 | Tire bead processing |
| 22. 熱處理 | Heat Treatment |
| 23. 加熱 | Heating |
| 24. 成型 | Forming |
| 25. 拉伸 | Stretching |
| 26. 上橡膠 | Rubberizing |
| 27. 塗佈離型劑 | Coating of release agent |
| 28. 裁斷 | Chopping |
| 29. 予熱 | Heat application |
| 30. 胎唇成型 | Tire bead forming |
| 31. 上橡膠 | Rubberizing |
| 32. 捲起 | Rubber covering |
| 33. 切斷 | Sulfur addition |
| 34. 擠軋 | Product storage |
| 35. 胎唇加工 | Inspection |
| 36. 橡膠被覆加 | Equalization test |
| 37. 加硫 | Balance test |
| 38. 製品倉庫 | Polishing |
| 39. 檢查 | Shipping |
| 40. 均勻測定 | Tire manufacturing process |
| 41. 平衡測定 | |
| 42. 磨光 | |
| 43. 運出 | |
| 44. 輪胎的製造主(過)程 | |

(3) Supply of major materials

| Name of raw material | Amount (NT\$1000) | Suppliers |
|---|---------------------|-----------|
| Raw glue | 440,997 | A |
| Synthetic glue | 589,217 | B |
| Curtain Fabric | 264,435 | C |
| Carbon Smoke | 398,970 | D |
| Steel wire and steel wire curtain cloth | 313,349 | E |
| Chemicals | 491,142 | F |

(4) The names of customers who have accounted for more than 10% of the total purchase (sales) in any of the last two years and the amount of purchase (sales) and its proportion

Suppliers

Unit: NT\$1,000; %

| | 2020 | | | | 2019 | | | | As of the previous quarter of the current year | | | |
|------|-------|-----------|--|------------------------------|-------|-----------|--|------------------------------|--|---------|---|------------------------------|
| Item | Name | Amount | The Percentage of net imports for the year (%) | Relationship with the Issuer | Name | Amount | The Percentage of net imports for the year (%) | Relationship with the Issuer | Name | Amount | The percentage of net purchases for the year as of the previous quarter (%) | Relationship with the Issuer |
| 1 | A | 373,602 | 14 | No | A | 353,733 | 16 | No | A | 143,852 | 29 | No |
| 2 | B | 284,191 | 11 | No | B | 254,058 | 12 | No | B | 47,915 | 10 | No |
| 3 | | | | | C | 225,388 | 10 | No | | | | |
| 4 | Other | 1,945,129 | 75 | | Other | 1,324,092 | 62 | | Other | 300,746 | 61 | |
| | Net | 2,602,922 | 100 | | Net | 2,157,271 | 100 | | Net | 492,513 | 100 | |

Customers

Unit: NT\$1,000; %

| | 2020 | | | | 2019 | | | | As of the previous quarter of the current year | | | |
|------|-----------|-----------|-----------------------------|------------------------------|-----------|-----------|-----------------------------|------------------------------|--|---------|---|------------------------------|
| Item | Name | Amount | Percentage of net sales (%) | Relationship with the Issuer | Name | Amount | Percentage of net sales (%) | Relationship with the Issuer | Name | Amount | The percentage of net sales for the year as of the previous quarter (%) | Relationship with the Issuer |
| 1 | A | 1,648,675 | 29 | No | A | 1,215,994 | 27 | No | A | 84,985 | 15 | No |
| 2 | | | | | | | | | | | | |
| 3 | Other | 4,055,988 | 71 | | Other | 3,325,008 | 73 | | Other | 463,946 | 85 | |
| | Net Sales | 5,704,663 | 100 | | Net Sales | 4,541,002 | 100 | | Net Sales | 548,931 | 100 | |

(5) Production volume table of last two years

Unit: piece: NT\$1,000

| Main Product | Year | 2020 | | | 2019 | | |
|------------------------|------|-----------|------------|------------------|-----------|------------|------------------|
| | | Capacity | Production | Production Value | Capacity | Production | Production Value |
| Automobile outer tires | | 3,950,000 | 3,382,085 | 4,214,823 | 3,685,200 | 2,633,458 | 3,720,757 |
| Other | | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | 3,950,000 | 3,382,085 | 4,214,823 | 3,685,200 | 2,633,458 | 3,720,757 |

(6) Sales volume table of the last two years

Unit: piece: NT\$1,000

| Main Product | Year | 2020 | | | | 2019 | | | |
|------------------------|------|----------------|---------|-----------|-----------|----------------|---------|-----------|-----------|
| | | Domestic Sales | | Export | | Domestic Sales | | Export | |
| | | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Automobile outer tires | | 187,297 | 265,334 | 3,114,399 | 5,439,329 | 331,055 | 381,332 | 2,493,869 | 4,159,670 |
| Other | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | 187,297 | 265,334 | 3,114,399 | 5,439,329 | 331,055 | 381,332 | 2,493,869 | 4,159,670 |

III. The number of workers, average length of service, average age and education distribution of employees in the industry for the last two years and as of the printing date of the annual report

| Year | | 2020 | 2019 | As of 31 March of the current year |
|-----------------------------------|-------------------|-------|-------|------------------------------------|
| Employee No. of | Direct staff | 761 | 676 | 547 |
| | Indirect staff | 427 | 444 | 404 |
| | Managers | 77 | 81 | 76 |
| | Total | 1,265 | 1,201 | 1,027 |
| Average age | | 38 | 38 | 39 |
| Average length of service | | 7.1 | 6.9 | 7.4 |
| Education Distribution Percentage | PhD. | 0.0% | 0.0% | 0.0% |
| | Master | 2.4% | 2.2% | 2.9% |
| | Bachelor | 33.0% | 33.6% | 35.8% |
| | High School | 49.4% | 49.1% | 47.8% |
| | Below High School | 15.3% | 15.1% | 13.4% |

IV. Information on Environmental Protection Expenses

(1) Records of losses and penalties for environmental pollution for the most recent year and as of the printing date of the annual report.

| Date | Penalty No. | Violation of statutory provisions | Missing items | Penalty Amount | Responses |
|------------|-------------------------------|--|---|----------------|--|
| 2020/01/06 | Fu-Huan-Gi Tzu No. 1080319981 | Air Pollution Control Act. - Clause 23.1 | No effective collection of air pollutants | NT\$200,000 | Repair of damaged transmission lines (completed on 2019/08/31), regular monthly inspection of pipeline inspection points and repair of corroded pipelines. |

(2) Annual environmental expenditure amount

2020: NT\$25,293,000.

As of March 31, 2021: NT\$5,833,000.

V. Labor relationship

(1) Employee benefit measures, further education, training, retirement system, and important agreements between employers and employees

1) Employee benefit measures

The company allocates welfare funds in accordance with the law and establishes the Employee Welfare Committee to implement various welfare policies; all kinds of bonuses: production performance bonuses, innovation and improvement bonuses, year-end bonuses. Related insurance: In addition to labor and health insurance, we provide comprehensive group insurance and overseas travel safety insurance. Professional medical office, regular free health checkups, free dormitory for remote colleagues, free catering services, various diversified activities, wedding, funeral, hospitalization, birthday subsidies, employee and child scholarships, bonus system, and other related measures to take care of employees' needs in various aspects, in order to enhance employees' centripetal force and sense of belonging to the company. Weekly interviews are scheduled for specific departments or new staff.

To add a factory-wide employee suggestion box to achieve the purpose of two-way communication.

(2) Education and Training.

The purpose of our education and training is to improve the quality of our employees, to enhance their professional skills, to improve work efficiency, and to reserve more talents. The Company has a complete education and training system and career development system, with on-the-job training as the main focus, and holds various level and function training courses on a regular basis to enrich the professional knowledge and skills of employees, supplemented by overseas visits, seminars, and training to enhance the competitiveness of employees in the workplace, as well as to improve the technical and management standards of the Company.

3) Retirement System

A Pension Supervisory Committee has been established to oversee the management and application of the pension fund to ensure the retirement rights of employees under the old system; for new employees, a retirement reserve is set aside in their personal accounts in accordance with the law.

4) Important agreements between employees and employers: Regular labor-management meetings.

5) Employee stock ownership trusts.

The Company has established a stock ownership trust committee in addition to making regular contributions to the statutory retirement account in accordance with the Labor Standards Law and the Labor Pension Act, which allows regular employees to make monthly deposits to purchase shares of the Company on a regular basis.

(2) Losses suffered in the recent year and up to date as a result of labor disputes: **No.**

(3) Expected future labor disputes and losses

1) In recent years, there have been no actual losses caused by labor disputes.

2) In order to seek harmony between employees and employers, the Company holds regular labor-management meetings in accordance with the law, and conducts open communication and

discussions on any questions, disputes or differences between employees and employers to ensure that employees understand the Company's policies, guidelines and regulations, and to eliminate disputes in the form of no disputes.

- 3) In order to enable all employees to understand the company's policies and guidelines, the communication skills of supervisors are strengthened through training or explanation sessions to avoid miscommunication resulting in employees' lack of understanding of the company's policies.
- 4) In order to maintain a sustainable operation, the Company will review the systems and measures from time to time and make appropriate adjustments in order to keep up with the times and improve the management system, so as to gain the recognition and trust of our employees and create the future together.

VI. Important Contracts

| Nature of Contract | Client | Contract Period | Description | Restrictions |
|--|---------------------------------|-------------------------|--|--------------|
| Information System Software and Hardware Maintenance Contracts | FEDEREX MARKETING CO., LTD. | 2021.01.01 ~ 2021.12.31 | Information system software maintenance service and computer equipment maintenance | No |
| Distributorship agreement | FEDEREX MARKETING CO., LTD. | 2020.01.01 ~ 2022.12.31 | Sales agent for Tires produced by Tai Fung | No |
| Contract of mandate | FEDEREX MARKETING CO., LTD. | 2020.01.01 ~ 2022.12.31 | Appointed to buy and sell tires | No |
| Property and Plant Lease contract | Tai Cheng Development Co., Ltd. | 2021.01.01 ~ 2021.12.31 | Lease of land and factory in Chung-Li City, Chung-Hua Road | No |
| Long-term loan | HUA NAN COMMERCIAL BANK , LTD | 2018.02.22 ~ 2038.02.22 | Mid and long term loan agreement | No |
| Land lease contract | Tai Xin Construction Co., Ltd. | 2021.01.0 ~ 2021.12.31 | Lease of land for parking containers and vehicles | No |

VI · Financial Status

1. Condensed Balance Sheet and Income Statement in the last five years

(1) Condensed Balance Sheet and Income Statement

CONDENSED BALANCE SHEET

Unit: NT\$1,000

| Item | Year | Financial information in the last five years | | | | | Financial Information as of 31 March of the current year 2021 |
|---|---------------------|--|------------|------------|------------|------------|---|
| | | 2016 | 2017 | 2018 | 2019 | 2020 | |
| Current Assets | | 4,196,839 | 4,341,899 | 3,553,384 | 4,167,690 | 5,061,611 | 4,422,242 |
| Property, Plant, Equipment | | 7,110,083 | 10,649,717 | 9,929,915 | 8,765,188 | 8,687,618 | 8,669,163 |
| Tangible Assets | | 32,567 | 16,966 | 26,305 | 18,661 | 10,531 | 11,481 |
| Other Assets | | 2,863,849 | 388,478 | 689,016 | 651,536 | 816,045 | 1,117,828 |
| Total Assets | | 14,203,338 | 15,397,060 | 14,198,620 | 13,603,075 | 14,575,805 | 14,220,714 |
| Current Liabilities | Before Distribution | 1,234,299 | 2,351,457 | 1,204,298 | 1,531,549 | 2,531,446 | 2,196,078 |
| | After Distribution | 1,281,632 | 2,351,457 | 1,204,298 | 1,531,549 | 2,540,913 | - |
| Noncurrent Liabilities | | 3,120,076 | 4,002,640 | 4,965,987 | 4,751,736 | 4,500,934 | 4,657,301 |
| Total Liabilities | Before Distribution | 4,354,375 | 6,354,097 | 6,170,285 | 6,283,285 | 7,032,380 | 6,853,379 |
| | After Distribution | 4,401,708 | 6,354,097 | 6,170,285 | 6,283,285 | 7,041,847 | - |
| Equity attributable to owners of the parent company | | 9,848,963 | 9,042,963 | 8,028,335 | 7,319,790 | 7,543,425 | 7,367,335 |
| Capital | | 4,733,292 | 4,733,292 | 4,733,292 | 4,733,292 | 4,733,292 | 4,733,292 |
| Capital Surplus | | 144,371 | 145,746 | 145,746 | 156,764 | 156,764 | 156,764 |
| Retained Earnings | Before Distribution | 5,220,608 | 4,492,090 | 3,263,457 | 2,584,233 | 2,675,169 | 2,400,250 |
| | After Distribution | 5,173,275 | 4,492,090 | 3,263,457 | 2,584,233 | 2,665,702 | - |
| Other Equalities | | (66,273) | (145,130) | 68,875 | 28,536 | 161,235 | 260,064 |
| Treasury Stocks | | (183,035) | (183,035) | (183,035) | (183,035) | (183,035) | (183,035) |
| Equities in predecessors under joint-control | | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Equalities | Before Distribution | 9,848,963 | 9,042,963 | 8,028,335 | 7,319,790 | 7,543,425 | 7,367,335 |
| | After Distribution | 9,801,630 | 9,042,963 | 8,028,335 | 7,319,790 | 7,533,958 | - |

Note: The above information has been audited (reviewed) by a certified public accountant.

CONDENSED INCOME STATEMENT

Unit: NT\$1,000

| Item \ Year | Financial information in the last five years | | | | | Financial Information as of March 31 of current year 2021 |
|--|--|-----------|-------------|-----------|-----------|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | |
| Operating Income | 5,331,318 | 5,585,443 | 5,008,113 | 4,541,002 | 5,704,663 | 548,931 |
| Gross profit | 1,081,932 | 689,897 | 347,260 | 685,815 | 1,302,019 | (15,340) |
| Operating income (loss) | 30,434 | (448,341) | (922,899) | (386,034) | 269,315 | (245,555) |
| Non-operating income and expenses | 15,735 | (264,941) | (462,459) | (276,394) | (104,326) | (13,726) |
| Net income (loss) before tax | 46,169 | (713,282) | (1,385,358) | (662,428) | 164,989 | (259,281) |
| Net income (loss) for the period from continuing business units | (9,276) | (698,126) | (1,239,294) | (660,770) | 135,945 | (259,928) |
| Loss from closed business units | 0 | 0 | 13,726 | (8,793) | (24,468) | (5,524) |
| Net income (loss) for the period | (9,276) | (698,126) | (1,225,568) | (669,563) | 111,477 | (265,452) |
| Other income (loss) for the period (net of tax) | (223,977) | (61,916) | (186,543) | (50,000) | 112,158 | 98,829 |
| Total (loss) income for the period | (233,253) | (760,042) | (1,412,111) | (719,563) | 223,635 | (166,623) |
| Net income (loss) attributable to owners of the parent company | (9,276) | (698,126) | (1,225,568) | (669,563) | 111,477 | (265,452) |
| Net income (loss) attributable to non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 |
| Total (loss) income attributable to owners of the parent company | (233,253) | (760,042) | (1,412,111) | (719,563) | 223,635 | (166,623) |
| Total (loss) income attributable to non-controlling equalities | 0 | 0 | 0 | 0 | 0 | 0.00 |
| Total (loss) income attributable to predecessor equalities under joint-control | 0 | 0 | 0 | 0 | 0 | 0.00 |
| Earnings per share | (0.02) | (1.52) | (2.67) | (1.46) | 0.24 | (0.58) |

Note: The above information has been audited (reviewed) by a certified public accountant.

(2) Individual condensed Balance Sheet and Income Statement

INDIVIDUAL CONDENSED BALANCE SHEET

Unit: NT\$1,000

| Year | | Financial information in the last five years | | | | |
|---|---------------------|--|------------|------------|------------|------------|
| | | 2016 | 2017 | 2018 | 2019 | 2020 |
| Item | | | | | | |
| Current Assets | | 2,013,530 | 2,442,995 | 2,399,157 | 2,796,448 | 3,801,433 |
| Property, Plant, Equipment | | 3,196,230 | 6,907,003 | 6,738,455 | 6,461,985 | 6,396,230 |
| Tangible Assets | | 32,567 | 16,966 | 26,305 | 18,661 | 10,531 |
| Other Assets | | 8,063,734 | 5,206,743 | 4,360,470 | 3,570,071 | 3,676,185 |
| Total Assets | | 13,306,061 | 14,573,707 | 13,524,387 | 12,847,165 | 13,884,379 |
| Current Liabilities | Before Distribution | 940,944 | 2,130,556 | 1,132,082 | 1,318,778 | 2,384,093 |
| | After Distribution | 988,277 | 2,130,556 | 1,132,082 | 1,318,778 | 2,393,560 |
| Noncurrent Liabilities | | 2,516,154 | 3,400,188 | 4,363,970 | 4,208,597 | 3,956,861 |
| Total Liabilities | Before Distribution | 3,457,098 | 5,530,744 | 5,496,052 | 5,527,375 | 6,340,954 |
| | After Distribution | 3,504,431 | 5,530,744 | 5,496,052 | 5,527,375 | 6,350,421 |
| Equity attributable to owners of the parent company | | 9,848,963 | 9,042,963 | 8,028,335 | 7,319,790 | 7,543,425 |
| Capital | | 4,733,292 | 4,733,292 | 4,733,292 | 4,733,292 | 4,733,292 |
| Capital Surplus | | 144,371 | 145,746 | 145,746 | 156,764 | 156,764 |
| Retained Earnings | Before Distribution | 5,220,608 | 4,492,090 | 3,263,457 | 2,584,233 | 2,675,169 |
| | After Distribution | 5,173,275 | 4,492,090 | 3,263,457 | 2,584,233 | 2,665,702 |
| Other Equalities | | (66,273) | (145,130) | 68,875 | 28,536 | 161,235 |
| Treasury Stocks | | (183,035) | (183,035) | (183,035) | (183,035) | (183,035) |
| Equities in predecessors under joint-control | | 0 | 0 | 0 | 0 | 0 |
| Total Equalities | Before Distribution | 9,848,963 | 9,042,963 | 8,028,335 | 7,319,790 | 7,543,425 |
| | After Distribution | 9,801,630 | 9,042,963 | 8,028,335 | 7,319,790 | 7,533,958 |

Note: The above information has been audited and certified by a certified public accountant.

INDIVIDUAL CONDENSED INCOME STATEMENT

UNIT: NT\$1,000

| Item \ Year | Financial information in the last five years | | | | |
|--|--|-----------|-------------|-----------|-----------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Operation Income | 3,687,768 | 4,136,328 | 4,188,813 | 4,274,885 | 5,399,165 |
| Operation gross income | 834,653 | 570,076 | 375,462 | 575,796 | 1,190,055 |
| Operation (loss) income | 26,665 | (373,734) | (554,582) | (335,766) | 253,999 |
| Non-operation income and expenditure | 2,201 | (332,798) | (822,881) | (345,165) | (128,571) |
| (Loss) Income before tax | 28,866 | (706,532) | (1,377,463) | (680,931) | 125,428 |
| (Loss) Income for the period from continuing business units | (9,276) | (698,126) | (1,225,568) | (669,563) | 111,477 |
| Loss of closed business units | 0 | 0 | 0 | 0 | 0 |
| Net income (loss) | (9,276) | (698,126) | (1,225,568) | (669,563) | 111,477 |
| Other income (Net after tax) | (223,977) | (61,916) | (186,543) | (50,000) | 112,158 |
| Total income | (233,253) | (760,042) | (1,412,111) | (719,563) | 223,635 |
| Net profit (loss) attributed to the owners of Parent Company | (9,276) | (698,126) | (1,225,568) | (669,563) | 111,477 |
| Net income attributable to non-controlling equities | 0 | 0 | 0 | 0 | 0 |
| Total (loss) income attributable to owners of the parent company | (233,253) | (760,042) | (1,412,111) | (719,563) | 223,635 |
| Net income attributable to non-controlling equities | 0 | 0 | 0 | 0 | 0 |
| Total (loss) income attributable to equities in predecessors under joint-control | 0 | 0 | 0 | 0 | 0 |
| Earnings per share | (0.02) | (1.52) | (2.67) | (1.46) | 0.24 |

Note: The above information has been audited and certified by a certified public accountant.

(3) Auditors and audit opinions in the last five years

| Year | Auditors | Audit Opinions |
|------|------------------------------|---------------------|
| 2020 | DU,pei-ling LIN,Chun-yiao | unqualified opinion |
| 2019 | DU,pei-ling LIN,Chun-yiao | unqualified opinion |
| 2018 | ONG, Shih-rong LIN,Chun-yiao | unqualified opinion |
| 2017 | ONG, Shih-rong LIN,Chun-yiao | unqualified opinion |
| 2016 | ONG, Shih-rong LIN,Chun-yiao | unqualified opinion |

2. Financial Analysis of the latest 5 years

(1) Financial Analysis

| Year Analysis item (note 2) | | Financial Analysis from 2016 to 2020 | | | | | As of 03/31/2021 |
|-----------------------------------|--|--------------------------------------|---------|---------|---------|--------|---------------------|
| | | 2016 | 2017 | 2018 | 2019 | 2020 | |
| Capital Structure (%) | Debts Ratio | 30.66 | 41.27 | 43.46 | 46.19 | 48.25 | 48.19 |
| | Long-term Fund to Property, Plant and Equipment | 182.40 | 122.50 | 130.86 | 137.72 | 138.64 | 138.71 |
| Liquidity Analysis (%) | Current Ratio | 340.02 | 184.65 | 295.06 | 272.12 | 199.95 | 201.37 |
| | Quick Ratio | 202.50 | 90.40 | 195.17 | 150.59 | 122.02 | 97.3 |
| | Times interest earned | 455.91 | N/A | N/A | N/A | 354.81 | N/A |
| Operating Performance | Average Collection Turnover (times) | 3.53 | 4.02 | 3.84 | 3.93 | 4.85 | 2.22 |
| | Days Sales Outstanding | 103 | 91 | 95 | 93 | 75 | 164 |
| | Average Inventory Turnover (times) | 3.57 | 3.36 | 3.27 | 3.55 | 4.22 | 1.97 |
| | Average Payment Turnover (times) | 5.47 | 6.34 | 6.97 | 6.08 | 5.15 | 2.78 |
| | Average Inventory Turnover Days | 102 | 109 | 112 | 103 | 86 | 185 |
| | Property, Plant and Equipment Turnover(times) | 0.75 | 0.63 | 0.49 | 0.49 | 0.65 | 0.25 |
| | Total Asset Turnover (times) | 0.39 | 0.38 | 0.34 | 0.33 | 0.40 | 0.15 |
| Profitability Analysis | Return on Total Asset | 0.01 | (4.45) | (7.93) | (4.37) | 1.16 | (7.04) |
| | Return on Equity (%) | (0.09) | (7.39) | (14.36) | (8.73) | 1.5 | (14.24) |
| | Pre-tax Income to Paid-in Capital Ratio (%) (note 7) | 0.98 | (15.07) | (29.27) | (14.00) | 3.49 | (21.91) |
| | Net Margin (%) | (0.17) | (12.50) | (24.47) | (14.74) | 1.95 | (48.36) |
| | Earnings per Share (NT\$) | (0.02) | (1.52) | (2.67) | (1.46) | 0.24 | (0.58) |
| Cash Flow | Cash Flow Ratio (%) | 72.10 | (28.12) | 33.40 | 30.49 | 23.46 | (36.99) |
| | Cash Flow Adequacy Ratio (%) | 161.89 | 98.88 | 83.20 | 73.29 | 51.17 | 78.29 |
| | Cash Reinvestment Ratio (%) | 4.32 | (3.76) | 2.09 | 2.84 | 3.56 | (4.92) |
| Leverage | Operating Leverage | 23.03 | N/A | N/A | N/A | 7.77 | N/A |
| | Financial Leverage | 1.74 | N/A | N/A | N/A | 1.32 | N/A |

Analysis of deviation of 2020 vs. 2019 over 20%:

1. Current ratio: In response to the capital needs, the decrease mainly due to the increase in short-term loans and long-term liabilities due within 1 year.
2. Times interest earned, return on total asset, return on equity, pre-tax income to paid-in capital ratio, net margin, earnings per share, operating leverage, and financial leverage: mainly due to the increase in profit of the year (out of the red).
3. Average collection turnover, property, plant and equipment turnover, and total asset turnover: mainly due to the increase in revenue of the year.
4. Cash flow ratio: In response to the capital needs, the decrease mainly due to the increase in short-term loans and long-term liabilities due within 1 year.

Individual Financial Analysis

| Year | | Financial Analysis from 2016 to 2020 | | | | |
|--|--|--------------------------------------|---------|---------|---------|--------|
| | | 2016 | 2017 | 2018 | 2019 | 2020 |
| analysis item (note 2) | | | | | | |
| Capital Structure (%) | Debts Ratio | 25.98 | 37.95 | 40.64 | 43.02 | 45.67 |
| | Long-term Fund to Property, Plant and Equipment | 386.87 | 180.15 | 183.90 | 178.40 | 179.8 |
| Liquidity Analysis (%) | Current Ratio | 213.99 | 114.66 | 211.92 | 212.05 | 159.45 |
| | Quick Ratio | 135.52 | 51.38 | 127.00 | 109.19 | 102.01 |
| | Times interest earned | 1,196.73 | N/A | N/A | N/A | 295.95 |
| Operating Performance | Average Collection Turnover (times) | 5.34 | 6.32 | 5.56 | 5.50 | 6.08 |
| | Days Sales Outstanding | 68 | 58 | 66 | 66 | 60 |
| | Average Inventory Turnover (times) | 5.05 | 4.13 | 3.91 | 4.50 | 5.63 |
| | Average Payment Turnover (times) | 4.94 | 5.99 | 6.70 | 6.31 | 5.63 |
| | Average Inventory Turnover Days | 72 | 88 | 93 | 81 | 65 |
| | Property, Plant and Equipment Turnover (times) | 1.22 | 0.82 | 0.61 | 0.65 | 0.84 |
| | Total Asset Turnover (times) | 0.29 | 0.30 | 0.30 | 0.32 | 0.40 |
| Profitability Analysis | Return on Total Asset (%) | (0.06) | (4.76) | (8.36) | (4.61) | 1.22 |
| | Return on Equity (%) | (0.09) | (7.39) | (14.36) | (8.73) | 1.5 |
| | Pre-tax Income to Paid-in Capital Ratio (%) (note 7) | 0.61 | (14.93) | (29.10) | (14.39) | 2.65 |
| | Net Margin (%) | (0.25) | (16.88) | (29.26) | (15.66) | 2.06 |
| | Earnings Per Share (NT\$) | (0.02) | (1.52) | (2.67) | (1.46) | 0.24 |
| Cash Flow | Cash Flow Ratio (%) | 63.37 | (32.41) | 39.16 | 15.26 | 21.39 |
| | Cash Flow Adequacy Ratio (%) | 108.10 | 65.37 | 57.62 | 43.69 | 33 |
| | Cash Reinvestment Ratio (%) | 3.29 | (4.71) | 2.83 | 1.34 | 3.34 |
| Leverage | Operating Leverage | 1.60 | N/A | N/A | N/A | 7.76 |
| | Financial Leverage | 1.11 | N/A | N/A | N/A | 1.34 |
| Analysis of deviation of 2020 vs. 2019 over 20%: 1. Current ratio: In response to the capital needs, the decrease mainly due to the increase in short-term loans and long-term liabilities due within 1 year. 2. Average inventory turnover: Mainly due to the increase in revenue and relative costs, and the decrease in average inventory vs. 2019. 3. Times interest earned, return on total asset, return on equity, pre-tax income to paid-in capital ratio, net margin, earnings per share, operating leverage, and financial leverage: Mainly due to the increase in profit of the year (out of the red). 4. Average collection turnover, property, plant and equipment turnover, and total asset turnover: Mainly due to the increase in revenue of the year. 5. Cash flow ratio: In response to the capital needs, the decrease mainly due to the increase in short-term loans and long-term liabilities due within 1 year. | | | | | | |

Note 1: The above information has been audited (reviewed) by the accountant.

Note 2: Glossary:

1. Capital Structure Analysis

(1) Debts Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Property, Plant and Equipment Ratio = (Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Net Noncurrent Assets Held for Sale - Prepaid Expenses - Other Current Assets) / Current Liabilities

(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

- (2) Days Sales Outstanding = $365 / \text{Average Collection Turnover}$
- (3) Average Inventory Turnover = $\text{Cost of Sales} / \text{Average Inventory}$
- (4) Average Payment Turnover = $\text{Cost of Sales} / \text{Average Trade Payables}$
- (5) Average Inventory Days = $365 / \text{Average Inventory Turnover}$
- (6) Property, Plant and Equipment Turnover = $\text{Net Sales} / \text{Average Net Property, Plant and Equipment}$
- (7) Total Asset Turnover = $\text{Net Sales} / \text{Average Total Assets}$

4. Profitability Analysis

- (1) Return on Total Asset = $(\text{Net Income} + \text{Interest Expenses} * (1 - \text{Tax Rate})) / \text{Average Total Assets}$
- (2) Return on Equity = $\text{Post-tax Loss} / \text{Average Equity}$
- (3) Net Margin = $\text{Post-tax Loss} / \text{Net Sales}$
- (4) Earnings Per Share = $(\text{Net Loss Attribute to Shareholders of the Patent} - \text{Preferred Stock Dividend} / \text{Weighted Average Number of Shares Outstanding (Note 3)})$

5. Cash Flow

- (1) Cash Flow Ratio = $\text{Net Cash Provided by Operating Activities} / \text{Current Liabilities}$
- (2) Cash Flow Adequacy Ratio = $\text{Five-year Sum of Cash from Operations} / \text{Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend}$
- (3) Cash Reinvestment Ratio = $(\text{Net Cash Provided by Operating Activities} - \text{Cash Dividends}) / (\text{Gross Property, Plant and Equipment} + \text{Long-term Investments} + \text{Other Noncurrent Assets} + \text{Working Capital})$ (Note 4)

6. Leverage

- (1) Operating Leverage = $(\text{Net Sales} - \text{Variable Cost}) / \text{Income from Operations}$ (Note 5)
- (2) Financial Leverage = $\text{Income from Operations} / (\text{Income from Operations} - \text{Interest Expense})$

Note 3: The above glossary of earnings per share, to which attention shall be paid in particular when measuring:

- 1. Weighted average number of common shares is adopted instead of the number of shares outstanding issued at the end of the year.
- 2. The weighted-average number of shares shall be calculated by considering the liquidity period of the shares in which the cash increase or treasury stock is traded.
- 3. Any capital increase out of earnings or capital surplus should be adjusted retroactively in proportion to the capital increase when calculating earnings per share for prior years and semi-annually, disregarding the issuance period of the capital increase.
- 4. If the preferred shares are non-convertible cumulative preferred shares, the dividends for the year, whether paid or not, should be deducted from net income after tax or increased by net loss after tax. If the preferred stock is non-cumulative, from which the net income shall be deducted under the circumstance of earning net income, in case of loss, such adjustment is not required.

Note 4: Matters should be noticed when measuring cash flow analysis as follow:

- 1. Net cash flow provided by operating activities represents the net cash inflow from operating activities in the cash flow chart.
- 2. Capital expenses represent the annual cash outflow from capital investments.
- 3. Inventory increases are included only if the final balance is greater than the initial balance, or zero if there is a decrease in inventory at the end of the year.
- 4. Cash dividends include cash dividends on common stock and preferred stock.
- 5. Gross property, plant and equipment represents the total value of property, plant and equipment before accumulated depreciation.

Note 5: Issuers should categorize operating costs and operating expenses into fixed and variable depending on their types, and where estimates or subjective judgments are involved, note the reasonableness and maintain consistency.

Note 6: If the Company's stock has zero par value or the per share value is not NT\$10, the calculation of the ratio of paid-in capital is changed to the ratio of equity attributable to shareholders of the parent in the balance sheet.

3.The Latest Annual Financial Report of Audit Committee's Review Report

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

4.Consolidated Financial Statement for The Latest Year

FEDERAL CORPORATION

Statement of Financial Report on Consolidation of Affiliated Enterprises

For the year ended December 31, 2020, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the company that is required to be included in the consolidated financial statements of affiliates, is the same as the company required to be included in the consolidated financial statements under International Financial Reporting Standards 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare consolidated financial statements of affiliates.

Hereby declare.

Company Name : FEDERAL CORPORATION

Person in charge : Shu-Jam Ma

March 26. 2021

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

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

(In thousands of New Taiwan Dollars)

| Assets | Note | December 31 2020 | | December 31 2019 | | |
|---------------------------|---|------------------|----------------------|------------------|----------------------|------------|
| | | Amount | % | Amount | % | |
| Current Assets | | | | | | |
| 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 | Total current assets | | <u>5,061,611</u> | <u>35</u> | <u>4,167,690</u> | <u>31</u> |
| Non Current Assets | | | | | | |
| 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 | Total noncurrent assets | | <u>9,514,194</u> | <u>65</u> | <u>9,435,385</u> | <u>69</u> |
| 1XXX | Total Assets | | <u>\$ 14,575,805</u> | <u>100</u> | <u>\$ 13,603,075</u> | <u>100</u> |

(Continued)

FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands of New Taiwan Dollars)

| Liabilities and Equity | Note | December 31 2020 | | December 31 2019 | | |
|---|---|------------------|----------------------|------------------|----------------------|------------|
| | | Amount | % | Amount | % | |
| Current Liabilities | | | | | | |
| 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 | Current Liabilities Total | | <u>2,531,446</u> | <u>17</u> | <u>1,531,549</u> | <u>11</u> |
| Non Current Liabilities | | | | | | |
| 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 | Total noncurrent liabilities | | <u>4,500,934</u> | <u>31</u> | <u>4,751,736</u> | <u>35</u> |
| 2XXX | Liabilities Total | | <u>7,032,380</u> | <u>48</u> | <u>6,283,285</u> | <u>46</u> |
| Equity | | | | | | |
| Capital stock | | | | | | |
| 3110 | Common Stock | 6 (17) | 4,733,292 | 32 | 4,733,292 | 35 |
| Capital Surplus | | | | | | |
| 3200 | Capital Surplus | 6 (18) | 156,764 | 1 | 156,764 | 1 |
| Retained earnings | | | | | | |
| 3310 | Legal reserve | 6 (19) | 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 | Total Equity | | <u>7,543,425</u> | <u>52</u> | <u>7,319,790</u> | <u>54</u> |
| Significant Contingent Liabilities and Unrecognized Contractual Commitments | | | | | | |
| Significant events after the reporting period | | | | | | |
| 3X2X | Total Liabilities and Equity | | <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

(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) | 11,985 | - | (28,823) | (1) |
| 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 expenses | | | | | |
| 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 and expenses | | <u>(104,326)</u> | <u>(2)</u> | <u>(276,394)</u> | <u>(6)</u> |
| 7900 Income (loss) before tax | | 164,989 | 3 | (662,428) | (15) |
| 7950 Tax (expenses) gains | 6 (27) | (29,044) | (1) | 1,658 | - |
| 8000 Net income (loss) for the period from continuing operations | | <u>135,945</u> | <u>2</u> | <u>(660,770)</u> | <u>(15)</u> |
| 8100 Discontinued department loss | 6 (6) | (24,468) | - | (8,793) | - |
| 8200 Net income (loss) | | <u>\$ 111,477</u> | <u>2</u> | <u>(\$ 669,563)</u> | <u>(15)</u> |

(Continued)

FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

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

| Item | Note | 2020 | | 2019 | |
|--|---|--------|-------------|--------|-------------------|
| | | Amount | % | Amount | % |
| Other comprehensive income(net) | | | | | |
| Items that are not reclassified to profit or loss | | | | | |
| 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 - |
| Items that may be reclassified subsequently to profit or loss | | | | | |
| 8361 | Exchange differences on translation of financial statements of foreign operating institutions | | 8,326 | - | (52,290) (1) |
| 8300 | Other comprehensive income(net) | | \$ 112,158 | 2 | (\$ 50,000) (1) |
| 8500 | Total comprehensive income | | \$ 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 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 STATEMENTS OF CHANGES IN EQUITY

Expressed in thousands of New Taiwan dollars

| | Note | Interests attributable to parent company owner | | | | | | | | |
|-----------------------------|--------|--|-----------------|-------------------|--------------|-----------------|---|---|---|-----------------|
| | | Share capital- common stock | Capital Surplus | Retained earnings | | | | Other 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 | Treasury Stocks |
| <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 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 STATEMENTS OF CASH FLOWS

Expressed in thousands of New Taiwan dollars

| | Note | 2020 | 2019 |
|---|------------|-------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| 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 |

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FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in thousands of New Taiwan dollars

| | Note | 2020 | 2019 |
|--|--------|--------------|--------------|
| <u>Investment activities cash flows</u> | | | |
| Increase in financial assets measured at amortized cost | | (\$ 103,664) | (\$ 6,509) |
| Acquisition of financial assets at fair value through profit or loss | | (45,000) | - |
| Acquisition of Property, Plant and Equipment | 6 (29) | (282,947) | (244,987) |
| Proceeds of Property, Plant and Equipment disposal | | 705 | 1,839 |
| Increase in Refundable Deposits | | (6,013) | (3,527) |
| Decrease in Refundable Deposits | | 6,204 | 10,692 |
| Other noncurrent assets – increase in others | | (127,845) | (17,536) |
| Net Cash outflow from investment activities | | (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 | | \$ 1,683,679 | \$ 1,325,434 |
| 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 | | \$ 1,683,679 | \$ 1,325,434 |

The accompanying notes 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 SUBSIDAIRIES
CONSOLIDATED FINANCIAL STATEMENTS WITH NOTES
THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Expressed in thousands of NTD
(Except as otherwise noted)

1. HISTORY AND ORGANIZATION

Federal Corporation (hereinafter "the Company") was established in November 1955 and renamed from its former name Tayfeng Rubber Industries Co., Ltd in October 1964. The Company's shares have been listed and traded on the Taiwan Stock Exchange since July 1979. The Company and its subsidiaries (hereinafter "the Group") are mainly engaged in the manufacturing and sale of automobile tires and rubber.

2. DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on 26 March 2021.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2020 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by</u> <u>International</u> <u>Accounting Standards</u> <u>Board</u> |
|---|---|
| Board Amendments to IAS 1 and IAS 8, 'Disclosure initiative-January 1, 2020 definition of material' January | January 1, 2020 |
| 2020Amendments to IFRS 3, 'Definition of a business' January | January 1, 2020 |
| 2020Amendments to IFRS 9, IAS 39 and IFRS7, 'Interest rate benchmarkreform' January | January 1, 2020 |
| Amendment to IFRS 16, 'Covid-19-related rent concessions' | June 1, 2020 (Note) |

Note : Earlier application from January 1, 2020 is allowed by FSC.

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2021 are as follows.

| | |
|---|-----------------|
| Amendments to IFRS 4, 'Extension of the temporary exemption from applying IFRS 9' | January 1, 2021 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, January 1, 2021 'Interest Rate Benchmark Reform— Phase 2' | January 1, 2021 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows.

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board</u> |
|---|---|
| Amendments to IFRS 3, 'Reference to the conceptual framework' | January 1, 2022 |
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting |
| IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IAS 1, 'Classification of liabilities as current or noncurrent' | January 1, 2023 |
| Amendments to IAS 1, 'Disclosure of accounting policies' | January 1, 2023 |
| Amendments to IAS 8, 'Definition of accounting estimates' | January 1, 2023 |
| Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use' | January 1, 2022 |
| Amendments to IAS 37. "onerous contracts – cost of fulfilling a contract" | January 1, 2022 |
| Annual improvements to IFRS Standards 2018–2020 | January 1, 2022 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

1. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (1) Financial Assets and Liabilities at fair value through profit or loss (including derivative instruments).
 - (2) Financial assets at fair value through profit or loss.
 - (3) Financial assets at fair value through other comprehensive income.
 - (4) Defined benefit liabilities recognized based on the net amount of pension fund assets less the present value of defined benefit obligations.
2. The preparation of financial statements, in conformity with IFRSs, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. The basis for preparation of consolidated financial statements is as follows:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

B. The subsidiaries included in the consolidated financial statements are as follows:

| <u>Name of investors</u> | <u>Name of subsidiary</u> | <u>Main business activities</u> | <u>Ownership (%)</u> | | <u>Description</u> |
|--------------------------|--|---|--------------------------|--------------------------|--------------------|
| | | | <u>December 31, 2020</u> | <u>December 31, 2019</u> | |
| The Company | FEDEREX MARKETING CO., LTD. (Federex) | Sales of various vehicle tire rims and parts | 100% | 100% | |
| The Company | Tai Xin Construction Co., Ltd. (Tai Xin) | Commissioning of residential buildings and rental and sales businesses | 100% | 100% | |
| The Company | Tai Cheng Development Co., Ltd. (Tai Cheng) | Commissioning of residential buildings and rental and sales businesses | 100% | 100% | |
| The Company | Highpoint Trading Ltd. (HTL) | Sales of various types of - vehicle tires | | 100% | Note 1 |
| The Company | Federal International Holding, Inc. (FIH) | General Investment | 100% | 100% | |
| FIH | Amberg Investments Pte. Ltd. (Amberg) | General Investment | 100% | 100% | |

| <u>Name of investors</u> | <u>Name of subsidiary</u> | <u>Main business activities</u> | <u>Ownership (%)</u> | | <u>Description</u> |
|--------------------------|---|---|--------------------------|--------------------------|--------------------|
| | | | <u>December 31, 2020</u> | <u>December 31, 2019</u> | |
| FIH | Chialilai Development Ltd. | Commercial buildings leasing businesses | 100% | 100% | |
| Amberg | Federal Tire (Jiangxi) Ltd. (Jiangxi Federal) | Manufacturing and sale of various tires and rubber products | 100% | 100% | |
| FIH | Federal Tire North America LLC.(FTNA) | Distribution of tires | 100% | 100% | |
| FIH | Winberg Investments Pte. Ltd.(Winberg) | General Investment | 100% | 100% | Note 3 |
| Winberg | Federal Tires (Shanghai) Limited (Shanghai Federal) | Sales of various vehicle tire rims and parts | - | 100% | Note 2 |

Note 1: HTL was liquidated on December 26, 2019 by resolution of the Board of Directors (acting as the shareholders' meeting) and has been in liquidation since May 2020, completing the liquidation process on October 19, 2020.

Note 2: Shanghai Federal was liquidated on September 30, 2019 by resolution of the board of directors (acting as the shareholders' meeting), and the liquidation process will be completed on May 28, 2020.

Note 3: Winberg was liquidated by resolution of the board of directors (acting as the shareholders' meeting) on December 31, 2020, and the liquidation has not been completed as of March 26, 2021.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary

assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (d) All foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

- (a) The operating results and financial position of all the subsidiaries, associates and jointly arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognized in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within 12 months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than 12 months after the balance sheet date.

The Group classifies all assets that do not meet the above criteria as non-current.

B. Liabilities are classified as current liabilities when one of the following conditions is met.

- (a) The liability is expected to be settled in the normal course of business.
- (b) Held primarily for trading purposes.
- (c) They are expected to be settled within 12 months after the balance sheet date.
- (d) The maturity date cannot be unconditionally extended to at least twelve months after the balance sheet date. The terms of the liabilities that may be settled by issuing equity instruments at the option of the counter-parties do not affect the classification.

The Group classifies all liabilities that do not meet the above criteria as non-current.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations (including time deposits with contract period less than 12 months) are classified as cash equivalents.

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Group recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at amortized cost

- 1. A financial asset is one that also meets the following criteria.
 - (1) The financial asset is held under an operating model whose objective is to collect the contractual cash flows.
 - (2) The contractual terms of the financial asset generate cash flows at a specific date, solely for the purpose of paying interest on the principal and outstanding principal amount.
- 2. The Group uses trade date accounting for financial assets measured at amortized cost in accordance with trading practice.
- 3. The Group measures financial assets at fair value plus transaction costs on initial recognition, and subsequently recognizes interest income and impairment losses over the liquidity period using the effective interest method under the amortization procedure, and recognizes the gains or losses in profit or loss when they are derecognized.
- 4. Time deposits held by the Group that do not meet the cash equivalents are measured at the investment amount because of the short holding period and the effect of discounting is not significant.

(9) Financial assets at fair value through other comprehensive income or loss

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(12) Derecognition of Financial Assets

Financial assets are derecognized when the Group's contractual rights to receive cash flows from the financial assets lapse.

(13) Inventories

Inventories are measured at the lower of cost or net realizable value and are inventoried on a perpetual basis, with cost determined by the weighted-average method. The cost of finished goods and work-in-process includes raw materials, direct labor, other direct costs and production-related manufacturing costs, but excludes borrowing costs. The lower of cost or net realizable value is determined on a line-by-line basis. Net realizable value is the estimated selling price in the ordinary course of business, less related variable selling expenses.

(14) Pending sale of Non Current Assets (or disposal groups)

When the carrying amount of a noncurrent asset (or disposal group) is recovered principally through a sale transaction rather than through continued use, and it is highly probable that the asset will be sold, it is classified as an asset held for sale and is measured at the lower of its carrying amount or fair value less costs to sell.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are audited, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of property, plant and equipment are as follows: Buildings: 5~50 years, Machinery equipment: 2~25 years, Operating Equipment: 2~13 years and other equipment: 2-13 years.

(16) Leasing arrangements (lessee) – right-of-use assets/ lease liabilities

A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

B. Lease liabilities are recognized at the present value of the lease payments that have not been paid at the discounted interest rate of the Group's incremental borrowings on the lease commencement date. The lease payments include fixed payments, minus any lease incentives that can be received.

Subsequent use of the interest method is measured by the amortized cost method, and interest expenses are provided during the lease period. When the lease term or lease payment changes due to non-contract modification, the lease liability will be reassessed and the right-of-use asset will be re-measured.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

(a) The amount of the initial measurement of lease liability. and

(b) Any lease payments made at or before the commencement date.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(17) Investment property

An investment property is stated initially at its cost and measured subsequently using the fair value model. Gains or losses arising from changes in the fair value of investment property are recognized in profit or loss in the period in which they occur.

(18) Intangible Assets

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

(19) Impairment of Non Financial Assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(20) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(21) Notes and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(22) Derecognition of financial liabilities

The Group derecognizes financial liabilities upon the performance, cancellation or maturity of the obligations contained in the contracts.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense when it can no longer withdraw an offer of termination benefits or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(24) Income tax

A. The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. A deferred tax asset shall be recognized for the carry forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(25) Share Capital

1. The incremental costs directly attributable to the issuance of new shares or stock options are recorded as a deduction from Equity, net of income taxes.
2. When the Company repurchases outstanding shares, the consideration paid includes any incremental costs directly attributable to the issuance of new shares or stock options and is recognized as a deduction from Equity, net of income taxes. Upon subsequent issuance of repurchased shares, the difference between the consideration received and the carrying amount, net of any directly attributable incremental costs and income tax effects, is recognized as an adjustment to stockholders' equity.

(26) Dividends distribution

Dividends distributed to the Company's shareholders are recognized in the financial statements when the Company's stockholders resolve to distribute the dividends. Cash dividends are recognized as Liabilities and stock dividends are recognized as stock dividends to be distributed and are reclassified to common stock on the basis date of issuance of new shares.

(27) Revenue recognition

Sales of goods

1. The Company manufactures and sells tire-related products, and sales revenue is recognized when control of the products is transferred to the customer, i.e., when the products are delivered to the customer, the customer has discretion over the access and price of the products sold, and the Company has no outstanding performance obligations that may affect the acceptance of the products by the wholesaler. Delivery of merchandise occurs when the product is delivered to the designated location, the risk of obsolescence and loss has been transferred to the wholesaler, and the customer accepts the product in accordance with the

sales contract or when there is objective evidence that all acceptance criteria have been met.

2. Sales revenue is recognized at the contract price less estimated sales tax, sales returns, volume discounts and discounts. Revenue is recognized to the extent that it is highly probable that there will be no material reversal in the future and is updated on each balance sheet date. Discounts on sales related to estimated sales payable to customers as of the balance sheet date are recognized as a refund liability. The collection terms of sales transactions are usually due 45 to 120 days after the shipment date. The Company does not adjust the transaction price to reflect the time value of money because the time lag between the transfer of the promised goods or services to the customer and the customer's payment does not exceed one year.
3. The Company provides a standard warranty on the products sold and has a refund obligation for product defects, for which a liability provision is recognized at the time of sale.
4. Accounts receivable are recognized when the goods are delivered to the customer because the Company has an unconditional right to the contract price from that point onward and only requires time to collect the consideration from the customer.

(28) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the enterprise will comply with the conditions attached to the government grant and that the grant will be received. If the nature of the government grant is to compensate the Group for expenses incurred, the government grant is recognized in profit or loss on a systematic basis in the period in which the related expenses are incurred.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. These estimates and assumptions have the risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year. There are no instances of uncertainty in the Group's significant accounting judgments. Please refer to the following description of the uncertainty of significant accounting estimates and assumptions.

Critical accounting assumptions and estimates

1. Valuation of Accounts Receivable

As the Group's accounts receivable are estimated to be doubtful based on historical experience and other known reasons or objective evidence of doubtful accounts, the assessment of accounts receivable may not result in the collection of the current deductions recorded as accounts receivable. This allowance for doubtful accounts is based on the probability of future collection and is therefore subject to significant change.

As of December 31, 2010, the carrying amount of the Group's accounts receivable was \$1,155,058.

2. Evaluation of inventory

As inventories are to be denominated at a low cost and net realizable value, the Group must use judgment and estimation to determine the net realized value of the balance sheet's daily inventory. As a result of rapid technological changes, the Group assesses the amount of balance sheet daily inventory due to normal wear and tear, obsolete or marketable sales value and dilutes inventory costs to a net realized value. This inventory evaluation is based primarily on estimates of product demand for a specific period in the future and may result in significant changes.

As at 31 December 2020, the book value of the Group's inventory was \$957,573.

6.DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash on hand and petty cash | \$ 1,675 | \$ 49,524 |
| Checking accounts and demand deposits | 705,206 | 1,028,289 |
| Time deposits | 378,184 | 204,864 |
| Cash equivalents- Repurchase Notes | <u>596,376</u> | <u>36,978</u> |
| Total | <u>\$ 1,681,441</u> | <u>\$ 1,319,655</u> |

1. The credit quality of the financial institutions dealing with the Group is good, and the Group interacts with a number of financial institutions to spread credit risk, the probability of default is very low.
2. On December 31, 2020 and 2019, the Group classified deposits of more than 3 months or more into financial assets at amortized costs current \$167,221 and \$62,568, respectively, of which the provision of security as a pledge is provided in Note 8.

(2) Financial assets at fair value through profit or loss

| <u>Item</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Current Item : | | |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Beneficiary certificates | \$ 45,000 | \$ - |
| Forward Exchange | <u>-</u> | <u>663</u> |
| | 45,000 | 663 |
| Valuation adjustment | <u>38</u> | <u>-</u> |
| Total | <u>\$ 45,038</u> | <u>\$ 663</u> |

1. The Group recognized net profit of \$1,290 and (\$1,802) in relation to financial assets at fair value through profit or loss for the years ended December 31, 2020 and 2019, respectively.
2. Information on the nature of transactions and contracts of non-hedging derivative financial instruments is described as follows:

| <u>Financial Product</u> | <u>December 31, 2020</u> | |
|-----------------------------------|---------------------------|--------------------|
| | <u>Notional principal</u> | <u>Expiry Date</u> |
| Presale Forward Exchange Contract | USD - | - |

| <u>Financial Product</u> | <u>December 31, 2019</u> | |
|-----------------------------------|---------------------------|---------------------------|
| | <u>Notional principal</u> | <u>Notional principal</u> |
| Presale Forward Exchange Contract | USD 1,500 | 2020/1/6~2020/1/15 |

The forward foreign exchange transactions signed by the Group are pre-sale (selling US dollars to buy Taiwan dollars) and are to avoid the exchange rate risk of import and export prices, but no risk-averse accounting is applicable.

- The Group has not pledged financial assets measured at fair value through profit or loss.
- The risks associated with financial assets measured at fair value through profit and loss should be described in Note 12 (2).

(3) Financial assets at fair value through other comprehensive income or loss

| <u>Item</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------------------------|--------------------------|--------------------------|
| Non Current Item : | | |
| Equity Instrument | | |
| Unlisted, OTC, and Emerging stocks | \$ 17,449 | \$ 17,449 |
| Valuation adjustment | <u>374,001</u> | <u>249,628</u> |
| Total | <u>\$ 391,450</u> | <u>\$ 267,077</u> |

- The breakdown of the recognized profits and losses and consolidated profits and losses of financial assets at fair value through other comprehensive profits and losses is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|------------------|
| <u>Equity instruments at fair value through other comprehensive income</u> | | |
| Fair value change recognized in other comprehensive income | <u>\$ 124,373</u> | <u>\$ 11,951</u> |
| Dividend income recognized in profit or loss | <u>\$ 6,324</u> | <u>\$ 6,324</u> |

- The Group has not pledged financial assets measured at fair value through other comprehensive income or loss as collateral.
- Please refer to Note 12(2) for information on the credit risk of financial assets at fair value through other comprehensive income or loss.

(4) Notes and accounts receivable

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------|--------------------------|--------------------------|
| Notes Receivable | <u>\$ 31,380</u> | <u>\$ 39,516</u> |
| Accounts Receivable | \$ 1,272,750 | \$ 1,004,738 |
| Less: Allowance for loss | <u>(117,692)</u> | <u>(129,667)</u> |
| | <u>\$ 1,155,058</u> | <u>\$ 875,071</u> |

1. The ageing analysis of accounts receivable that were past due but not impaired is as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-----------------|--------------------------|--------------------------|
| Not past due | \$ 1,045,825 | \$ 769,928 |
| Up to 30 days | 92,110 | 50,101 |
| 31 to 90 days | 6,079 | 3,781 |
| 91 to 180 days | 2,974 | 16,389 |
| 181 to 365 days | - | 67,414 |
| Over 365 days | <u>125,762</u> | <u>97,125</u> |
| | <u>\$ 1,272,750</u> | <u>\$ 1,004,738</u> |

The above aging analysis was based on past due date.

2. As at 31 December 2020 and 2019, the Group's notes receivable are not overdue.
3. The balance of accounts receivable and notes receivable as at 31 December 2020 and December 31, 2019 are generated by the Customer Contract, and the balance of accounts receivable and notes receivable under the Client Contract as at 1 January 2019 is \$1,256,426.
4. As at 2020 and 31 December 2019, the Group's holdings of collateral as security for accounts receivable were real estate and term deposits in the amounts of \$48,926 and \$97,765, respectively.
5. As at December 31, 2020, and 2019, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable were \$31,380 and \$39,516 respectively; the amounts most likely to represent the Group's accounts receivable at 31 December 2020 and 31 December 2019 are \$1,155,058 and \$875,071, respectively.
6. Information relating to credit risk is provided in Note 12(2).

(5) Inventories

1. Details of inventory are as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Raw Materials | \$ 168,853 | \$ 202,318 |
| Materials | 120,845 | 106,214 |
| Work in process | 93,885 | 92,010 |
| Finished Products | 527,781 | 587,064 |
| Merchandise Inventories | 26,065 | 40,629 |
| In-transit inventories | <u>59,981</u> | <u>62,023</u> |
| | 997,410 | 1,090,258 |
| Less: Allowance for reduction of inventory to market | <u>(39,837)</u> | <u>(52,003)</u> |
| Total | <u>\$ 957,573</u> | <u>\$ 1,038,255</u> |

(1) Merchandise inventories represent the inventories of Federex and Jiangxi Federal.

(2) Inventories in transit are the Group's raw materials in transit.

2. The cost of inventories recognized as expense for the year:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|---------------------|---------------------|
| Cost of goods sold | \$ 4,414,892 | \$ 3,882,293 |
| (Gain on reversal) of inventories | (12,166) | (29,138) |
| Other | <u>(82)</u> | <u>2,032</u> |
| | <u>\$ 4,402,644</u> | <u>\$ 3,855,187</u> |

(1) The Group had a reversal benefit from the sale of inventories that were previously recorded as impairment loss and slow-moving inventory.

(2) Other inventory-related gains and losses represent the proceeds from the sale of downgraded inventory, inventory gains and losses, and inventory obsolescence.

(6) Pending Sale of Non Current Assets and discontinued operating segment

1. Pending sale of non Current Assets to be sold

On 22 March 2019, the Board of Directors of Jiangxi Federal resolved that, in view of the loss-making status of Jiangxi Federal and the loss of its cost advantage, the Group intends to sell the relevant equipment of the production division and reclassify the relevant assets as non-current assets held for sale in the best interest of the Group. The non-current assets held for sale belong to the business unit in Asia.

Assets of disposal groups pending sale :

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Property, Plant and Equipment – Machinery Equipment | | |
| Costs | \$ 2,436,583 | \$ 2,395,107 |
| Accumulated depreciation and Impairment | <u>(2,267,578)</u> | <u>(2,228,978)</u> |
| Total | <u>\$ 169,005</u> | <u>\$ 166,129</u> |

The non-current asset held for sale was premeasured at the lower of its carrying amount or fair value less costs to sell and was not impaired in 2020. An impairment loss of \$203,741 was recorded under other gains and losses after re-measurement in 2019.

2. Discontinued Operating segment

The Group disposed of its entire equity interest in Tai Xin, a subsidiary of the Company, on 13 November 2019 by resolution of the Board of Directors of the Company, and the assets and liabilities related to Tai Xin have been transferred to the disposal group for sale and expressed as a discontinued unit by meeting the definition of a discontinued unit.

(1) Cash flow information on discontinued Operating segment as flows:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-----------------|
| Cash flows from operating activities | (\$ 3,755) | \$ 4,772 |
| Cash flow from financing activities | <u>214</u> | <u>(2,614)</u> |
| Total cash flow | <u>(\$ 3,541)</u> | <u>\$ 2,158</u> |

(2) Assets of disposal groups classified as held for sale:

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-------------------------------|--------------------------|--------------------------|
| Cash | \$ 2,238 | \$ 5,779 |
| Tax Assets | 1 | 12 |
| Prepayments | - | 29 |
| Property, Plant and Equipment | 513,946 | 513,946 |

| | | |
|---------------------|-------------------|-------------------|
| Right-of-use Assets | 1,172 | 2,344 |
| Deferred tax assets | 8,318 | 10,675 |
| Refundable Deposits | <u>200</u> | <u>200</u> |
| Total | <u>\$ 525,875</u> | <u>\$ 532,985</u> |

(3) Liabilities of disposal groups classified as held for sale

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-------------------------------|--------------------------|--------------------------|
| Other Payables | \$ 306 | \$ 161 |
| Lease Liabilities-Current | 1,190 | 1,172 |
| Deferred tax Liabilities | 62,114 | 62,114 |
| Lease Liabilities-Non Current | - | 1,190 |
| Other Current Liabilities | <u>5</u> | <u>-</u> |
| Total | <u>\$ 63,615</u> | <u>\$ 64,637</u> |

(4) Analyses of the operating results of the discontinued units and the remeasurement results of the groups to be disposed of were as follows:

| | <u>2020</u> | <u>2019</u> |
|---|--------------------|-------------------|
| Operating expenses | (\$ 22,097) | (\$ 21,908) |
| Total non-operating incomes and expenses | <u>(9)</u> | <u>16,962</u> |
| Discontinued Operating segment net (loss) income before tax | (22,106) | (4,946) |
| Income tax expense | <u>(2,362)</u> | <u>(3,847)</u> |
| Discontinued Operating segment net (loss) income after tax | <u>(\$ 24,468)</u> | <u>(\$ 8,793)</u> |

(5) Income from continuing and discontinued operations attributable to owners of the parent company: Please refer to Note 6(28).

(7)Property, Plant and Equipment

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery equipment</u> | <u>Operating equipment</u> | <u>Other</u> | <u>Under construction</u> | <u>Total</u> |
|---|---------------------|---------------------|----------------------------|----------------------------|---------------------|---------------------------|---------------------|
| At January 1, 2020 | | | | | | | |
| cost | \$ 3,424,491 | \$ 1,893,115 | \$ 6,166,929 | \$ 324,850 | \$ 1,670,481 | \$ 204,527 | \$ 13,684,393 |
| Accumulated depreciation and impairment | <u>-</u> | <u>(443,418)</u> | <u>(2,855,928)</u> | <u>(215,501)</u> | <u>(1,404,358)</u> | <u>-</u> | <u>(4,919,205)</u> |
| | <u>\$ 3,424,491</u> | <u>\$ 1,449,697</u> | <u>\$ 3,311,001</u> | <u>\$ 109,349</u> | <u>\$ 266,123</u> | <u>\$ 204,527</u> | <u>\$ 8,765,188</u> |
| <u>At January 1, 2020</u> | \$ 3,424,491 | \$ 1,449,697 | \$ 3,311,001 | \$ 109,349 | \$ 266,123 | \$ 204,527 | \$ 8,765,188 |
| Additions | - | - | 9,093 | 4,332 | 150,628 | 195,302 | 359,355 |
| Disposals | - | - | - | (40) | - | - | (40) |
| Transfer | 13,431 | 11,347 | 175,326 | 10,220 | 5,326 | (224,924) | (9,274) |
| Depreciation | - | (39,277) | (258,350) | (25,582) | (102,639) | - | (425,848) |
| Net exchange differences | <u>(1,996)</u> | <u>1,263</u> | <u>-</u> | <u>18</u> | <u>163</u> | <u>(1,211)</u> | <u>(1,763)</u> |
| December 31 | <u>\$ 3,435,926</u> | <u>\$ 1,423,030</u> | <u>\$ 3,237,070</u> | <u>\$ 98,297</u> | <u>\$ 319,601</u> | <u>\$ 173,694</u> | <u>\$ 8,687,618</u> |
| At December 31, 2020 | | | | | | | |
| Cost | \$ 3,435,926 | \$ 1,909,086 | \$ 6,327,520 | \$ 316,179 | \$ 1,819,840 | \$ 173,694 | \$ 13,982,245 |
| Accumulated depreciation and impairment | <u>-</u> | <u>(486,056)</u> | <u>(3,090,450)</u> | <u>(217,882)</u> | <u>(1,500,239)</u> | <u>-</u> | <u>(5,294,627)</u> |
| | <u>\$ 3,435,926</u> | <u>\$ 1,423,030</u> | <u>\$ 3,237,070</u> | <u>\$ 98,297</u> | <u>\$ 319,601</u> | <u>\$ 173,694</u> | <u>\$ 8,687,618</u> |

| | <u>Land</u> | <u>Land improvements</u> | <u>Buildings</u> | <u>Machinery Equipment</u> | <u>Operating Equipment</u> | <u>Other</u> | <u>Under construction</u> | <u>Total</u> |
|---|---------------------|--------------------------|---------------------|--------------------------------|--------------------------------|-------------------|---------------------------|---------------------|
| January 1, 2019 | | | | | | | | |
| Cost | \$ 3,696,868 | \$ 227,989 | \$ 1,877,489 | \$ 8,539,360 | \$ 257,987 | \$ 1,565,969 | \$ 551,296 | \$ 16,716,958 |
| Accumulated depreciation and impairment | - | - | (404,226) | (4,857,528) | (204,116) | (1,321,173) | - | (6,787,043) |
| | <u>\$ 3,696,868</u> | <u>\$ 227,989</u> | <u>\$ 1,473,263</u> | <u>\$ 3,681,832</u> | <u>\$ 53,871</u> | <u>\$ 244,796</u> | <u>\$ 551,296</u> | <u>\$ 9,929,915</u> |
| <u>2019</u> | | | | | | | | |
| January 1, | \$ 3,696,868 | \$ 227,989 | \$ 1,473,263 | \$ 3,681,832 | \$ 53,871 | \$ 244,796 | \$ 551,296 | \$ 9,929,915 |
| Additions | 14,211 | - | 15,429 | - | - | 288 | 220,322 | 250,250 |
| Disposals | - | - | - | (6,412) | (213) | (27) | - | (6,652) |
| Transfer | - | - | 16,348 | 325,713 | 78,048 | 123,138 | (567,091) | (23,844) |
| Depreciation | - | - | (47,739) | (313,317) | (21,336) | (92,543) | - | (474,935) |
| Transfer to non-current assets held for sale | (285,957) | (227,989) | - | (360,395) | - | - | - | (874,341) |
| Impairment loss | - | - | - | - | (976) | (9,130) | - | (10,106) |
| Net exchange differences | (631) | - | (7,604) | (16,420) | (45) | (399) | - | (25,099) |
| December 31 | <u>\$ 3,424,491</u> | <u>\$ -</u> | <u>\$ 1,449,697</u> | <u>\$ 3,311,001</u> | <u>\$ 109,349</u> | <u>\$ 266,123</u> | <u>\$ 204,527</u> | <u>\$ 8,765,188</u> |
| At December 31, 2019 | | | | | | | | |
| Cost | \$ 3,424,491 | \$ - | \$ 1,893,115 | \$ 6,166,929 | \$ 324,850 | \$ 1,670,481 | \$ 204,527 | \$ 13,684,393 |
| Accumulated depreciation and impairment | - | - | (443,418) | (2,855,928) | (215,501) | (1,404,358) | - | (4,919,205) |
| | <u>\$ 3,424,491</u> | <u>\$ -</u> | <u>\$ 1,449,697</u> | <u>\$ 3,311,001</u> | <u>\$ 109,349</u> | <u>\$ 266,123</u> | <u>\$ 204,527</u> | <u>\$ 8,765,188</u> |

1. The amount of property, plant and equipment borrowing costs capitalization and the interest rate range.

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-------------|--------------------|
| Capitalization amount | <u>\$ -</u> | <u>\$ 855</u> |
| Capitalized interest rate range | <u>-</u> | <u>1.43%~1.71%</u> |

2. For information on guarantees provided by property, plant and equipment, please refer to Note 8.

(8) Leasing arrangements – lessee

1. The subject assets of the Group's leases include land, buildings and buses, and the lease agreements are usually for periods ranging from 1 to 50 years. The leases are negotiated on an individual basis and contain various terms and conditions, with no restrictions except that the leased assets cannot be used as collateral for loans.
2. Some of the buildings and business vehicles leased by the Group do not exceed 12 months, and the subject assets leased are office equipment with low value and are not recognized as right-of-use assets.
3. The carrying value of the right-of-use assets and the depreciation expense recognized were as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| | <u>Book Amount</u> | <u>Book Amount</u> |
| Land Use Rights | \$ 22,587 | \$ 23,055 |
| Buildings | 13,601 | 22,862 |
| Transportation Equipment(Office Vehicle) | <u>7,862</u> | <u>10,389</u> |
| | <u>\$ 44,050</u> | <u>\$ 56,306</u> |
| | <u>2020</u> | <u>2019</u> |
| | <u>Depreciation</u> | <u>Depreciation</u> |
| Land Use Rights | \$ 851 | \$ 889 |
| Buildings | 11,959 | 13,853 |
| Transportation Equipment(Office Vehicle) | <u>5,903</u> | <u>5,501</u> |
| | \$ 18,713 | \$ 20,243 |
| Less: Depreciation expense for discontinued operations | <u>(1,172)</u> | <u>(1,172)</u> |
| Total | <u>\$ 17,541</u> | <u>\$ 19,071</u> |

4. On 21 May 2002, the Group entered into a contract with the Jiangxi Provincial Government of the People's Republic of China for the fixed land use right in Nanchang City, Jiangxi Province for a term of 50 years, which was fully paid at the time of signing the lease.
5. The additions to the Group's right-of-use assets for 2020 and 2019 are \$11,025 and \$6,285.

6. The information on income and expense accounts relating to lease contracts is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|-----------------|
| <u>Items affecting profit or loss</u> | | |
| Interest expense of lease liabilities | \$ 425 | \$ 680 |
| Expense for short-term lease contract | 2,872 | 6,217 |
| Expense for low-value lease assets | <u>1,246</u> | <u>1,051</u> |
| Sub total | \$ 4,543 | \$ 7,948 |
| Less: Expense for discontinued Operating segment | <u>(34)</u> | <u>(48)</u> |
| | <u>\$ 4,509</u> | <u>\$ 7,900</u> |

7. For the years ended December 31, 2020 and 2019, the Group's total cash outflow for leases was \$22,203 and \$26,906, respectively.

(9) Impairment of non-financial assets

1. The Group recognized reversal of impairment loss for the years ended December 31, 2020 and 2019 was \$0 and \$213,847, respectively. Details of such gain are as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------------------------|-------------------------------------|
| | <u>Recognized in profit or loss</u> | <u>Recognized in profit or loss</u> |
| Impairment loss – Pending sale of Non Current Assets | \$ - | \$ 203,741 |
| Impairment loss – Machinery Equipment | - | - |
| Impairment loss – Operating Equipment | - | 976 |
| Impairment loss – Other Equipment | <u>-</u> | <u>9,130</u> |
| | <u>\$ -</u> | <u>\$ 213,847</u> |

(1) In 2020, Federal Tire (Jiangxi) Ltd.(Jiangxi Federal) reassessed the machinery and equipment that had been reclassified as non-current assets held for sale. Although the progress of disposal was not as expected due to the weak market demand, no impairment loss was recognized for the non-current assets held for sale that were reassessed by experts commissioned by Jiangxi Federal.

(2) In 2019, Federal Tire (Jiangxi) Ltd.(Jiangxi Federal) transformed into a sales and logistics center and transferred the original production machinery and equipment to non-current assets held for sale. However, due to the weak market demand, the progress of disposal was not as expected, therefore, the non-current assets held for sale of Jiangxi Federal showed signs of impairment and an impairment loss of \$213,847 was recognized.

The recoverable amount was obtained from the appraisal report that determined the value of the property, plant and equipment after considering the physical, functional and economic depreciation rates of each asset based on the cost valuation method with reference to the general market practice of buying and selling of machinery and equipment and the receivership, service life and depreciation of machinery and equipment.

3. A breakdown of the above impairments by segment is disclosed below:

| | <u>2020</u> | | <u>2019</u> | |
|-------------|---|---|---|---|
| | <u>Recognized in profit or loss</u> | <u>Recognized in other comprehensive income</u> | <u>Recognized in profit or loss</u> | <u>Recognized in other comprehensive income</u> |
| Asia region | \$ - | \$ - | \$ 213,847 | \$ - |

(10) Investment Property

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|------------------|------------------|
| At January 1 | \$ 60,323 | \$ 70,094 |
| Adjusted gains (loss) at fair value | 5,479 | (8,726) |
| Net exchange differences | (2,964) | (1,045) |
| December 31 | <u>\$ 62,838</u> | <u>\$ 60,323</u> |

1. The fair values of the Group's investment properties held in Xuhui District, Shanghai, People's Republic of China, amounting to \$62,838 and \$60,323 as of December 31, 2020 and 2019, respectively, are based on the valuation by independent valuation experts, which is based on the income approach and is a Level 3 fair value with the following key assumptions.

- (1) The Group used the discounted cash flow analysis method of the income approach. The valuation method was used to determine the annual rental growth rate with reference to local rents and comparable rental information of the subject property, and to estimate the rental income for the next ten years as future cash inflows after considering vacancy losses, and discounted to the valuation date, and the discount rate was determined as described in (2). The discount rate was determined as described in (2). In addition, the closing disposal value of the subject property was calculated by discounting the operating income of the subject property for the coming year to the valuation date after deducting the expenses under normal operating conditions, and the closing disposal value plus the discounted rental income of the aforementioned periods is the market value. Future cash outflows are related to taxes, insurance premiums, management fees, and maintenance fees that are directly related to the lease. The rate of change used for future changes in status is consistent with the rental growth rate and discount rate used to calculate rental income.
- (2) The discount rate was determined based on the interest rate of the two-year postal time deposit plus three cents, taking into consideration the risk reward borne by the Group, and the liquidity, risk, value-added and ease of management of the subject property, and the discount rate was estimated to be 2.75% and 1.90% as of December 31, 2020 and 2019, respectively.
- (3) The main use of the investment properties is office or residential, and the monthly rent of the local and similar subjects will be \$372~\$488 per square meter in 2020 and \$402~\$447 per square meter in 2019, respectively.
- (4) The Group's investment properties were not leased and did not generate any income or expense in 2020 and 2019.
- (5) The fair values of the Group's investment properties as of December 31, 2020 and 2019 are based on the appraisal reports issued by Yang Chang-da, appraiser of Cushman & Wakefield property service, and Wang Jun-xiong, appraiser of Guan- Hong Property Appraisal Company, with appraisal dates of December 31, 2020 and December 30, 2019, respectively.

2. Please refer to Note 12(3) for the fair value of investment properties.

3. As of December 31, 2020 and 2019, the Group's investment properties are not pledged.

(11) Intangible Assets

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| <u>Computer software</u> | | |
| At January 1 | | |
| Cost | \$ 106,653 | \$ 104,074 |
| Accumulated amortization and impairment | (87,992) | (77,769) |
| | <u>\$ 18,661</u> | <u>\$ 26,305</u> |
| At January 1 | \$ 18,661 | \$ 26,305 |
| Transfer | - | 2,579 |
| Amortization expense | (8,130) | (10,223) |
| December 31 | <u>\$ 10,531</u> | <u>\$ 18,661</u> |
| December 31 | | |
| Cost | \$ 106,653 | \$ 106,653 |
| Accumulated amortization and impairment | (96,122) | (87,992) |
| | <u>\$ 10,531</u> | <u>\$ 18,661</u> |

1. Intangible Assets amortization details as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------|-----------------|------------------|
| Administration expenses | <u>\$ 8,130</u> | <u>\$ 10,223</u> |

2. The Group has not provided guarantees with intangible assets.

(12) Other Non Current Assets

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------|--------------------------|--------------------------|
| Prepayment for Equipment | \$ 123,992 | \$ 22,295 |
| Unamortization expense | 46,757 | 84,185 |
| Other assets-Other | 2,506 | 2,505 |
| | <u>\$ 173,255</u> | <u>\$ 108,985</u> |

(13) Short-term borrowings

| <u>Type of borrowings</u> | <u>December 31, 2020</u> | <u>Interest rate range</u> | <u>Type of borrowings</u> | <u>December 31, 2019</u> | <u>Interest rate range</u> |
|-----------------------------------|--------------------------|----------------------------|-----------------------------------|--------------------------|----------------------------|
| Bank credit loan | \$ 360,464 | 0.90%~0.99% | Bank credit loan | \$ 44,970 | 3.74% |
| Bank loans for material purchases | <u>567,046</u> | 0.70%~1.85% | Bank loans for material purchases | <u>472,105</u> | 1.85%~3.41% |
| | <u>\$ 927,510</u> | | | <u>\$ 517,075</u> | |

(14) Other Payables

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------------|--------------------------|--------------------------|
| Equipment payable | \$ 145,996 | \$ 69,588 |
| Transportation payable | 194,188 | 92,020 |
| Salaries payable | 91,872 | 81,152 |

| | | |
|---------------|-------------------|-------------------|
| Bonus payable | 61,415 | 28,803 |
| Other | <u>202,670</u> | <u>157,300</u> |
| | <u>\$ 696,141</u> | <u>\$ 428,863</u> |

Other payables - other is a summary of other payables with a single account balance not exceeding 5% of the account balance.

(15) Long-term Loans

| <u>Type of borrowings</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| Bank Guaranteed Loans | | |
| Plant construction and purchase of equipment | \$ 4,102,864 | \$ 4,175,728 |
| Less: Long-term loans due within one year or one business cycle | <u>(297,593)</u> | <u>(123,810)</u> |
| | <u>\$ 3,805,271</u> | <u>\$ 4,051,918</u> |
| Borrowing interest rate | <u>1.12%~1.52%</u> | <u>1.43%~1.71%</u> |

1. In January 2018, the Group re-signed a long-term loan contract with Hua Nan Bank for a term of 20 years with a total credit amount of \$3,250,000 and borrowed \$3,250,000 to repay all the long-term loans listed in the account, with the outstanding amount of \$3,250,000 as of December 31, 2020 and 2019; and repay the principal by installments as agreed. The principal is repayable by installments.

In June 2010, the Group entered into a long-term incremental loan contract with a total credit amount of \$2,541,000 and borrowing amount of \$115,969 with Hua Nan Commercial Bank for a term of 10 years.

As of December 31, 2020, the outstanding amount is \$115,969; the principal is repayable by installments.

2. In May 2018, the Group entered into a long-term loan contract with Wing Fung Bank for a term of 7 years with a total credit amount of \$400,000, with outstanding amounts of \$257,118 and \$314,284 as of December 31, 2020 and 2019, respectively; the principal amount is repayable by installments as agreed.
3. In May 2018, the Group entered into a long-term loan contract with Shin Kong Bank for a term of 7 years with a total credit amount of \$300,000, with outstanding amounts of \$152,000 and \$217,000 as of December 31, 2020 and 2019, respectively; the principal amount is repayable by installments as agreed.
4. In October 2018, the Group entered into a long-term loan contract with Chang Hwa Bank for a term of 7 years with a total credit amount of \$400,000, with outstanding amounts of \$327,777 and \$394,444 as of December 31, 2020 and 2019, respectively; and the principal is repayable by installments as agreed.
5. Please refer to Note 8 for the guarantee of the above long-term loans.

(16)Pensions

1. Defined benefit plan

- (1) The Company and its domestic subsidiaries operate a defined benefit pension plan, in accordance with the Labor Standards Law, which covers all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last six months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 10% and 4% of employees' monthly salaries and wages to a retirement fund at the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make a lump-sum withdrawal of the difference before the end of March of the following year.

- (2) The amounts recognized in the balance sheet are as follows:

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | (\$ 299,014) | (\$ 283,012) |
| Fair value of plan assets | <u>152,234</u> | <u>133,837</u> |
| Net defined benefit liability | <u>(\$ 146,780)</u> | <u>(\$ 149,175)</u> |

- (3) Movements in net defined benefit liabilities are as follows

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liabilities |
|---|--|---------------------------|---------------------------------|
| Balance | | | |
| At January 1 2020 | (\$ 283,013) | \$ 133,838 | (\$ 149,175) |
| Current service cost | (4,466) | - | (4,466) |
| Interest (expense) income | (1,966) | 980 | (986) |
| Past service cost | - | - | - |
| | <u>(289,445)</u> | <u>134,818</u> | <u>(154,627)</u> |
| Remeasurements: | | | |
| Return on plan assets (not including the amount included in interest income or expense) | - | 4,459 | 4,459 |
| Change in demographic assumptions | (70) | - | (70) |
| Change in financial assumptions | (12,280) | - | (12,280) |
| Experience adjustments | <u>(12,650)</u> | <u>-</u> | <u>(12,650)</u> |
| | <u>(25,000)</u> | <u>4,459</u> | <u>(20,541)</u> |
| Pension fund contribution | - | 28,388 | 28,388 |
| Paid pension | <u>15,431</u> | <u>(15,431)</u> | <u>-</u> |
| Balance at December 31 | <u>(\$ 299,014)</u> | <u>\$ 152,234</u> | <u>(\$ 146,780)</u> |

| 2019 | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liabilities |
|---|---|---------------------------|------------------------------------|
| Balance at January 1 | (\$ 292,460) | \$ 106,153 | (\$ 186,307) |
| Current Service Cost | (4,823) | - | (4,823) |
| Interest (expense) income | (2,840) | 1,042 | (1,798) |
| Past service cost | <u>2,325</u> | <u>-</u> | <u>2,325</u> |
| | <u>(297,798)</u> | <u>107,195</u> | <u>(190,603)</u> |
| Remeasurements: | | | |
| Return on plan assets (not including the amount included in interest income or expense) | - | 4,368 | 4,368 |
| Change in demographic assumptions | (559) | - | (559) |
| Change in financial assumptions | (8,766) | - | (8,766) |
| Experience adjustments | <u>(4,704)</u> | <u>-</u> | <u>(4,704)</u> |
| | <u>(14,029)</u> | <u>4,368</u> | <u>(9,661)</u> |
| Pension fund contribution | - | 51,089 | 51,089 |
| Paid pension | <u>28,814</u> | <u>(28,814)</u> | <u>-</u> |
| Balance at December 31 | <u>(\$ 283,013)</u> | <u>\$ 133,838</u> | <u>(\$ 149,175)</u> |

- (4) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). Relating condition of execution is supervised by Labor Funds Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings are less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2020 and 2019 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.
- (5) The principal actuarial assumptions used were as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------|-------------|-------------|
| Discount rate | 0.30%~0.35% | 0.70%~0.80% |
| Future salary increases | 1.00%~2.00% | 1.00%~2.00% |

The assumptions for future mortality are based on the fifth experience life table of the Taiwan life insurance industry.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | <u>Discount rate</u> | | <u>Future salary increase rate</u> | |
|---|-----------------------|-----------------------|------------------------------------|-----------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| <u>December 31, 2020</u> | | | | |
| Effect on present value of defined benefit obligation | <u>(\$ 7,740)</u> | <u>\$ 8,036</u> | <u>\$ 7,876</u> | <u>(\$ 7,628)</u> |
| <u>December 31, 2019</u> | | | | |
| Effect on present value of defined benefit obligation | <u>(\$ 7,255)</u> | <u>\$ 7,537</u> | <u>\$ 7,414</u> | <u>(\$ 7,175)</u> |

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(6) Expected contributions to the defined benefit pension plans of the Group and its domestic subsidiaries for the year ending December 31, 2021 amounts to \$13,204.

(7) As of December 31, 2020, the weighted average duration of the retirement plan is 7-10 years.

The analysis of timing of the future pension payment was as follows:

| | |
|---------------|----------------|
| Within 1 year | \$ 18,955 |
| 1-5 years | 51,192 |
| Over 5 years | <u>236,840</u> |
| | \$ 306,987 |

2. Defined contribution plans

(1) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(2) The Company's mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(3) The foreign subsidiaries contribute 6.2% of the total salary to the pension fund in accordance with the relevant local government employment law, and the Group has no further obligation other than making monthly contributions.

(4) The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2020 and 2019 were \$27,169 and \$27,077, respectively.

(17)Share capital

1. As of December 31, 2020, the Company has a paid-in capital of \$4,733,292, divided into 473,329,000 shares, with a stated capital of \$10,000,000. Each share has a par value of \$10. Payment for all issued shares has been received. A reconciliation of the number of outstanding shares of the Company's common stock at the beginning and at the end of the period is as follows:

| | | |
|-----------------------------------|--------------------|--------------------|
| | <u>2020 (Note)</u> | <u>2019 (Note)</u> |
| At January 1(same as December 31) | <u>473,329</u> | <u>473,329</u> |

Note: (1) The unit is thousands of shares.

(2) Before deducting the number of shares of the Company held by subsidiaries.

2. Treasury Stocks

- (1) The Securities and Exchange Act stipulates that the number of shares repurchased by the Company shall not exceed 10% of the total number of issued shares, and the total amount of shares repurchased shall not exceed the amount of retained earnings plus the share premium and realized capital surplus.
- (2) The treasury stock held by the Company may not be pledged under the Securities and Exchange Act and may not be entitled to shareholders' rights until it is transferred.
- (3) The breakdown of the Company's shares held by the Company as of December 31, 2020 and 2019 is as follows:

| | | <u>December 31, 2020</u> | | <u>Fair Value/Share</u> |
|-----------|---------------------------|--------------------------|--------------------|-------------------------|
| | <u>Reason of Recovery</u> | <u>Shares (in 1,000)</u> | <u>Book Amount</u> | |
| Federex | Purpose of investment | 7,842 | \$ 116,469 | \$ 19.70 |
| Tai Cheng | Purpose of investment | 5,913 | 66,566 | 19.70 |

| | | <u>December 31, 2019</u> | | <u>Fair Value/Share</u> |
|-----------|----------------------------|--------------------------|--------------------|-------------------------|
| | <u>Reason for recovery</u> | <u>Shares (in 1,000)</u> | <u>Book Amount</u> | |
| Federex | Purpose of investment | 7,842 | \$ 116,469 | \$ 13.95 |
| Tai Cheng | Purpose of investment | 5,913 | 66,566 | 13.95 |

(18)Capital Surplus

In accordance with the Company Law, capital surplus from the issuance of shares in excess of par value and capital surplus from gifts may be used to offset losses, and new shares or cash may be issued in proportion to the shareholders' original shares when the Company has no accumulated losses. In accordance with the Securities and Exchange Act, the total amount of the above capital surplus shall not exceed 10% of the paid-in capital each year. The Company may not use the capital surplus to supplement the capital surplus unless there is still a shortfall in the capital surplus to cover the capital deficit.

The changes for the years 2020 and 2019 are as follows

| | <u>Common Stock Premium</u> | <u>Treasury Stocks Transactions</u> | <u>Donated Assets</u> | <u>Total</u> |
|-----------------------------------|---------------------------------|---|-----------------------|-------------------|
| 2020 | | | | |
| At January 1(same as December 31) | <u>\$ 37,860</u> | <u>\$ 107,735</u> | <u>\$ 11,169</u> | <u>\$ 156,764</u> |
| | <u>Common Stock Premium</u> | <u>Treasury Stocks Transactions</u> | <u>Donated Assets</u> | <u>Total</u> |
| 2019 | | | | |
| At January 1 | \$ 37,860 | \$ 107,735 | \$ 151 | \$ 145,746 |
| Occurring from gift receiving | - | - | 11,018 | 11,018 |
| December 31 | <u>\$ 37,860</u> | <u>\$ 107,735</u> | <u>\$ 11,169</u> | <u>\$ 156,764</u> |

Dividends received as a result of a gift are unclaimed by the shareholders after five years or more.

(19) Retained earnings

1. In accordance with the Company's Articles of Incorporation, if there is any surplus in the annual final accounts, after deducting taxes, making up for prior years' deficits, setting aside 10% of the legal reserve and setting aside a special reserve in accordance with the regulations, if there is any remaining balance in the year, the Board of Directors shall give priority to the distribution of dividends to preferred shares for the year, and then the remaining balance, together with the undistributed earnings (including adjusted undistributed earnings) at the beginning of the period, shall prepare a proposal for the distribution of earnings and submit it to the Board of Directors shall prepare a proposal for the distribution of earnings and submit it to the shareholders' meeting for approval of dividend distribution.

2. The Company's dividend policy is as follows.

The Company's industry is currently in a mature stage. Considering future capital needs and financial planning, and taking into account the interests of shareholders, the Board of Directors shall, depending on the operating conditions, prepare a proposal for the distribution of earnings between 5% and 50% and submit it to the shareholders' meeting; in the case of cash dividends, a resolution shall be made by a majority of the Board of Directors with at least two-thirds of the directors present and reported to the shareholders' meeting. Cash dividends are preferred over stock dividends, and stock dividends may be distributed at a rate of not more than 80% of the total amount of dividends; however, if there are significant investment plans and future development, the surplus may be retained.

3. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of the legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital. °

4. Appropriated Retained Earnings

(1) In accordance with the regulations, the Company shall set aside a special reserve for the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the reversed amount should be included in the distributable earnings.

(2) Upon the initial adoption of IFRSs, the special reserve set aside under the letter No. Financial-Supervisory-Securities-Issuing-1010012865 dated April 6, 2012 is reversed in proportion to the original special reserve set aside when the Company subsequently uses, disposes of or reclassifies the related assets, and if the aforementioned related assets are investment properties, the land portion is reversed upon disposal or reclassification, and the portion other than land is reversed period by period during use.

5. Distribution of surplus

(1) The Company resolved at the shareholders' meeting on June 19, 2020 not to distribute earnings due to an operating loss in fiscal 2019; and resolved at the shareholders' meeting on June 17, 2019 not to distribute earnings.

(2) On March 26, 2021, the Board of Directors proposed the following distribution of earnings for 2020.

| | 2020 | |
|--------------------------------|----------|-----------------------------|
| | Amount | Earnings per share (in NTD) |
| Legal reserve | \$ 3,071 | - |
| Appropriated Retained Earnings | 1,591 | - |
| Cash Dividend | 9,467 | \$ 0.02 |

The aforementioned proposal for the distribution of earnings for fiscal 2020 has not been resolved by the shareholders' meeting as of March 26, 2021.

6. Please refer to Note 6(26) for information on the remuneration of employees and remuneration of directors and supervisors.

(20) Operating revenue

| | 2020 | 2019 |
|---------------------------------------|---------------------|---------------------|
| Revenue from contracts with customers | <u>\$ 5,704,663</u> | <u>\$ 4,541,002</u> |

1. Breakdown of revenue from customer contracts:

The Group's revenue is derived from goods and services transferred at a point in time and can be subdivided into the following main geographical areas.

| 2020 | Domestic | Asia | America | Total |
|---|--------------------|-------------------|--------------------|--------------------|
| Segment income | \$5,647,500 | \$ 42,354 | \$1,441,867 | \$7,131,721 |
| Internal segment transaction income | (1,427,058) | - | - | (1,427,058) |
| Income from external customer contracts | <u>\$4,220,442</u> | <u>\$ 42,354</u> | <u>\$1,441,867</u> | <u>\$5,704,663</u> |
| Revenue recognized at a point of time. | <u>\$4,220,442</u> | <u>\$ 42,354</u> | <u>\$1,441,867</u> | <u>\$5,704,663</u> |
| 2019 | Domestic | Asia | America | Total |
| Segment income | \$4,548,628 | \$ 148,694 | \$1,061,055 | \$5,758,377 |
| Internal segment transaction income | (1,205,510) | (11,865) | - | (1,217,375) |
| Income from external customer contracts | <u>\$3,343,118</u> | <u>\$ 136,829</u> | <u>\$1,061,055</u> | <u>\$4,541,002</u> |
| Revenue recognized at a point of time. | <u>\$3,343,118</u> | <u>\$ 136,829</u> | <u>\$1,061,055</u> | <u>\$4,541,002</u> |

Note: Classified by the location of the operating segment.

2. Pending sale of Liabilities

(1) The Group recognized contract liabilities related to customer contract revenue as follows:

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|-----------------------|-------------------|-------------------|------------------|
| Contract Liabilities | | | |
| - Advance Receivables | <u>\$ 36,515</u> | <u>\$ 25,557</u> | <u>\$ 32,014</u> |

(2) Beginning contract liabilities recognized as revenue

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| Opening balance of contract liabilities recognized as revenue in the current period | | |
| Advance resemles | <u>\$ 12,565</u> | <u>\$ 20,185</u> |

(21)Interest income

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|------------------|
| Bank deposit interest | \$ 7,755 | \$ 10,872 |
| Interest income on financial assets measured at amortized cost | <u>425</u> | <u>1,157</u> |
| | 8,180 | 12,029 |
| Less: Interest incomes of discontinued operating segment | <u>(19)</u> | <u>(41)</u> |
| | <u>\$ 8,161</u> | <u>\$ 11,988</u> |

(22)Other income

| | <u>2020</u> | <u>2019</u> |
|-----------------------|------------------|------------------|
| Dividend income | \$ 6,324 | \$ 6,324 |
| Other incomes — Other | <u>8,713</u> | <u>28,506</u> |
| | <u>\$ 15,037</u> | <u>\$ 34,830</u> |

(23)Other gains and loss

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|---------------------|
| Disposal gains (loss) of Property, Plant and Equipment | \$ 665 | (\$ 4,813) |
| Foreign exchange loss | (66,934) | (13,526) |
| Gain (loss) on financial assets at fair value through profit or loss | 1,290 | (1,802) |
| Gain (loss) on fair value adjustment of investment property | 5,479 | (8,726) |
| Non Financial Assets | - | (213,847) |
| Impairment loss | - | - |
| Other gains and loss | <u>(3,273)</u> | <u>(2,131)</u> |
| | <u>(\$ 62,773)</u> | <u>(\$ 244,845)</u> |

(24)Financial costs

| | <u>2020</u> | <u>2019</u> |
|---|-------------|---------------|
| Interest expense | \$ 64,779 | \$ 79,268 |
| Less: Amount of assets capitalized that meet the criteria | <u>-</u> | <u>(855)</u> |

| | | |
|--|------------------|------------------|
| | 64,779 | 78,413 |
| Less: Financial cost of discontinued Operating segment | (<u>28</u>) | (<u>46</u>) |
| Total | <u>\$ 64,751</u> | <u>\$ 78,367</u> |

(25) Additional information on the nature of costs and expenses (including discontinued operations)

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Employee benefit expense | \$ 929,032 | \$ 828,723 |
| Property, Plant and Equipment Depreciation | 425,848 | 474,935 |
| Right-of-use Assets Depreciation | 18,713 | 20,243 |
| Intangible Assets Amortization expense | 8,130 | 10,223 |
| Other Non Current Assets Amortization expense | 77,134 | 129,048 |
| | <u>\$ 1,458,857</u> | <u>\$ 1,463,172</u> |

(26) Employee benefit expense (including discontinued Operating segment)

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-------------------|-------------------|
| Wages and salaries | \$ 786,793 | \$ 693,119 |
| Labor and health insurance fees | 72,679 | 69,017 |
| Pension costs | 32,621 | 31,373 |
| Other personnel expenses | 36,940 | 35,214 |
| | <u>\$ 929,033</u> | <u>\$ 828,723</u> |

1. In accordance with the Company's Articles of Incorporation, if there is any remaining balance after deducting accumulated losses from the Company's profit for the year, the Company should provide not less than 1% for employees and not more than 3% for directors and supervisors.
2. The estimated amount of employee compensation and remuneration to directors and supervisors for fiscal 2020 is \$665, which is recorded as salary expense. The compensation of employees and directors and supervisors has not been estimated or recorded due to the lack of profit in fiscal year of 2019.
For the year 2020, the estimated amount is based on the profitability as of the end of the year and is estimated based on the percentage set by the Company's Articles of Incorporation (estimated at 1%).
3. Information on the remuneration of employees and directors and supervisors resolved by the shareholders' meeting can be found on the Market Observation Post System.

(27).Income tax

1. Components of income tax expense:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|-------------------|
| Current tax: | | |
| Current tax on profit for the year | \$ 11,977 | \$ 13,365 |
| Over provision of prior year's income tax | <u>8</u> | <u>(1)</u> |
| Total current tax | <u>11,985</u> | <u>13,364</u> |
| Deferred tax : | | |
| Origination and reversal of temporary differences | <u>19,421</u> | <u>(11,175)</u> |
| Deferred tax Total | <u>19,421</u> | <u>(11,175)</u> |
| Income tax expense | 31,406 | 2,189 |
| Less: Income tax attributable to discontinued operating segment | <u>(2,362)</u> | <u>(3,847)</u> |
| Income tax expense (gains) | <u>\$ 29,044</u> | <u>(\$ 1,658)</u> |

2. Reconciliation between income tax expense and accounting profit:

| | <u>2020</u> | <u>2019</u> |
|---|------------------|-------------------|
| Income tax on net income (loss) before income tax at statutory tax rate (Note) | \$ 28,236 | (\$ 196,320) |
| Income tax effect of items adjusted according to the law | (1,145) | (838) |
| Deferred income tax assets not recognized for temporary differences | (1,411) | 50,519 |
| Change in assessment of realizability of deferred income tax assets | (5,386) | 27,960 |
| Deferred income tax assets not recognized for tax losses | 11,104 | 120,869 |
| Over provision of prior year's income tax | 8 | (1) |
| Less: Income tax gains (expense) attributable to discontinued operating segment | <u>(2,362)</u> | <u>(3,847)</u> |
| Income tax gains | <u>\$ 29,044</u> | <u>(\$ 1,658)</u> |

Note: The applicable tax rate is based on the tax rate applicable to the income of the relevant country.

| | | | | |
|--|--------------------|------------------|---------------|--------------------|
| Less: Deferred tax Liabilities attributable to discontinued operating segment | 62,114 | - | - | 62,114 |
| Sub total | <u>(537,202)</u> | <u>4,960</u> | <u>462</u> | <u>(531,780)</u> |
| Total | <u>(\$428,838)</u> | <u>\$ 11,175</u> | <u>\$ 512</u> | <u>(\$417,151)</u> |

4.Expiration dates of unused taxable loss and amounts of unrecognized deferred tax assets are as follows:

(1)The Company and domestic subsidiaries :

| <u>December 31, 2020</u> | | | | |
|--------------------------|------------------------------|----------------------|---|---------------------|
| <u>Year incurred</u> | <u>Amount filed/assessed</u> | <u>Unused amount</u> | <u>Unrecognized Deferred tax assets</u> | <u>Usable until</u> |
| 2011 | \$ 22,146 | \$ 22,146 | \$ 10,356 | 2021 |
| 2012 | 20,272 | 20,272 | 8,482 | 2022 |
| 2013 | 15,269 | 15,269 | 3,480 | 2023 |
| 2014 | 6,220 | 6,220 | - | 2024 |
| 2017 | 348,738 | 321,378 | 107,909 | 2027 |
| 2018 | 398,442 | 398,442 | 398,442 | 2028 |
| 2019 | 516,626 | 516,626 | 516,626 | 2029 |
| 2020 | <u>19,151</u> | <u>19,151</u> | <u>19,151</u> | 2030 |
| | <u>\$ 1,398,215</u> | <u>\$ 1,319,504</u> | <u>\$ 1,064,446</u> | |

| <u>December 31, 2019</u> | | | | |
|--------------------------|------------------------------|----------------------|---|---------------------|
| <u>Year incurred</u> | <u>Amount filed/assessed</u> | <u>Unused amount</u> | <u>Unrecognized Deferred tax assets</u> | <u>Usable until</u> |
| 2010 | \$ 20,135 | \$ 20,135 | \$ 8,345 | 2020 |
| 2011 | 22,146 | 22,146 | 10,356 | 2021 |
| 2012 | 20,272 | 20,272 | 8,482 | 2022 |
| 2013 | 15,269 | 15,269 | 3,480 | 2023 |
| 2014 | 6,220 | 6,220 | - | 2024 |
| 2016 | 51,351 | 51,351 | - | 2026 |
| 2017 | 348,738 | 348,738 | 146,309 | 2027 |
| 2018 | 398,442 | 398,442 | 398,442 | 2028 |
| 2019 | <u>505,343</u> | <u>505,343</u> | <u>505,343</u> | 2029 |
| | <u>\$ 1,387,916</u> | <u>\$ 1,387,916</u> | <u>\$ 1,080,757</u> | |

(2)Subsidiaries in China:

| <u>December 31, 2020</u> | | | | |
|--------------------------|------------------------------|----------------------|---|---------------------|
| <u>Year incurred</u> | <u>Amount filed/assessed</u> | <u>Unused amount</u> | <u>Unrecognized Deferred tax assets</u> | <u>Usable until</u> |
| 2017 | \$ 120,534 | \$ 120,534 | \$ 120,534 | 2022 |
| 2018 | 304,613 | 304,613 | 304,613 | 2023 |
| 2019 | 79,204 | 79,204 | 79,204 | 2024 |
| 2020 | <u>29,095</u> | <u>29,095</u> | <u>29,095</u> | 2025 |
| | <u>\$ 533,446</u> | <u>\$ 533,446</u> | <u>\$ 533,446</u> | |

December 31, 2019

| <u>Year incurred</u> | <u>Amount filed/assessed</u> | <u>Unused amount</u> | <u>Unrecognized Deferred tax assets</u> | <u>Usable until</u> |
|----------------------|------------------------------|----------------------|---|---------------------|
| 2017 | \$ 120,534 | \$ 120,534 | \$ 120,534 | 2022 |
| 2018 | 304,613 | 304,613 | 304,613 | 2023 |
| 2019 | <u>79,204</u> | <u>79,204</u> | <u>79,204</u> | 2024 |
| | <u>\$ 504,351</u> | <u>\$ 504,351</u> | <u>\$ 504,351</u> | |

5. The amounts of deductible temporary differences that were not recognized as deferred tax assets are as follows:

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|----------------------------------|--------------------------|--------------------------|
| Deductible temporary differences | <u>\$ 862,453</u> | <u>\$ 854,099</u> |

6. The Company and its subsidiaries – Federex, Tai Xin, and Tai Cheng's income tax returns through 2018 have been assessed and approved by the Tax Authority.

(28)Earnings per share

| | <u>2020</u> | | |
|--|-------------------------|---|--|
| | <u>Amount after tax</u> | <u>Weighted average number of ordinary shares outstanding (shares in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 135,945 | <u>459,574</u> | \$ 0.30 |
| Net loss attributable to discontinued operating segment of the parent | <u>(24,468)</u> | | <u>(0.06)</u> |
| Net income attributable to the common shareholders of the parent | <u>\$ 111,477</u> | | <u>\$ 0.24</u> |
| <u>Diluted Earnings per share(loss)</u> | | | |
| Net income for the period attributable to common stockholders of the parent company from continuing operations | \$ 135,945 | 459,574 | |
| Effect of dilutive potential common stock on employee compensation | <u>—</u> | <u>34</u> | |
| Net income attributable to the parent's common shareholders of the continuing business unit plus the effect of potential common shares | 135,945 | <u>459,608</u> | \$ 0.30 |
| Net loss attributable to discontinued operating segment | <u>(24,468)</u> | | <u>(0.06)</u> |

| | | |
|---|-------------------|----------------|
| Net profit for the period attributable to ordinary shareholders of the parent | <u>\$ 111,477</u> | <u>\$ 0.24</u> |
|---|-------------------|----------------|

| | <u>2019</u> | | |
|--|-------------------------|---|--|
| | <u>Amount after tax</u> | <u>Weighted average number of ordinary shares outstanding (shares in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic loss per share</u> | | | |
| Current net loss attributable to continued operating segment of the parent | (\$ 660,770) | 459,574 | (\$ 1.44) |
| Attributable to the parent company's Discontinued Operating segment | <u>(8,793)</u> | | <u>(0.02)</u> |
| Common shares attributable to the parent company | | | |
| Net loss to shareholders | <u>(\$ 669,563)</u> | | <u>(\$ 1.46)</u> |
| <u>Diluted loss per share</u> | | | |
| Effect of net loss plus potential common shares for the period attributable to continuing operations | (\$ 660,770) | 459,574 | (\$ 1.44) |
| Net loss attributable to the parent company's discontinued operating segment | <u>(8,793)</u> | | <u>(0.02)</u> |
| net loss attributable to common shareholders of the parents | <u>(\$ 669,563)</u> | | <u>(\$ 1.46)</u> |

(29) Supplementary cash flow information

Investing activities that are only partially paid in cash.

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Purchase of Property, Plant and Equipment | \$ 359,355 | \$ 250,250 |
| Add: Beginning payable for equipment | 69,588 | 65,180 |
| Less: Ending payable for equipment | (145,996) | (69,588) |
| Less: Interest capitalized | - | (855) |
| Cash paid | <u>\$ 282,947</u> | <u>\$ 244,987</u> |

(30) Changes of liabilities from financing activities

| | <u>Short-term borrowings</u> | <u>Long-term Loans</u> | <u>Lease Liabilities</u> | <u>Total liabilities from financing activities</u> |
|---------------------------------|------------------------------|------------------------|--------------------------|--|
| January 1, 2020 | \$ 517,075 | \$ 4,175,728 | \$ 33,299 | \$ 4,726,102 |
| Changes in financing cash flows | 410,435 | (72,864) | (18,094) | 319,477 |

| | | | | |
|---------------------------------|-------------------|--------------------|------------------|---------------------|
| Effect of exchange rate changes | - | - | (814) | (814) |
| Other non-cash changes | <u>-</u> | <u>-</u> | <u>7,033</u> | <u>7,033</u> |
| December 31, 2020 | <u>\$ 927,510</u> | <u>\$4,102,864</u> | <u>\$ 21,424</u> | <u>\$ 5,051,798</u> |

| | <u>Short-term</u> <u>borrowings</u> | <u>Long-term</u> <u>Loans</u> | <u>Lease</u> <u>Liabilities</u> | <u>Total</u> <u>liabilities</u> <u>from</u> <u>financing</u> <u>activities</u> |
|---------------------------------|--|----------------------------------|------------------------------------|--|
| January 1, 2019 | \$ 451,874 | \$4,238,430 | \$ 46,990 | \$ 4,737,294 |
| Changes in financing cash flows | 65,201 | (62,702) | (19,646) | (17,147) |
| Effect of exchange rate changes | - | - | (1,540) | (1,540) |
| Other non-cash changes | <u>-</u> | <u>-</u> | <u>7,495</u> | <u>7,495</u> |
| December 31, 2019 | <u>\$ 517,075</u> | <u>\$4,175,728</u> | <u>\$ 33,299</u> | <u>\$ 4,726,102</u> |

7. RELATED PARTY TRANSACTIONS

(1) The Group has no material related party transactions in 2020 and 2019.

(2) Key Management compensation

| | <u>2020</u> | <u>2019</u> |
|------------------------------|------------------|------------------|
| Short-term employee benefits | \$ 18,597 | \$ 25,957 |
| Post-employment benefits | <u>207</u> | <u>1,013</u> |
| Total | <u>\$ 18,804</u> | <u>\$ 26,970</u> |

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| <u>Asset Item</u> | <u>Book value</u> | | <u>Purpose</u> |
|--------------------------------------|--------------------------|--------------------------|--|
| | <u>December 31, 2020</u> | <u>December 31, 2019</u> | |
| Financial Assets at amortized Cos | \$ 861 | \$ 611 | Export Guarantee Letters |
| -Current | | | |
| Property, Plant and Equipment | | | |
| -Land | 1,410,176 | 1,410,176 | Long-term Loans |
| -Buildings | 1,171,033 | 1,197,853 | Long-term Loans |
| -Machinery Equipment | 1,952,201 | 1,158,274 | Long-term Loans |
| | | | Participation in tender, lease deposit, electricity deposit, after-sales service deposit and customs deposit |
| Refundable Deposits | <u>44,641</u> | <u>44,216</u> | |
| | <u>\$ 4,578,912</u> | <u>\$ 3,811,130</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

(1) Contingencies

On December 30, 2020, the Group received the preliminary anti-dumping results from the U.S. Department of Commerce (DOC) on "passenger car and light truck tires" including those from Taiwan, Korea, Thailand and Vietnam, which determined that the anti-dumping rates for Taiwan products ranged from 52.42% to 98.44%, of which the Group was a non-compulsory respondent, so the applicable weighted average rate was 88.82%. The weighted average tax rate applied by the Group was 88.82%. After the additional information provided by Other Compulsory Respondents, the weighted average tax rate applied by the Group was reduced to 84.83%. The U.S. Department of Commerce (DOC) is expected to finalize the final dumping rate on May 21, 2021, and the U.S. International Trade Commission (ITC) is expected to announce its final determination of material injury to U.S. domestic industry on July 21, 2021. The Group has sought the assistance of counsel to clarify the Group's situation, however, as the overall case is focused on the overall industry of the country and there is no direct access or assistance from the non-compulsory respondent companies, the Group is unable to assess the likely outcome and impact of the ITC's final determination as it has not yet been made.

For the period from January 1 to March 26, 2021, the Group has deposited \$162,263 as security deposit with the U.S. Customs in connection with the aforesaid anti-dumping case.

(2) Commitments

1. As of December 31, 2019 and 2020, \$341,572 and \$322,340, respectively, were outstanding for the purchase of raw materials, merchandise and machinery equipment for which contracts and letters of credit had been issued.
2. The distribution contract between Jiangxi Federal and the distributor has an after-sales service warranty clause, which stipulates that Jiangxi Federal will be responsible for "replacement", "return" and "compensation" of products sold by Jiangxi Federal that are defective during the use by consumers and are identified by The Company's approved technical personnel as being due to manufacturing processes. The Company will be responsible for the after-sales service guarantee of "replacement", "return" and "compensation" if the defect is caused by the manufacturing process.

10. MAJOR DISASTER LOSSES

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

1. Please refer to Note 6(xix)5 for the appropriation of earnings in fiscal 2020.
2. Please refer to Note 9(1) for the anti-dumping case in the United States.
3. On March 26, 2021, the Board of Directors approved the spin-off of Tai Cheng Development Co., Ltd. ("Tai Cheng Development"), a 100% reinvested subsidiary of the Company, to operate its land development division (including assets, liabilities and operations) independently in accordance with the spin-off under the Business Merger and Acquisition Act, the Company Act and other related laws and regulations. (hereinafter referred to as "Development business unit") with a book value of \$10,000, and establish Rong Cheng Development Co. The newly established Rong Cheng Development issued 1,000,000 shares of common stock to the sole shareholder of Tai Cheng Development (i.e. the Company) for the business value it assumed, and Tai Cheng Development correspondingly reduced its capital by \$10,000 and cancelled 1,000,000 shares in addition to the issued shares. After the demerger, the Company's investment in Tai Cheng Development will be reduced to 15,000,000 shares, and the Company will invest in Rong Cheng Development and hold 1,000,000 shares.
4. Please refer to Note 3 of Note 4(3) for the liquidation of Winberg, a subsidiary of the Company.

12. OTHER

(1) Capital Management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide remuneration to shareholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors its capital by using a debt-to-capital ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as reported in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" plus net debt as reported in the consolidated balance sheet. As of December 31, 2020, and 2019, the Group's debt-to-capital ratios were as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---------------------------------|--------------------------|--------------------------|
| Total liabilities | \$ 5,030,374 | \$ 4,692,803 |
| Less: Cash and cash equivalents | (1,681,441) | (1,319,655) |
| Net liabilities | 3,348,933 | 3,373,148 |
| Total Equity | <u>7,543,425</u> | <u>7,319,790</u> |
| Total capital | <u>\$ 10,892,358</u> | <u>\$ 10,692,938</u> |
| Liabilities/Equity ratio | 31% | 32% |

(2) Financial Instruments

1. Type of Financial Instruments

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| <u>Financial Assets</u> | | |
| Financial Assets at fair value through profit or loss | | |
| Financial Assets mandatorily at fair value through profit or loss | <u>\$ 45,038</u> | <u>\$ 663</u> |
| Financial assets at fair value through other comprehensive income or loss | | |
| Select a designated equity instrument for investment | <u>\$ 391,450</u> | <u>\$ 267,077</u> |

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| Financial assets/lending and receivables at amortized Cost | | |
| Cash and cash equivalents | \$ 1,681,441 | \$ 1,319,655 |
| Financial assets at amortized cost - Current | 167,221 | 62,568 |
| Notes Receivable | 31,380 | 39,516 |
| Accounts Receivable | 1,155,058 | 875,071 |
| Other receivables | 2,625 | 338 |
| Refundable Deposits | <u>44,641</u> | <u>44,216</u> |
| | <u>\$ 3,082,366</u> | <u>\$ 2,341,364</u> |
| <u>Financial liabilities</u> | | |
| Financial liabilities at amortized cost | | |
| Short-term borrowings | \$ 927,510 | \$ 517,075 |
| Notes Payable | 12,606 | 24,676 |
| Accounts Payable | 298,493 | 249,927 |
| Other Payables | 696,141 | 428,863 |
| Long-term loans (includes expiration within one year or one business cycle) | 4,102,864 | 4,175,728 |
| Deposits received | 3,736 | 3,589 |
| Lease Liabilities | <u>21,424</u> | <u>33,299</u> |
| | <u>\$ 6,062,774</u> | <u>\$ 5,433,157</u> |

2. Risk Management Policy

The Group's financial risk is mainly the risk associated with its investment in financial instruments. The Group adopts the most stringent control standards for the financial risk of each financial instrument investment. All financial investments and operations are thoroughly evaluated for possible market risk, credit risk, liquidity risk and cash flow risk, and the less risky ones are always selected.

3. Nature and extent of significant financial risks

(1) Market risk

Exchange rate risk

A. The Group operates on a multinational basis and is exposed to exchange rate risk arising from transactions with different functional currencies from those of the Company and its subsidiaries, mainly the U.S. dollar and Renminbi. The related exchange rate risk arises from future commercial transactions and recognized assets and liabilities.

B. The Group's operations involve certain non-functional currencies (the functional currency of the Company is the New Taiwan dollar, and the

- C. The aggregate amount of the Group's monetary items that are materially affected by exchange rate fluctuations in 2020 and 2019 Recognized Total Conversion Loss (both realized and unrealized) is (\$66,934) and (\$13,526), respectively.

Price risk

- A. The investments held by the Group are classified as financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income or loss in the Consolidated Statement of Assets Liabilities. The Group is not exposed to the price risk of Equity instruments as the Group's investments are classified as Financial Assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income or loss. The Group has no exposure to commodity price risk. In order to manage the price risk of Equity instruments, the Group diversifies its investment portfolio in accordance with the limits set by the Group.
- B. The Group invests mainly in Equity instruments issued by domestic companies. The prices of these Equity instruments are affected by the uncertainty of the future value of the underlying investments. If the price of these Equity instruments increases or decreases by 1%, with all other factors remaining unchanged, the impact on other comprehensive income in 2020 and 2019 would be increased or decreased by \$3,990, respectively, due to gains or losses measured at fair value through other comprehensive income. The increase or decrease of \$3,915 and \$2,671 for 2020 and 2019, respectively, for other comprehensive income measured at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term Loans. Borrowings issued at floating rates expose the Group to Cash flow interest rate risk, partially offset by cash and cash equivalents held at floating rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. In 2020 and 2019, the Group's borrowings at floating interest rates are denominated in New Taiwan Dollars and the increase in cash outflow for each 1% increase in market interest rates is \$41,029 and \$41,757, respectively.

(2) Credit Risk

- A. The Company's credit risk is the risk of financial loss resulting from the failure of customers or counterparties to Financial Instruments to meet their obligations under contracts, primarily due to the failure of counterparties to settle Accounts Receivable, which are paid on a collection basis, and Contract Cash flows from investments in Equity Instruments, which are classified as fair value through Other comprehensive income.
- B. The Company establishes the management of credit risk from a corporate perspective. Only banks and financial institutions with an independent credit rating of at least "A" are accepted as counterparties. In accordance with the internal credit policy, each operating entity and each new customer within the Company is required to manage and analyze credit risk prior to establishing payment and delivery terms and conditions. Internal risk control is performed by considering the financial condition, past experience and other factors to assess the credit quality of customers. Individual risk limits are established by the board of directors based on internal or external ratings, and the use of credit limits is monitored regularly.
- C. The Group adopts IFRS 9 to consider that the credit risk of Financial Assets has increased significantly since the original recognition when the contract amount is overdue for more than 30 days according to the agreed payment terms.
- D. The Group is deemed to be in default when the contract amount is more than 90 days past due according to the contractual payment terms.
- E. The Group groups the Accounts Receivable to customers according to the characteristics of the customer type and uses a simplified approach to estimate the expected credit loss based on the reserve matrix and loss rate method.

- F. After recourse procedures, the Group eliminates the amounts of Financial Assets that are not reasonably expected to be recoverable, but the Group continues to pursue recourse legal procedures to preserve the rights of debts. The Group's cancelled debts with recourse activities are \$3,463 in 2020 and December 31, 2019.
- G. The Group adjusted the loss rates established based on historical and current information for a specific period to estimate the allowable loss for Accounts Receivable by incorporating the forward-looking considerations of the Taiwan Institute of Economic Research's (TISE) Outlook Report for 2020 and December 31, 2019, with the following ready matrix and loss rate method.

| | | Overdue | Overdue | Overdue |
|--------------------------|---------------------|-----------------|-------------------|--------------------|
| <u>December 31, 2020</u> | <u>Not overdue</u> | <u>30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> |
| Expected loss rate | 0%~0.11% | 1.43%~5% | 9%~21% | 31%~43% |
| Total book value | \$ 896,250 | \$ 89,821 | \$ 3,431 | \$ - |
| Allowance for loss | \$ 999 | \$ 4,320 | \$ 324 | \$ - |
| | <u>Overdue</u> | <u>Overdue</u> | | |
| <u>December 31, 2020</u> | <u>181-365 days</u> | <u>365 days</u> | <u>Total</u> | |
| Expected loss rate | 50%~72% | 100% | | |
| Total book value | \$ - | \$ 56,046 | \$ 1,045,548 | |
| Allowance for loss | \$ - | \$ 56,046 | \$ 61,689 | |
| | <u>Group A</u> | <u>Group B</u> | <u>Group C</u> | <u>Total</u> |
| <u>December 31, 2020</u> | | | | |
| Expected loss rate | 37% | 82% | - | |
| Total book value | \$ 14,828 | \$ 61,819 | \$ 150,555 | \$ 227,202 |
| Allowance for loss | \$ 5,424 | \$ 50,579 | \$ - | \$ 56,003 |
| | | <u>Overdue</u> | <u>Overdue</u> | <u>Overdue</u> |
| <u>December 31, 2019</u> | <u>Not overdue</u> | <u>30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> |
| Expected loss rate | 0%~0.3% | 0%~5% | 0%~20% | 30%~50% |
| Total book value | \$ 639,526 | \$ 46,449 | \$ 489 | \$ 12,556 |
| Allowance for loss | \$ 1,623 | \$ 1,282 | \$ 69 | \$ 4,952 |
| | <u>Overdue</u> | <u>Overdue</u> | | |
| <u>December 31, 2019</u> | <u>181-365 days</u> | <u>365 days</u> | <u>Total</u> | |
| Expected loss rate | 80% | 100% | | |
| Total book value | \$ 37,978 | \$ 35,394 | \$ 772,392 | |
| Allowance for loss | \$ 20,870 | \$ 35,450 | \$ 64,246 | |
| | <u>Group A</u> | <u>Group B</u> | <u>Group C</u> | <u>Total</u> |
| <u>December 31, 2019</u> | | | | |
| Expected loss rate | 33% | 66% | 7% | |
| Total book value | \$ 16,370 | \$ 75,842 | \$ 140,134 | \$ 232,346 |
| Allowance for loss | \$ 5,331 | \$ 49,718 | \$ 10,372 | \$ 65,421 |

H. The Group's condensed statement of changes in the allowance for losses on accounts receivable is as follows.

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|----------------------------|----------------------------|
| | <u>Accounts Receivable</u> | <u>Accounts Receivable</u> |
| At January 1 | \$ 129,667 | \$ 103,374 |
| Impairment loss(Reversal) | (11,985) | 28,823 |
| Amounts written off as uncollectible | (793) | - |
| Exchange differences | 803 | (2,530) |
| December 31 | <u>\$ 117,692</u> | <u>\$ 129,667</u> |

The above stated amounts take into account the property and time deposit collateral held and therefore the unrecognized allowance loss is \$4,227 and \$2,090 for 2020 and December 31, 2019, respectively. Impairment (gains) losses recognized for receivables arising from contracts were (\$11,985) and \$28,823 in 2020 and December 31, 2019, respectively.

(3) Liquidity Risk

- A. Cash flow forecasts are performed by each operating entity within the Group and are compiled by the Group Finance Department. The Group Finance Department monitors the forecast of the Group's liquidity requirements to ensure that it has sufficient funds to meet its operational needs.
- B. Surplus cash held by each operating entity is transferred back to the Group Finance Department when it exceeds the working capital management requirements. The Group's treasury department invests the remaining funds in interest-bearing demand deposits, time deposits, money market deposits and marketable securities in instruments with appropriate maturities or sufficient liquidity to meet the above projections and to provide adequate deployment levels. As of December 31, 2020 and 2019, the Group held money market positions of \$1,679,766 and \$1,270,131, respectively, and financial assets at amortized cost - current of \$167,221 and \$62,568, respectively, which are expected to generate immediate cash flow to manage liquidity risk. The Group's unutilized borrowings are expected to generate immediate cash flows to manage liquidity risk.
- C. The breakdown of the Group's unutilized borrowing facilities is as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------------|--------------------------|--------------------------|
| Floating interest rate | | |
| Expires in over 1 year | <u>\$ 2,425,032</u> | <u>\$ 156,542</u> |

- D. The following table presents the Group's non-derivative financial liabilities and derivative financial liabilities settled on a net or gross basis, grouped by their respective maturity dates. Non-derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the contractual maturity date; derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the expected maturity date.

| December 31, 2020 | <u>Within 1 year</u> | <u>More than 1 year</u> |
|---|----------------------|-------------------------|
| <u>Non-derivative financial liabilities :</u> | | |
| Short-term borrowings | \$ 929,530 | \$ - |
| Notes Payable | 12,606 | - |
| Accounts Payable | 298,493 | - |
| Other Payables | 696,141 | - |
| Lease Liabilities | 13,970 | 7,886 |
| Long-term Loans | 346,132 | 4,124,394 |
| (Includes expiration within | | |

one year or one business cycle)

| December 31, 2019 | <u>Within 1 year</u> | <u>More than 1 year</u> |
|--|----------------------|-------------------------|
| <u>Non-derivative financial liabilities :</u> | | |
| Short-term borrowings | \$ 519,559 | \$ - |
| Notes Payable | 24,676 | - |
| Accounts Payable | 249,927 | - |
| Other Payables | 428,863 | - |
| Lease Liabilities | 18,430 | 15,433 |
| Long-term Loans(Includes expiration within one year or one business cycle) | 185,135 | 4,493,920 |

The Group does not expect the timing of the cash flows for the maturity analysis to occur significantly earlier or the actual amounts to be significantly different.

(3) Fair value information

A. The different levels of the inputs used in valuation techniques to measure the fair value of financial and non-financial instruments are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, beneficiary certificates and on-the-run Taiwan central government bonds is included in Level 1.

Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investments in derivative instruments are included.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investments without an active market is included in Level 3.

2. The carrying amounts of the Group's cash and cash equivalents, Notes Receivable, Accounts Receivable, Other Receivable, short-term loans, accounts payable and other payables are reasonable approximations of their fair values.

3. For financial and non-financial instruments measured at fair value, the Group classifies them according to the nature, characteristics and risks of the assets and liabilities and the basis of the fair value hierarchy, and the related information is as follows:

| December 31, 2020 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|------------------|----------------|------------------|------------------|
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial Assets at fair value through profit or loss | | | | |
| Derivative Tools | <u>\$ 45,038</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 45,038</u> |
| Financial Assets at fair value through other comprehensive income | | | | |
| Equity securities | \$ - | \$ - | \$391,450 | \$391,450 |
| Investment property | - | - | 62,838 | 62,838 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$454,288</u> | <u>\$454,288</u> |

| December 31, 2019 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------|----------------|----------------|----------------|--------------|
| Assets | | | | |

Recurring fair value measurements

Financial Assets at fair value through profit or loss

| | | | | |
|------------------|------|--------|------|--------|
| Derivative Tools | \$ - | \$ 663 | \$ - | \$ 663 |
|------------------|------|--------|------|--------|

Financial Assets at fair value through other comprehensive income

| | | | | |
|---------------------|-------------|-------------|------------------|------------------|
| Equity securities | \$ - | \$ - | \$267,077 | \$267,077 |
| Investment property | - | - | 60,323 | 60,323 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$327,400</u> | <u>\$327,400</u> |

4. The methods and assumptions used by the Group to measure fair value are described as follows.

(1) The Group uses quoted market prices as fair value inputs (i.e. Level 1), which are broken down by the characteristics of the instruments as follows.

| | |
|----------------------|-----------------------|
| | <u>Open-end funds</u> |
| Quoted market prices | Net value |

(2) Except for the above-mentioned financial instruments with active markets, the fair values of the remaining financial instruments are obtained by valuation techniques or by referring to counterparty quotes. The fair values obtained through valuation techniques may be calculated by reference to the current fair values of other financial instruments with substantially similar conditions and characteristics, the discounted cash flow method, or other valuation techniques, including the use of models based on market information available at the date of the Consolidated Statement of Assets Liabilities (e.g., over-the-counter (OTC) reference colonial interest rate curves, Reuters' reference rate curves, and other market information). (e.g., the over-the-counter (OTC) reference yield curve, Reuters average commercial paper interest rate quotation).

(3) Derivative financial instruments are evaluated based on valuation models that are widely accepted by market users, such as the discount method and option pricing models.

(4) The fair value of the Group's investment property measured at fair value is calculated using the income method in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and by engaging an external appraiser. The related assumptions and inputs are as follows

A. Cash flow: Based on the current Lease Agreement, local rents or rental quotations of similar comparables in the market, and excluding those comparables that are too high or too low, the present value of the Ending Value shall be added if there is an Ending Value.

B. Period of analysis: If the income does not have a certain period, the period of analysis shall be no more than ten years; if the income has a specific period, the remaining period shall be estimated.

C. Discount rate: The risk premium method is used to estimate the individual characteristics of investment property based on a certain interest rate. The interest rate shall not be lower than the two-year postal time deposit rate issued by Chunghwa Post Co., Ltd. plus 0.75%..

5. There is no transfer between the first tier and the second tier in 2020 and 2019.

6. Please refer to Note 6 (3) and 6 (10) for the changes of Level 3 in 2020 and 2019.

7. There are no transfers in and out of Level 3 in 2020 and 2019.

8. The Group's evaluation process for fair value classification in Level 3 is conducted by an external appraiser to ensure that the valuation results are reasonable by using independent sources of information that approximate market conditions, confirming that the sources are independent, reliable, consistent with Other resources and representative of executable prices.
9. The quantitative information regarding the significant unobservable inputs of the valuation model used for the Level 3 fair value measurement Item and the Sensitivity analysis of changes in significant unobservable inputs are described as follows.

| | December 31, 2020 | December 31, 2019 | | <u>Significant unobservable input</u> | <u>Range (weighted average)</u> | <u>Relationship of input to fair value</u> |
|------------------------------------|-------------------|-------------------|--------------------------------|---|---------------------------------|--|
| | <u>Fair value</u> | <u>Fair value</u> | <u>Valuation technique</u> | | | |
| Non-derivative equity instrument : | | | | | | |
| Unlisted ,non-OTC stocks | <u>\$ 391,450</u> | <u>\$ 267,077</u> | Comparable to listed companies | Principal-to-benefit ratio multiplier, principal-to-net ratio multiplier and enterprise value to pre-tax interest rate gains ratio multiplier | - | The higher the multiplier and control equity value, the higher the fair value; the higher the discount for lack of marketability, the lower the fair value |
| Investment property | <u>\$ 62,838</u> | <u>\$ 60,323</u> | Cash flow discount method | Long-term revenue growth rate discount rate | Note | The higher the long-term revenue growth rate, the higher the fair value; the higher the discount rate, the lower the fair value |

Note: Please refer to Note 6 (10) of the 2020 Consolidated Financial Statements for the discount rate range.

(4) Financial instruments with off-balance-sheet credit risk

| | <u>Guaranteed Amount</u> | |
|---------------------------------|--------------------------|--------------------------|
| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
| Subsidiary Guarantee Commitment | <u>-</u> | <u>US\$6,000,000</u> |

The Group provides endorsement and guarantee commitments in accordance with the "endorsement and guarantee method" and only for those investees with significant influence. As the Group has full control of their credit standing, no collateral is required. If the investees fail to perform, the potential loss is equal to the contract amount.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

1. Loans to others: None
2. Provision of endorsements and guarantees to others : Please refer to Table 1 for details. °
3. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to Table 2.
4. Acquisition or sale of the same security with the accumulated cost reaching \$300 million or 20% of the Company's paid-in capital: None.
5. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
7. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of

paid-in capital or more: : Please refer to Table 3

8. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to Table 4

9. Trading in derivative instruments financial products: None.

10. Significant inter-company transactions during the reporting periods: Please refer to Table 5.

(2) Information about reinvestment business:

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to Table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to Table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

(4) Major shareholders information

List of shareholders holding more than 5% (inclusive) of shares: Please refer to Table 8.

14. SEGMENT INFORMATION

(1) General information

The chief operating decision-maker considers the business from geographic perspectives and the Group currently focuses on the domestic and America regions.

(2) Measurement of segment information

The chief operating decision-makers evaluate operating divisions based on adjusted operating benefits. Financial income and expenses (e.g. interest income and expenses, etc.) are unallocated to the operating segment. Thus, the activities are managed by the finance department which is in charge of for the Company's cash conditions.

(3) Information on segment income (loss), assets and liabilities

Reportable segment information provided to the chief operating decision maker is as follows.

2020

| | <u>Domestic</u> | <u>Asia</u> | <u>America</u> | <u>Total</u> |
|---|---------------------|--------------------|---------------------|---------------------|
| Income from customers other than the parent company and combined subsidiaries | \$ 4,220,442 | \$ 42,354 | \$ 1,441,867 | \$ 5,704,663 |
| Income from parent company and combined subsidiaries | <u>1,427,058</u> | <u>-</u> | <u>-</u> | <u>1,427,058</u> |
| Total income | <u>\$ 5,647,500</u> | <u>\$ 42,354</u> | <u>\$ 1,441,867</u> | <u>\$ 7,131,721</u> |
| Segment income (Note 1) | <u>\$ 261,175</u> | <u>(\$ 24,679)</u> | <u>\$ 9,171</u> | <u>\$ 245,667</u> |
| Segment income includes: | | | | |
| Depreciation and amortization | <u>\$ 524,151</u> | <u>\$ 2,736</u> | <u>\$ 2,938</u> | <u>\$ 529,825</u> |

2019

| | <u>Domestic</u> | <u>Asia</u> | <u>America</u> | <u>Total</u> |
|---|---------------------|--------------------|---------------------|---------------------|
| Income from customers other than the parent company and combined subsidiaries | \$ 3,343,118 | \$ 136,829 | \$ 1,061,055 | \$ 4,541,002 |
| Income from parent company and combined subsidiaries | <u>1,205,510</u> | <u>11,865</u> | <u>-</u> | <u>1,217,375</u> |
| Total incomes | <u>\$ 4,548,628</u> | <u>\$ 148,694</u> | <u>\$ 1,061,055</u> | <u>\$ 5,758,377</u> |
| Segment income (Note 1) | <u>(\$ 327,331)</u> | <u>(\$ 83,250)</u> | <u>\$ 18,275</u> | <u>(\$ 392,306)</u> |
| Segment income includes: | | | | |
| Depreciation and amortization | <u>\$ 607,805</u> | <u>\$ 24,713</u> | <u>\$ 1,931</u> | <u>\$ 634,449</u> |

Note 1: Include discontinued operating segment income.

(4) Reconciliation of segment income (loss)

Intersegment sales are accounted for on a fair-trade basis. External revenues reported to the chief operating decision maker are measured in a manner consistent with revenues in the income statement.

A reconciliation of reportable segment income to income before income taxes is as follows (all other items are the same as in the consolidated statements of income).

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|---------------------|
| Segment (loss) income (reportable segment net loss) | \$ 245,667 | (\$ 392,306) |
| Consolidated elimination | 11,718 | 259,154 |
| Non-operating income and expenses | (114,502) | (534,222) |
| Pre-tax gain or loss in discontinued operations | <u>22,106</u> | <u>4,946</u> |
| Income (loss) from continuing operations before tax | <u>\$ 164,989</u> | <u>(\$ 662,428)</u> |

(5) Information on products

Revenue from external customers is mainly derived from the sale of tires.

(6) Geographical information

As of and for the years ended December 31, 2020 and 2019, the information on the Company and subsidiaries' geographic area is as follows:

1. Revenue from external customers

| | <u>2020</u> | <u>2019</u> |
|----------|------------------|------------------|
| Domestic | \$ 4,220,442 | \$ 3,343,118 |
| Asia | 42,354 | 136,829 |
| America | <u>1,441,867</u> | <u>1,061,055</u> |

| | | |
|-------|---------------------|---------------------|
| Total | <u>\$ 5,704,663</u> | <u>\$ 4,541,002</u> |
|-------|---------------------|---------------------|

The calculation of the Company's revenue by region is based on the recipient geographic areas. °

2. Non-Current Assets

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|----------|--------------------------|--------------------------|
| Domestic | \$ 8,614,626 | \$ 8,643,834 |
| Asia | 268,707 | 265,432 |
| America | <u>94,959</u> | <u>100,197</u> |
| Total | <u>\$ 8,978,292</u> | <u>\$ 9,009,463</u> |

Non Current Assets means Property, Plant and Equipment, Right-of-use Assets, Investment property, Intangible Assets, and Other Non Current Assets-Other, but excluding financial instruments and deferred tax assets °

(7) Key customers information

The key customer's information of the Group in 2020 and 2019 is as follows.

| | <u>2020</u> | | <u>2019</u> | |
|--|--------------------|-----------------------|--------------------|-----------------------|
| | <u>Sales</u> | <u>Percentage (%)</u> | <u>Sales</u> | <u>Percentage (%)</u> |
| Class A customers from domestic segment | <u>\$1,648,675</u> | 28.90% | <u>\$1,215,994</u> | 26.78% |

FEDERAL CORPORATION
Provision of endorsements and guarantees to others
January 1 to December 31 2020

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

| No. | Endorser | <u>Endorsed by</u> | | Endorsement guarantee limit for a single enterprise | Maximum endorsement guarantee balance for the period | Endorsement guarantee balance at the end of the period | Actual expenditures | Amount of endorsement guarantee by property guarantee | Ratio of accumulated endorsement guarantee to net worth of the most recent financial statements | Endorsement Guarantee Maximum Limit (Note 3) | Parent company endorsement of subsidiary (Note 7) | Subsidiary endorsement of parent company (Note 7) | Endorsement guarantee for China (Note 7) | Note |
|----------|--------------|-----------------------------------|--------------|---|---|---|------------------------|---|---|---|--|--|---|------|
| | | Relationship | Company Name | | | | | | | | | | | |
| (Note 1) | Company Name | Company Name | (Note 2) | (Note 3) | (Note 4) | (Note 5) | (Note 6) | | | | | | | |
| 0 | The Company | Federal Tire (Jiangxi) Ltd. | 2 | \$ 3,771,713 | \$ 90,750 | \$ - | \$ - | \$ - | - | \$ 7,543,425 | Y | N | Y | |
| " | " | Federal Tire North America LLC | " | 3,771,713 | 90,750 | - | - | - | - | 7,543,425 | Y | N | N | |

Note 1: The description of the numbered column is as follows.

- (1). The issuer fills in 0.
- (2). The investee companies are numbered by company in order starting from the Arabic numeral 1.

Note 2: There are 7 types of relationships between the guarantor and the target of the endorsement, and the types can be indicated as follows

- (1). (1) Companies that have business dealings.
- (2). A company in which the company directly or indirectly holds more than 50% of the voting shares.
- (3). A company that directly or indirectly holds more than 50% of the voting shares of the company.
- (4). A company in which the Company directly or indirectly holds more than 90% of the voting shares.
- (5). A company that is mutually insured under a contract between peers or co-founders based on the needs of the contracted work.
- (6). A company that is guaranteed by all shareholders in proportion to their Ownership due to joint investment.
- (7). Inter-company guarantee for the performance of the Presale House Sales Contract in accordance with the Consumer Protection Act.

Note 3: a. The total amount of the Company's external endorsement guarantee and the total amount of the Company's and its subsidiaries' endorsement guarantee are limited to the total amount of the Company's total shareholders' equity.

b. The limits of the Company's endorsement and guarantee for a single enterprise are as follows.

- (a) For companies with business relationship: The total amount of business transactions between the two parties in the most recent year shall not exceed 50% of the total equity of the Company's shareholders. The amount of business transactions refers to the higher of the amount of purchase or sale between the two parties.
 - (b) From the Company to its subsidiaries: Not to exceed 50% of the Total equity of the Company's stockholders.
 - (c) The total amount of the Company's subsidiary's external endorsement guarantee is limited to ten times the Company's most recent net financial statements.
- d. The limit of endorsement by a subsidiary to a single enterprise is as follows.
- (a) The parent company holding 100% of the shares of the company shall be limited to not more than ten times the net value of the company's most recent financial statements.
 - (b) The endorsement of other related companies is limited to the net value of the company's most recent financial statements.
 - (c) The amount of business transactions with Nonrelated companies shall not exceed the total amount of business transactions between the two parties in the most recent year and shall not exceed the net value of the Company's most recent financial statements (the amount of business transactions refers to the higher of the amount of imports or sales between the two parties).

Note 4: The maximum balance of the current year's endorsement and guarantee for others.

Note 5: The amount approved by the board of directors should be entered, but if the board of directors authorizes the chairman of the board of directors to make the decision in accordance with Article 12, Paragraph 8 of the Guidelines Governing the Lending of Funds and Endorsements and Guarantees to Public Companies, it refers to the amount decided by the chairman of the board of directors.

Note 6: The amount of actual expenditures of the endorsed company within the scope of using the endorsement guarantee Balance should be entered.

Note 7: Y is required to be entered only for the listed parent company's endorsement and guarantee of its subsidiary, the subsidiary's endorsement and guarantee of the listed parent company, and the endorsement and guarantee of the Mainland China.

FEDERAL CORPORATION

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2020

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

| Held by | Type and name of securities (Note 1) | Relationship with the securities issuer (Note 2) | General ledger account | Number of Shares | As of December 31, 2020 | | | Note (Note 4) |
|-------------|--|---|---|------------------|-------------------------|-----------|------------|------------------|
| | | | | | Book value (Note 3) | Ownership | Fair Value | |
| The Company | Stock/Chiuoho Motor Co.Ltd. | - | Financial assets at fair value through other comprehensive income or loss | 12,522 | \$ 222,420 | 6.32% | \$ 222,420 | - |
| " | " /Ford Lio Ho Motor Company | - | " | 1,370,172 | 169,030 | 1.73% | 169,030 | - |
| " | Beneficiary certificates/ Money Market Fund | - | Financial Assets at fair value through profit or loss | 3,593,187 | 45,038 | - | 45,038 | - |

Note 1: The marketable securities mentioned in this table refer to the marketable securities derived from stocks, bonds, Beneficiary certificates and the above items within the scope of IFRS 9 "Financial Instruments".

Note 2: If the issuer of marketable securities is a Relationship, the column is not filled in.

Note 3: If the securities are measured at fair value, please fill in the Balance in the Amount column after fair value adjustment and after deducting the accumulated Impairment; if the securities are not measured at fair value, please fill in the Balance in the Amount column after the original Cost of acquisition or after amortization of Cost less accumulated Impairment.

Note 4: If the listed securities are subject to restrictions due to the provision of guarantee, pledged loans or other contracts, the number of shares provided as guarantee or pledged loans, the amount of guarantee or pledged loans and the restrictions on use should be indicated in the Note column.

FEDERAL CORPORATION

Amount of acquisition or sale of goods with related parties reaching at least NT\$100 million or 20 percent of the Company's paid-in capital

January 1 to December 31 2020

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| Purchaser (seller) | Name of the counterparty | Relationship | Transactions | | | Circumstances and reasons why the transaction conditions are different from those of ordinary transactions | | | Notes, accounts receivable (payable) | | |
|---------------------------------|---------------------------------|-------------------------------|------------------|--------------|---------------------------------------|--|------------------|-------------|--------------------------------------|---|----------|
| | | | Purchase (sales) | Amount | Percentage of total purchases (sales) | Credit term | Unit price | Credit term | Balance | Percentage of total notes and accounts receivable (payable) | Footnote |
| The Company | Federal Tire North America LLC. | Sub-subsidiary of the Company | Sales | \$ 1,250,934 | 23 | Open account availability t 180 days | Subject to sales | 180 days | \$ 603,178 | 37 | |
| Federal Tire North America LLC. | " | The Company | Purchase | (1,250,934) | 100 | Open account availability t 180 days | Subject to sales | 180 days | (603,178) | (100) | |

FEDERAL CORPORATION

Receivables from related parties reaching NT\$100 million or 20% of the paid-in capital or more

January 1 to December 31 2020

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| Creditor | Name of the counterparty | Relationship | Creditor Balance (Note 1) | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|-------------|---------------------------------|----------------------------------|------------------------------|---------------|---------------------|--------------|---|------------------------------------|
| | | | | | Amount | Action taken | | |
| The Company | Federal Tire North America LLC. | Sub-Subsidiary of the Company | \$ 603,178 | 2.50 | \$ - | - | \$ 116,596 | \$ - |

Note 1: If the terms of the related party's transaction are different from the normal terms of the transaction, the difference and the reasons for the difference should be stated in the unit price and credit period columns.

Note 2: If there is any advance receivable (prepayment), the reasons, contract terms, amounts and differences from the general transaction type should be stated in the Footnote column.

FEDERAL CORPORATION

Significant inter-company transactions during the reporting periods

January 1 to December 31 2020

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

| Number. (Note 1) | Company Name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|---------------------|--------------|---------------------------------|--------------------------|------------------------|------------|-------------------|---|
| | | | | General ledger account | Amount | Transaction terms | |
| 0 | The Company | FEDEREX MARKETING CO., LTD. | 1 | Sales | \$ 122,948 | Note 4 | 2 |
| " | " | Federal Tire North America LLC. | " | Sales | 1,250,934 | " | 22 |
| " | " | " | " | Accounts Receivable | 603,178 | " | 4 |

Note 1: Information on business transactions between the parent company and subsidiaries should be indicated in the numbered column respectively, and the numbers should be completed as follows.

(1). Enter 0 for the parent company.

(2). The subsidiaries are numbered by company, starting with the Arabic numeral 1.

Note 2: There are three types of relationships with the counterparties as follows. For example, if the parent company has disclosed the transaction with the subsidiary, the subsidiary does not need to disclose the transaction repeatedly.

For subsidiary-to-subsidary transactions, if one subsidiary has already disclosed the transaction, the other subsidiary does not need to disclose it repeatedly).

(1). Parent to subsidiary.

(2). Subsidiary to parent company.

(3). Subsidiaries to subsidiaries.

Note 3: The ratio of transaction amount to consolidated total revenue or total assets is calculated as Ending Balance to consolidated total assets for asset Liabilities Item and as cumulative Amounts to consolidated total revenue for Profit and Loss Item.

Note 4: Sales are made at normal sales prices and terms, taking into account the number of transactions and market conditions, and the collection period is not materially different from that of normal customers.

Note 5: The transaction amount is not disclosed if it does not reach 1% of total assets or total revenue.

FEDERAL CORPORATION

Names, locations and other information of investee companies (not including investees in Mainland China)

January 1 to December 31 2020

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Name of Investor | Name of investee company | Location | Main business activities | Initial Investment Amount | | Shareheld as at December 31, 2020 | | | Net profit (loss) of the investee for the year ended December 31, 2020 | Investment income (loss) recognized by the Company for the year ended December 31, 2020 | Footnote |
|------------------------------------|------------------------------------|-----------|--|---------------------------|------------------|-----------------------------------|---------------|--------------------|--|---|----------------------------|
| | | | | End of current year | End of past year | Shares | Ownership (%) | Book value(Note 1) | | | |
| The Company | FEDEREX MARKETING CO., LTD. | Taiwan | Sales of various vehicle tire rims and parts | \$ 190,000 | \$ 190,000 | 19,000,000 | 100% | \$ 213,315 | (\$ 10,893) | (\$ 10,893) | Subsidiary |
| " | Tai Xin Construction Co., Ltd. | Taiwan | Commissioned builders to build residential and commercial buildings for lease and sale | 330,000 | 330,000 | 33,000,000 | 100% | 429,966 | (7,501) | (7,501) | Subsidiary |
| " | Tai Cheng Development Co., Ltd. | Taiwan | Commissioned builders to build residential and commercial buildings for lease and sale | 160,000 | 160,000 | 16,000,000 | 100% | 1,630,242 | 19,053 | 19,053 | Subsidiary |
| " | Federal International Holding Inc. | BVI | General Investment | 2,149,877 | 2,149,877 | 65,331,062 | 100% | 1,333,805 | (12,379) | (12,379) | Subsidiary |
| " | Highpoint Trading Ltd. | BVI | Sales of various types of vehicle tires | - | 34,760 | - | - | - | (319) | (319) | Subsidiary (Note 2) |
| Federal International Holding Inc. | Amberg Investments Pte. Ltd. | Singapore | General Investment | 2,072,937 | 2,072,937 | 103,494,400 | 100% | 1,166,482 | (22,781) | (22,781) | Sub-subsubsidiary |
| " | Federal Tire North America LLC. | USA | General Investment | 6,437 | 6,437 | - | 100% | 53,241 | 9,210 | 9,210 | Sub-subsubsidiary |
| " | Winberg Investments Pte. Ltd. | Samoa | General Investment | 3,192 | 3,192 | - | 100% | 1,868 | (104) | (104) | Sub-subsubsidiary (Note 3) |
| " | Chialilai Development Ltd | Hong Kong | Commercial buildings leaseingl businesses | 74,566 | 74,566 | 2,000,000 | 100% | 37,021 | 3,069 | 3,069 | Sub-subsubsidiary |

Note 1: Before deducting the amount of the Company's shares held by Ending subsidiaries as Treasury Stocks

Note 2: On December 26, 2019, Highpoint Trading Ltd. was liquidated by the board of directors (acting as the shareholders' meeting), and the liquidation process was completed on October 19, 2020.

Note 3: Winberg Investments Pte. Ltd. was liquidated by resolution of the board of directors (acting as the shareholders' meeting) on December 31, 2020, and the liquidation has not been completed as of December 31, 2020.

FEDERAL CORPORATION

Basic information on investments in Mainland China

January 1 to December 31 2020

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investee in Mainland Chinae | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2020 | Taiwan to Mainland China/Amount remitted back to Taiwan for the <u>year</u> <u>ended</u> | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2020 | Net profit (loss) of investee for the yar ended December 31, 2020 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognized by the Company for the year ended December 31, 2020 (Note 2) | Book value of investments as of December 31, 2020 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2020 | Footnote |
|--|---|-----------------|-------------------------------|---|---|-------------------------------|---|--|---|---|---|--|-------------|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | |
| Federal Tire (Jiangxi) Ltd. | Manufacturing and sale of various tires and rubber products | \$ 2,149,974 | 2 | \$2,149,974 | \$ - | \$ - | \$2,149,974 | (\$ 22,667) | 100% | (\$ 22,667) | \$1,105,085 | \$ - | - |
| Federal Tires (Shanghai) Limited | Sales of various vehicle tire rims and parts | 941 | " | - | - | - | - | (37) | - | (37) | - | - | Note 4、5 |

| <u>Company Name</u> | <u>31, 2020</u> | <u>Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)</u> | <u>Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA</u> |
|---------------------|-----------------|---|--|
| The Company | \$ 2,149,974 | \$ 2,149,974 | \$ 4,526,055 |

Note 1: Investment methods are divided into the following three categories, and the labeling of each category is sufficient.

- (1). Direct investment in mainland China
- (2). Federal Tire (Jiangxi) Ltd.'s investment company in the third region is Amberg Investments Pte.
- (3). Other method

Note 2: The financial statements were audited by a certified public accountant of the parent company in Taiwan.

Note 3: The relevant figures in this table should be presented in New Taiwan dollars.

Note 4: The investment of US\$30,000 from Federal International Holding Inc. of the third region was used to establish Federal Tire (Shanghai) Co.

Note 5: Federal Tire (Shanghai) Co., Ltd. was liquidated on September 30, 2019 by resolution of the Board of Directors (acting as the shareholders' meeting), and the liquidation process was completed on May 28, 2020.

FEDERAL CORPORATION AND SUBSIDIARIES

Major shareholders' information

December 31, 2020

Table 8

| <u>Main Shareholder</u> | <u>Ownership (Common Stocks)</u> | <u>Shares</u> <u>Shareholdings (preferred stocks)</u> | <u>Shareholdings %</u> |
|---------------------------------|----------------------------------|--|------------------------|
| Nankang Rubber Tire Corp., Ltd. | 93,688,000 | - | 19.79% |
| Tai Fu Investment Co Ltd. | 27,692,991 | - | 5.85% |

Note 1: (1) The information on major shareholders in this table is calculated by Tibco on the last business day of each quarter, and the total number of common and preferred shares held by shareholders of the Company that have been delivered without physical registration (including treasury shares) is 5% or more.

The number of shares recorded in the Company's financial statements and the actual number of shares delivered without physical registration may differ depending on the basis of calculation.

(2) The above information is revealed by the trustee's opening of a trust account with individual subaccounts of the trustee if the shareholder has delivered the shares to the trust. As for the shareholders' Ownership in excess of 10%, they are reported in accordance with the Securities and Exchange Act.

For information on insider ownership reporting, please refer to the Market Observation Post System.

5. Individual Financial Statement for The Latest Year

REPORT OF 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

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 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

Description

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.

P r i c e w a t e r h o u s e C o o p e r s T a i w a n

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
Individual Balance Sheets

(In thousands of New Taiwan Dollars)

| Assets | Note | December 31, 2020 | | December 31, 2019 | | |
|---------------------------|---|-------------------|----------------------|-------------------|----------------------|------------|
| | | Amount | % | Amount | % | |
| Current Assets | | | | | | |
| 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 | Total current assets | | <u>3,801,433</u> | <u>27</u> | <u>2,796,448</u> | <u>22</u> |
| Non Current Assets | | | | | | |
| 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 | Total noncurrent assets | | <u>10,082,946</u> | <u>73</u> | <u>10,050,717</u> | <u>78</u> |
| 1XXX | Total Assets | | <u>\$ 13,884,379</u> | <u>100</u> | <u>\$ 12,847,165</u> | <u>100</u> |

(Continued)

Federal Corporation
Individual Balance Sheets

(In thousands of New Taiwan Dollars)

| Liabilities and Equity | Note | December 31 2020 | | December 31 2019 | | |
|---|---|------------------|----------------------|------------------|----------------------|------------|
| | | Amount | % | Amount | % | |
| Current Liabilities | | | | | | |
| 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 | Current Liabilities Total | | <u>2,384,093</u> | <u>17</u> | <u>1,318,778</u> | <u>10</u> |
| Non Current Liabilities | | | | | | |
| 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 | Total noncurrent liabilities | | <u>3,956,861</u> | <u>29</u> | <u>4,208,597</u> | <u>33</u> |
| 2XXX | Liabilities Total | | <u>6,340,954</u> | <u>46</u> | <u>5,527,375</u> | <u>43</u> |
| Equity | | | | | | |
| Capital stock | | | | | | |
| 3110 | Common Stock | 6 (16) | 4,733,292 | 34 | 4,733,292 | 37 |
| Capital Surplus | | | | | | |
| 3200 | Capital Surplus | 6 (17) | 156,764 | 1 | 156,764 | 1 |
| Retained earnings | | | | | | |
| 3310 | Legal reserve | 6 (18) | 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) |
| Other equity | | | | | | |
| 3400 | Other equity | | 161,235 | 1 | 28,536 | - |
| 3500 | Treasury Stocks | 6 (16) | (183,035) | (1) | (183,035) | (1) |
| 3XXX | Equity Total | | <u>7,543,425</u> | <u>54</u> | <u>7,319,790</u> | <u>57</u> |
| Significant Contingent Liabilities and Unrecognized Contractual Commitments | | | | | | |
| Significant events after the reporting period | | | | | | |
| 3X2X | Total Liabilities and Equity | | <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
Individual Income Statements

(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 expenses | | | | | |
| 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 | Income (loss) before tax | | 125,428 | 2 | (680,931) | (16) |
| 7950 | Tax (expenses) gains | 6(26) | (13,951) | - | 11,368 | - |
| 8200 | Net income (loss) | | \$ 111,477 | 2 | \$ 669,563 | (16) |
| | Other comprehensive income(net) | | | | | |
| | Items that are not reclassified to profit or loss | | | | | |
| 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 | - |
| | Items that may be reclassified subsequently to profit or loss | | | | | |
| 8361 | Exchange differences on translation of financial statements of foreign operating institutions | | 8,326 | - | (52,290) | (1) |
| 8300 | Other comprehensive income(net) | | \$ 112,158 | 2 | \$ 50,000 | (1) |
| 8500 | Total comprehensive income | | \$ 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 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
INDIVIDUAL STATEMENTS OF CHANGES IN EQUITY

Expressed in thousands of New Taiwan dollars

| | Note | Retained earnings | | | | Other equity | | | Treasury Stocks | Total Equity |
|-----------------------------|-------|--------------------------------|--------------------|---------------|-----------------|--|---|--|-----------------|--------------|
| | | Share capital- common stock | Capital Surplus | 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 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
INDIVIDUAL STATEMENTS OF CASH FLOWS

Expressed in thousands of New Taiwan dollars

| | Note | 2020 | 2019 |
|--|-----------|-------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| 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 | | 509,919 | 201,295 |

(Continued)

FEDERAL CORPORATION
INDIVIDUAL STATEMENTS OF CASH FLOWS

Expressed in thousands of New Taiwan dollars

| | Note | 2020 | 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 | | <u>\$ 774,103</u> | <u>\$ 310,020</u> |

The accompanying notes 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
INDIVIDUAL FINANCIAL STATEMENTS WITH NOTES
THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Expressed in thousands of NTD

(Except as otherwise noted)

1. HISTORY AND ORGANIZATION

Federal Corporation (hereinafter "the Company") was established in November 1955 and renamed from its former name Tayfeng Rubber Industries Co., Ltd in October 1964. The Company is mainly engaged in the manufacturing and sale of automobile tires and rubber. The Company's shares have been listed and traded on the Taiwan Stock Exchange since July 1979.

2. DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on 26 March 2021.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2020 are as follows:

| | <u>Effective date by</u> <u>International</u> <u>Accounting Standards</u> <u>Board</u> |
|---|---|
| <u>New Standards, Interpretations and Amendments</u> | |
| Board Amendments to IAS 1 and IAS 8, 'Disclosure initiative-definition of material' January | January 1, 2020 |
| 2020Amendments to IFRS 3, 'Definition of a business' January | January 1, 2020 |
| 2020Amendments to IFRS 9, IAS 39 and IFRS7, 'Interest rate benchmark reform' January | January 1, 2020 |
| Amendment to IFRS 16, 'Covid-19-related rent concessions' | June 1, 2020 (Note) |

Note : Earlier application from January 1, 2020 is allowed by FSC.

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2021 are as follows.

January 1, 2021

Amendments to IFRS 4, 'Extension of the temporary exemption from applying IFRS 9'

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, January 1, 2021 'Interest Rate Benchmark Reform— Phase 2'

January 1, 2021

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows.

| | Effective date by International Accounting Standards Board |
|---|--|
| New Standards, Interpretations and Amendments | |
| Amendments to IFRS 3, 'Reference to the conceptual framework' | January 1, 2022 |
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting |
| IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IAS 1, 'Classification of liabilities as current or noncurrent' | January 1, 2023 |
| Amendments to IAS 1, 'Disclosure of accounting policies' | January 1, 2023 |
| Amendments to IAS 8, 'Definition of accounting estimates' | January 1, 2023 |
| Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use' | January 1, 2022 |
| Amendments to IAS 37, "onerous contracts – cost of fulfilling a contract" | January 1, 2022 |
| Annual improvements to IFRS Standards 2018–2020 | January 1, 2022 |

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Company have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers”,

(2) Basis of preparation

1. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (1) Financial Assets and Liabilities at fair value through profit or loss (including derivative instruments).
 - (2) Financial assets at fair value through other comprehensive income.
 - (3) Defined benefit liabilities recognized based on the net amount of pension fund assets less the present value of defined benefit obligations.
2. The preparation of financial statements, in conformity with IFRSs, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Foreign currency translation

The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

The operating results and financial position of all the subsidiaries, associates and jointly arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- iii. All resulting exchange differences are recognized in other comprehensive income.

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within 12 months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than 12 months after the balance sheet date.

Terms of an asset that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
- (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within 12 months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after the balance sheet date.
- Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification

(5)Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations (including time deposits with contract period of less than 12 months) are classified as cash equivalents.

(6)Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.
- C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
- D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7)Financial assets at fair value through other comprehensive income

1. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

- i. The objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets; and
- ii. The assets' contractual cash flows represent solely payments of principal and interest.

On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using settlement date accounting.

- iii. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognized as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(8) Financial assets at amortized cost

1. A financial asset is one that also meets the following criteria.
 - (1) The financial asset is held under an operating model whose objective is to collect the contractual cash flows.
 - (2) The contractual terms of the financial asset generate cash flows at a specific date, solely for the purpose of paying principal and interest on the outstanding principal amount.
2. The Company uses trade date accounting for financial assets measured at amortized cost in accordance with trading practice.
3. The Company measures financial assets at fair value plus transaction costs on initial recognition, and subsequently recognizes interest income and impairment losses over the liquidity period using the effective interest method under the amortization procedure, and recognizes the gain or loss in profit or loss when derecognized.
4. Time deposits held by the Company that do not meet the cash equivalents are measured at the investment amount because of the short holding period and the effect of discounting is not significant.

(9) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortized cost, at each reporting date, the Company recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime ECLs.

(11) Derecognition of Financial Assets

Financial assets are derecognized when the Company's contractual rights to receive cash flows from the financial assets lapse.

(12) Inventories

Inventories are measured at the lower of cost or net realizable value and are inventoried on a perpetual basis, with cost determined by the weighted-average method. The cost of finished goods and work-in-process includes raw materials, direct labor, other direct costs and production-related manufacturing costs, but excludes borrowing costs. The lower of cost or net realizable value is determined on a line-by-line basis. Net realizable value is the estimated selling price in the ordinary course of business, less related variable selling expenses.

(13) Pending sale of Non Current Assets (or disposal Companies)

When the carrying amount of a noncurrent asset (or disposal Company) is recovered principally through a sale transaction rather than through continued use, and it is highly probable that the asset will be sold, it is classified as an asset held for sale and is measured at the lower of its carrying amount or fair value less costs to sell.

(14) Investments/subsidiaries accounted for using the equity method

1. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
2. Unrealized gains or losses resulting from inter-company transactions with subsidiaries are eliminated. Necessary adjustments are made to the accounting policies of subsidiaries, to be consistent with the accounting policies of the Company.
3. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognize its share in the subsidiary's loss proportionately.
4. According to Rules Governing the Preparation of Financial Statements by Securities Issuers, profit for the year and other comprehensive income for the year reported in the parent company only financial statements, shall be equal to profit for the year and other comprehensive income attributable to owners of the parent reported in the consolidated financial statements, equity reported in the parent company only financial statements shall be equal to equity attributable to owners of parent reported in the consolidated financial statements.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are audited, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of property, plant and equipment are as follows: ° The estimated useful lives of property, plant and equipment are as follows: Buildings: 8~50 years, Machinery equipment: 2~25 years, transportation equipment: 5-11 years, Operating Equipment: 2~13 years and other equipment: 2-13 years.

(16) Leasing arrangements (lessee) – right-of-use assets/ lease liabilities

- A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low- value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate.
Lease payments are comprised of fixed payments, less any lease incentives receivable; and amounts expected to be payable by the lessee under residual value guarantees.
The Company subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is re-measured and the amount of re-measurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

- (a) The amount of the initial measurement of lease liability;
- (b) Any lease payments made at or before the commencement date;

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(17) Intangible assets

Computer software and copyright are stated at cost and amortized on a straight-line basis over its estimated useful life of 5 years.

(18) Impairment of Non Financial Assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(19) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(21) Financial liabilities at fair value through profit or loss

1. Financial liabilities designated as at fair value through profit or loss on initial recognition. A financial liability is designated as at fair value through profit or loss on initial recognition when it meets one of the following criteria.

- (1) it is a hybrid (combined) contract; or
- (2) eliminates or significantly reduces the measurement or recognition inconsistency; or
- (3) is an instrument that is managed and evaluated on a fair value basis in accordance with a written risk management policy.

2. The Company recognizes the related transaction costs at fair value through profit or loss upon initial recognition and subsequently recognizes the gain or loss at fair value through profit or loss.

(22) Derecognition of financial liabilities

The Company derecognizes financial liabilities upon the performance, cancellation or maturity of the obligations contained in the contracts.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognized as expense in that period when the employees render service.

B. Pensions

1. Defined contribution plan

For defined contribution plans, the contributions are recognized as pension expense when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

2. Defined benefit plan

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Re-measurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Past service costs are recognized immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognizes expense when it can no longer withdraw an offer of termination benefits or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' and directors' remuneration

Employees' remuneration and directors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(24) Income tax

A. The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- D. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- E. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- F. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- G. Current income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and there is an intention to settle or realize the assets and liabilities simultaneously on a net basis; deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and the deferred income tax assets and liabilities are levied by the same taxable entity or by different taxable entities with the intention to settle or realize the assets and liabilities simultaneously. Deferred income tax assets and liabilities are offset when each entity intends to settle or realize the assets and liabilities on a net basis.

(25) Share Capital

1. The incremental costs directly attributable to the issuance of new shares or stock options are recorded as a deduction from Equity, net of income taxes.
2. When the Company repurchases outstanding shares, the consideration paid includes any incremental costs directly attributable to the issuance of new shares or stock options and is recognized as a deduction from Equity, net of income taxes. Upon subsequent issuance of repurchased shares, the difference between the consideration received and the carrying amount, net of any directly attributable incremental costs and income tax effects, is recognized as an adjustment to stockholders' equity.

(26) Revenue recognition

Sales of goods

5. The Company manufactures and sells tire-related products, and sales revenue is recognized when control of the products is transferred to the customer, i.e., when the products are delivered to the customer, the customer has discretion over the access and price of the products sold, and the Company has no outstanding performance obligations that may affect the acceptance of the products by the wholesaler. Delivery of merchandise occurs when the product is delivered to the designated location, the risk of obsolescence and loss has been transferred to the wholesaler, and the customer accepts the product in accordance with the sales contract or when there is objective evidence that all acceptance criteria have been met.
6. Sales revenue is recognized at the contract price less estimated sales tax, sales returns, volume discounts and discounts. Revenue is recognized to the extent that it is highly probable that there will be no material reversal in the future and is updated on each

balance sheet date. Discounts on sales related to estimated sales payable to customers as of the balance sheet date are recognized as a refund liability. The collection terms of sales transactions are usually due 45 to 120 days after the shipment date. The Company does not adjust the transaction price to reflect the time value of money because the time lag between the transfer of the promised goods or services to the customer and the customer's payment does not exceed one year.

7. The Company provides a standard warranty on the products sold and has a refund obligation for product defects, for which a liability provision is recognized at the time of sale.
8. Accounts receivable are recognized when the goods are delivered to the customer because the Company has an unconditional right to the contract price from that point onward and only requires time to collect the consideration from the customer.

(27) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the enterprise will comply with the conditions attached to the government grant and that the grant will be received. If the nature of the government grant is to compensate the Company for expenses incurred, the government grant is recognized in profit or loss on a systematic basis in the period in which the related expenses are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgments in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. These estimates and assumptions have the risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year. There are no instances of uncertainty in the Company's significant accounting judgments. Please refer to the following description of the uncertainty of significant accounting estimates and assumptions.

Critical accounting assumptions and estimates

1 Valuation of Accounts Receivable

As the Company's accounts receivable are estimated to be doubtful based on historical experience and other known reasons or objective evidence of doubtful accounts, the assessment of accounts receivable may not result in the collection of the current deductions recorded as accounts receivable. This allowance for doubtful accounts is based on the probability of future collection and is therefore subject to significant change.

As of December 31, 2010, the carrying amount of the Company's accounts receivable was \$960,232.

2. Evaluation of inventory

As inventories are to be denominated at a low cost and net realizable value, the Company must use judgment and estimation to determine the net realized value of the balance sheet's daily inventory. As a result of rapid technological changes, the Company assesses the amount of balance sheet daily inventory due to normal wear and tear, obsolete or marketable sales value and dilutes inventory costs to a net realized value. This inventory evaluation is based primarily on estimates of product demand for a specific period in the future and may result in significant changes.

As at 31 December 2020, the book value of the Company's inventory was \$649,093.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---------------------------------------|--------------------------|--------------------------|
| Cash in hand and petty cash | \$ 200 | \$ 200 |
| Checking accounts and demand deposits | 47,698 | 282,838 |
| Time deposits | 155,786 | - |
| Cash equivalents- Repurchase Notes | <u>570,419</u> | <u>26,982</u> |
| | <u>\$ 774,103</u> | <u>\$ 310,020</u> |

1. The Company has good credit quality with financial institutions, and the Company has dealt with several financial institutions to diversify credit risk, so the possibility of default is expected to be low.
2. The Company provides cash and cash equivalents as pledges of security, please refer to Note 8.
3. As of December 31, 2020 and 2019, the Company classifies fixed deposits older than three months as financial assets carried at amortized cost - current at \$1,156 and \$611, respectively, in accordance with IFRS 9.

(2) Financial assets – current at fair value through profit or loss

| <u>Item</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Current Item : | | |
| Financial assets mandatorily measured at fair value through profit or loss | | |
| Beneficiary certificates | \$ 45,000 | \$ - |
| Forward Exchange | <u>-</u> | <u>663</u> |
| | 45,000 | 663 |
| Valuation adjustment | <u>38</u> | <u>-</u> |
| Total | <u>\$ 45,038</u> | <u>\$ 663</u> |

1. The Company recognized net profit of \$1,290 and (\$1,802) in relation to financial assets at fair value through profit or loss for the years ended December 31, 2020 and 2019, respectively.
2. Information on the nature of transactions and contracts of non-hedging derivative financial instruments is described as follows:

| | <u>December 31, 2020</u> | |
|-----------------------------------|---------------------------|--------------------|
| <u>Financial Product</u> | <u>Notional principal</u> | <u>Expiry date</u> |
| Presale Forward Exchange Contract | USD - | - |
| | <u>December 31, 2019</u> | |
| <u>Financial Product</u> | <u>Notional principal</u> | <u>Expiry date</u> |
| Presale Forward Exchange Contract | USD 1,500 | 2020/1/6~2020/1/15 |

The forward foreign exchange transactions signed by the Company are pre-sale (selling US dollars to buy Taiwan dollars) and are to avoid the exchange rate risk of import and export prices, but no risk-averse accounting is applicable.

3. The Company has not pledged financial assets measured at fair value through profit or loss.
4. The risks associated with financial assets measured at fair value through profit and loss should be described in Note 12 (2).

(3) Financial assets at fair value through other comprehensive income or loss

| <u>Item</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------------------------|--------------------------|--------------------------|
| Non Current Item : | | |
| Equity Instrument | | |
| Unlisted, OTC, and Emerging stocks | \$ 17,449 | \$ 17,449 |
| Valuation adjustment | <u>374,001</u> | <u>249,628</u> |
| Total | <u>\$ 391,450</u> | <u>\$ 267,077</u> |

1. The breakdown of the recognized profits and losses and consolidated profits and losses of financial assets at fair value through other comprehensive profits and losses is as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|------------------|
| <u>Equity instruments at fair value through other comprehensive income</u> | | |
| Fair value change recognized in other comprehensive income | <u>\$ 124,373</u> | <u>\$ 11,951</u> |
| Dividend income recognized in profit or loss | <u>\$ 6,324</u> | <u>\$ 6,324</u> |

2. The Company has not pledged financial assets measured at fair value through other comprehensive income or loss as collateral.

(4) Notes and accounts receivable

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------|--------------------------|--------------------------|
| Notes Receivable | <u>\$ 2,441</u> | <u>\$ 2,781</u> |
| Accounts Receivable | \$ 1,020,981 | \$ 746,989 |
| Less: Allowance for loss | <u>(60,749)</u> | <u>(63,304)</u> |
| | <u>\$ 960,232</u> | <u>\$ 683,685</u> |

1. The ageing analysis of accounts receivable is as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-----------------|--------------------------|--------------------------|
| Not past due | \$ 872,431 | \$ 614,848 |
| Up to 30 days | 89,822 | 46,449 |
| 31 to 90 days | 3,432 | 489 |
| 91 to 180 days | - | 12,530 |
| 181 to 365 days | - | 37,978 |
| Over 365 days | <u>55,296</u> | <u>34,695</u> |
| | <u>\$ 1,020,981</u> | <u>\$ 746,989</u> |

The above aging analysis was based on past due date.

2. As of December 31, 2020 and 2019, the balances of accounts receivable and notes receivable were generated from customer contracts, and the balance of receivables from customer contracts was \$766,688 as of January 1, 2012.
3. As of December 31, 2020 and 2019, the Company's notes receivable were not past due.
4. Without considering the collateral held or other credit enhancements, the most significant amount of exposure to credit risk for the Company's notes receivable as of December 31, 2020 and 2019 is \$2,441 and \$2,781, respectively; the most significant amount of exposure to credit risk for the Company's accounts receivable as of December 31, 2020 and 2019 is \$960,232 and \$683,685 respectively.
5. The Company's notes and accounts receivable are not pledged.
6. Please refer to Note 12(2) for the credit risk information of accounts receivable and notes receivable.

(5) Inventories

1. Details of inventory are as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Raw Materials | \$ 168,853 | \$ 202,318 |
| Materials | 79,103 | 64,586 |
| Work in process | 93,885 | 92,010 |
| Finished Products | 249,258 | 414,547 |
| Merchandise Inventories | 2,073 | 5,617 |
| In-transit inventories | <u>59,981</u> | <u>62,023</u> |
| | 653,153 | 841,101 |
| Less: Allowance for reduction of inventory to market | <u>(4,060)</u> | <u>(15,696)</u> |
| Total | <u>\$ 649,093</u> | <u>\$ 825,405</u> |

2. The cost of inventories recognized as expense for the year:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|---------------------|---------------------|
| Cost of goods sold | \$ 4,221,141 | \$ 3,698,619 |
| (Gain on reversal) of inventories | (11,636) | (2,486) |
| Other | <u>(395)</u> | <u>1,009</u> |
| | <u>\$ 4,209,110</u> | <u>\$ 3,697,142</u> |

- (1) The Company had a reversal benefit in 2020 and 2019 due to the de-stocking of inventory tires.
- (2) Other inventory-related gains and losses represent the proceeds from the sale of downgraded inventory, inventory gains and losses, and inventory obsolescence.

(6) Pending Sale of Non Current Assets

On November 13, 2019, the Board of Directors resolved to dispose of 100% of the shares of Tai-Xin Construction Co., Ltd. and reclassify the related investment using the equity method as a non-current asset held for sale.

Assets of disposal Companies pending sale:

December 31, 2020 December 31, 2019

| | | |
|---|-------------------|-------------------|
| Investments accounted for using the equity method | <u>\$ 429,966</u> | <u>\$ 437,467</u> |
|---|-------------------|-------------------|

(7) Investments accounted for using the equity method.

1. Investment details :

| <u>Investee Companies</u> | <u>December 31, 2020</u> | | <u>December 31, 2019</u> | |
|---|--------------------------|---------------------|--------------------------|---------------------|
| | Shareholding <u>%</u> | <u>Book value</u> | Shareholding <u>%</u> | <u>Book value</u> |
| FEDEREX MARKETING CO., LTD. (Federex) | 100% | \$ 213,315 | 100% | \$ 225,698 |
| Tai Xin Construction Co., Ltd. (Tai Xin) | 100% | - | 100% | - |
| Tai Cheng Development Co., Ltd. (Tai Cheng) | 100% | 1,630,242 | 100% | 1,627,166 |
| Federal International Holding Inc.(FIH) | 100% | 1,333,805 | 100% | 1,337,743 |
| Highpoint Trading Ltd. (Highpoint) | - | <u>-</u> | 100% | <u>48,988</u> |
| | | 3,177,362 | | 3,239,595 |
| Less: Shares of the Company held by subsidiaries are treated as treasury stock | | <u>(183,035)</u> | | <u>(183,035)</u> |
| | | <u>\$ 2,994,327</u> | | <u>\$ 3,056,560</u> |

For information on our subsidiaries, please refer to Note 4(3) to our consolidated financial statements for the year ended December 31, 2020.

2. The gain (loss) of shares recognized using the equity method in 2020 and 2019 were as follows

| Attributable to the owners of the parent company. | <u>2020</u> | <u>2019</u> |
|--|--------------------|---------------------|
| Federex | (\$ 10,892) | (\$ 9,514) |
| Tai-xin | (7,501) | (8,793) |
| Tai-Cheng | 19,053 | 17,753 |
| FIH | (12,379) | (277,715) |
| Highpoint | <u>(320)</u> | <u>19,116</u> |
| | <u>(\$ 12,039)</u> | <u>(\$ 259,153)</u> |

3. The investment in Tai-xin Construction Co., Ltd. using the equity method was reclassified as a non-current asset held for sale on November 13, 2019; please refer to Note 6(6).
4. Highpoint, an investment under the equity method, was liquidated on December 26, 2019 by resolution of the board of directors (acting as the shareholders' meeting) from May 2020, and the liquidation process was completed on October 19, 2020, with the return of shares amounting to \$29,673.

(8)Property, Plant and Equipment

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery Equipment</u> | <u>Transportation Equipment</u> | <u>Operating Equipment</u> | <u>Other equipment</u> | <u>Under construction</u> | <u>Total</u> |
|--------------------------|--------------------|--------------------|----------------------------|---------------------------------|----------------------------|------------------------|---------------------------|---------------------|
| January 1, 2020 | | | | | | | | |
| cost | \$1,410,176 | \$1,267,284 | \$6,021,362 | \$ 161,529 | \$ 248,080 | \$1,040,815 | \$ 251,338 | \$ 10,400,584 |
| Accumulated depreciation | <u>-</u> | <u>(69,431)</u> | <u>(2,779,232)</u> | <u>(74,950)</u> | <u>(139,696)</u> | <u>(875,290)</u> | <u>-</u> | <u>(3,938,599)</u> |
| | <u>\$1,410,176</u> | <u>\$1,197,853</u> | <u>\$3,242,130</u> | <u>\$ 86,579</u> | <u>\$ 108,384</u> | <u>\$ 165,525</u> | <u>\$ 251,338</u> | <u>\$ 6,461,985</u> |
| <u>2020</u> | | | | | | | | |
| January 1 | \$1,410,176 | \$1,197,853 | \$3,242,130 | \$ 86,579 | \$ 108,384 | \$ 165,525 | \$ 251,338 | \$ 6,461,985 |
| Additions | - | - | 9,094 | 4,616 | 2,197 | 146,011 | 195,302 | 357,220 |
| Disposals | - | - | - | - | (40) | - | - | (40) |
| Transfer | - | 1,749 | 175,325 | 5,326 | 10,220 | - | (201,842) | (9,222) |
| Depreciation | <u>-</u> | <u>(28,569)</u> | <u>(258,350)</u> | <u>(21,676)</u> | <u>(25,277)</u> | <u>(79,841)</u> | <u>-</u> | <u>(413,713)</u> |
| December 31 | <u>\$1,410,176</u> | <u>\$1,171,033</u> | <u>\$3,168,199</u> | <u>\$ 74,845</u> | <u>\$ 95,484</u> | <u>\$ 231,695</u> | <u>\$ 244,798</u> | <u>\$ 6,396,230</u> |
| December 31, 2020 | | | | | | | | |
| cost | \$1,410,176 | \$1,269,033 | \$6,181,954 | \$ 171,471 | \$ 236,003 | \$1,178,690 | \$ 244,798 | \$ 10,692,125 |
| Accumulated depreciation | <u>-</u> | <u>(98,000)</u> | <u>(3,013,755)</u> | <u>(96,626)</u> | <u>(140,519)</u> | <u>(946,995)</u> | <u>-</u> | <u>(4,295,895)</u> |
| | <u>\$1,410,176</u> | <u>\$1,171,033</u> | <u>\$3,168,199</u> | <u>\$ 74,845</u> | <u>\$ 95,484</u> | <u>\$ 231,695</u> | <u>\$ 244,798</u> | <u>\$ 6,396,230</u> |

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery Equipment</u> | <u>Transportation Equipment</u> | <u>Operating Equipment</u> | <u>Other equipment</u> | <u>Under construction</u> | <u>Total</u> |
|--------------------------|--------------------|--------------------|----------------------------|---------------------------------|----------------------------|------------------------|---------------------------|---------------------|
| January 1, 2019 | | | | | | | | |
| cost | \$1,410,176 | \$1,250,936 | \$5,898,028 | \$ 129,981 | \$ 175,792 | \$ 950,106 | \$ 622,405 | \$ 10,437,424 |
| Accumulated depreciation | <u>-</u> | <u>(41,931)</u> | <u>(2,668,200)</u> | <u>(56,638)</u> | <u>(124,314)</u> | <u>(807,886)</u> | <u>-</u> | <u>(3,698,969)</u> |
| | <u>\$1,410,176</u> | <u>\$1,209,005</u> | <u>\$3,229,828</u> | <u>\$ 73,343</u> | <u>\$ 51,478</u> | <u>\$ 142,220</u> | <u>\$ 622,405</u> | <u>\$ 6,738,455</u> |
| <u>2019</u> | | | | | | | | |
| January 1 | \$1,410,176 | \$1,209,005 | \$3,229,828 | \$ 73,343 | \$ 51,478 | \$ 142,220 | \$ 622,405 | \$ 6,738,455 |
| Additions | - | - | - | 148 | - | 140 | 196,024 | 196,312 |
| Disposals | - | - | (6,412) | - | - | - | - | (6,412) |
| Transfer | - | 16,348 | 325,713 | 32,569 | 78,048 | 90,569 | (567,091) | (23,844) |
| Depreciation | <u>-</u> | <u>(27,500)</u> | <u>(306,999)</u> | <u>(19,481)</u> | <u>(21,142)</u> | <u>(67,404)</u> | <u>-</u> | <u>(442,526)</u> |
| December 31 | <u>\$1,410,176</u> | <u>\$1,197,853</u> | <u>\$3,242,130</u> | <u>\$ 86,579</u> | <u>\$ 108,384</u> | <u>\$ 165,525</u> | <u>\$ 251,338</u> | <u>\$ 6,461,985</u> |
| December 31, 2019 | | | | | | | | |
| cost | \$1,410,176 | \$1,267,284 | \$6,021,362 | \$ 161,529 | \$ 248,080 | \$1,040,815 | \$ 251,338 | \$ 10,400,584 |
| Accumulated depreciation | <u>-</u> | <u>(69,431)</u> | <u>(2,779,232)</u> | <u>(74,950)</u> | <u>(139,696)</u> | <u>(875,290)</u> | <u>-</u> | <u>(3,938,599)</u> |
| | <u>\$1,410,176</u> | <u>\$1,197,853</u> | <u>\$3,242,130</u> | <u>\$ 86,579</u> | <u>\$ 108,384</u> | <u>\$ 165,525</u> | <u>\$ 251,338</u> | <u>\$ 6,461,985</u> |

1. The amount of property, plant and equipment borrowing costs capitalization and the interest rate range.

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-------------|--------------------|
| Capitalization amount | \$ <u>-</u> | \$ <u>855</u> |
| Capitalized interest rate range | <u>-</u> | <u>1.43%~1.71%</u> |

2. For information on guarantees provided by property, plant and equipment, please refer to Note 8.

(9) Leasing arrangements — lessee

1. The subject assets of the Company's leases include land, buildings and buses, and the lease agreements are usually for periods ranging from 1 to 50 years. The leases are negotiated on an individual basis and contain various terms and conditions, with no restrictions except that the leased assets cannot be used as collateral for loans.
2. Some of the buildings and business vehicles leased by the Company do not exceed 12 months, and the subject assets leased are office equipment with low value and are not recognized as right-of-use assets.
3. The carrying value of the right-of-use assets and the depreciation expense recognized were as follows.

| | December 31, 2020 | December 31, 2019 |
|---|---------------------|---------------------|
| | <u>Book Amount</u> | <u>Book Amount</u> |
| Buildings | \$ 2,928 | \$ 9,376 |
| Transportation Equipment (Office Vehicle) | <u>6,468</u> | <u>8,433</u> |
| | <u>\$ 9,396</u> | <u>\$ 17,809</u> |
| | <u>2020</u> | <u>2019</u> |
| | <u>Depreciation</u> | <u>Depreciation</u> |
| Buildings | \$ 2,928 | \$ 4,688 |
| Transportation Equipment (Office Vehicle) | <u>4,726</u> | <u>4,280</u> |
| | <u>\$ 7,654</u> | <u>\$ 8,968</u> |

4. The additions to the Company's right-of-use assets for 2020 and 2019 are \$2,836 and \$4,096 respectively.
5. The information on income and expense accounts relating to lease contracts is as follows:

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|-------------|-------------|
| <u>Items affecting profit or loss</u> | | |
| Interest expense of lease liabilities | \$ 177 | \$ 317 |
| Expense for short-term lease contract | 60,247 | 61,815 |
| Expense for low-value lease assets | 1,241 | 1,043 |

6. For the years ended December 31, 2020 and 2019, the Company's total cash outflow for leases was \$69,301 and \$71,934, respectively.

(10) Intangible Assets

| | <u>Computer software</u> | |
|---|--------------------------|------------------|
| | <u>2020</u> | <u>2019</u> |
| At January 1 | | |
| Cost | \$ 106,653 | \$ 104,074 |
| Accumulated amortization and impairment | <u>(87,992)</u> | <u>(77,769)</u> |
| | <u>\$ 18,661</u> | <u>\$ 26,305</u> |
| At January 1 | \$ 18,661 | \$ 26,305 |
| Transfer | - | 2,579 |
| Amortization expense | <u>(8,130)</u> | <u>(10,223)</u> |
| December 31 | <u>\$ 10,531</u> | <u>\$ 18,661</u> |
| December 31 | | |
| Cost | \$ 106,653 | \$ 106,653 |
| Accumulated amortization and impairment | <u>(96,122)</u> | <u>(87,992)</u> |
| | <u>\$ 10,531</u> | <u>\$ 18,661</u> |

1. Intangible Assets amortization details as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------|-----------------|------------------|
| Administration expenses | <u>\$ 8,130</u> | <u>\$ 10,223</u> |

2. The Company has not provided guarantees with intangible assets.

(11) Other Non Current Assets

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------|--------------------------|--------------------------|
| Prepayment for Equipment | \$ 123,992 | \$ 22,295 |
| Un-amortization expense | 42,696 | 79,240 |
| Other assets-Other | <u>2,506</u> | <u>2,505</u> |
| | <u>\$ 169,194</u> | <u>\$ 104,040</u> |

(12) Short-term

| <u>Borrowings</u> | <u>December 31, 2020</u> | <u>Interest rate range</u> | <u>December 31, 2019</u> | <u>Interest rate range</u> |
|--------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| Bank credit loan | \$ 360,464 | 0.90%~0.99% | \$ - | - |
| Bank purchase loan | <u>565,977</u> | 0.70%~1.85% | <u>467,933</u> | 1.85%~3.41% |
| | <u>\$ 926,441</u> | | <u>\$ 467,933</u> | |

(13)Other Payables

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------------|--------------------------|--------------------------|
| Equipment payable | \$ 145,996 | \$ 69,588 |
| Salaries payable | 88,032 | 76,793 |
| Bonus payable | 58,410 | 27,190 |
| Transportation payable | 101,289 | 69,074 |
| Other | <u>173,725</u> | <u>142,806</u> |
| | <u>\$ 567,452</u> | <u>\$ 385,451</u> |

Other payables - other is a summary of other payables with a single account balance not exceeding 5% of the account balance.

(14)Long-term Loans

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| Bank Guaranteed Loans | | |
| Plant construction and purchase of equipment | \$ 4,102,864 | \$ 4,175,728 |
| Less: Long-term loans due within one year or one business cycle | <u>(297,593)</u> | <u>(123,810)</u> |
| | <u>\$ 3,805,271</u> | <u>\$ 4,051,918</u> |
| Borrowing interest rate | <u>1.12%~1.52%</u> | <u>1.43%~1.71%</u> |

1. In January 2018, the Company re-signed a long-term loan contract with Hua Nan Bank for a term of 20 years with a total credit amount of \$3,250,000 and borrowed \$3,250,000 to repay all the long-term loans listed in the account, with the outstanding amount of \$3,250,000 as of December 31, 2020 and 2019; and repay the principal by installments as agreed. The principal is repayable by installments.

In June 2020, the Company entered into a long-term loan agreement with Hua Nan Bank with a term of 10 years and a total credit facility of \$2,541,000, and borrowed \$115,969. As of December 31, 2020, the outstanding amount was \$115,969, and the principal was repaid in installments as scheduled.

2. In May 2018, the Company entered into a long-term loan contract with Bank SinoPac with a term of 7 years and a total credit amount of \$400,000, with outstanding amounts of \$257,118 and \$314,284 as of December 31, 2020 and 2019, respectively; the principal is repayable by installments.
3. In May 2018, the Company entered into a long-term loan agreement with Shin Kong Commercial Bank for a term of 7 years with a total credit amount of \$300,000, with outstanding amounts of \$152,000 and \$217,000 as of December 31, 2020 and 2019, respectively; the principal is repayable by installments.
4. In October 2018, the Company entered into a long-term loan agreement with Chang Hwa Commercial Bank, for a term of 7 years with a total credit amount of \$400,000, with outstanding amounts of \$327,777 and \$394,444 as of December 31, 2020 and 2019, respectively, and the principal is repayable by installments.
5. Please refer to Note 8 for the guarantee of the above long-term loans.

(15)Pensions

1. Defined benefit plan

- (1) The Company and its domestic subsidiaries operate a defined benefit pension plan, in accordance with the Labor Standards Law, which covers all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last six months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 10% of employees' monthly salaries and wages to a retirement fund at the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make a lump-sum withdrawal of the difference before the end of March of the following year.

- (2) The amounts recognized in the balance sheet are as follows: :

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | (\$ 285,232) | (\$ 264,907) |
| Fair value of plan assets | <u>139,380</u> | <u>119,499</u> |
| Net defined benefit liability | <u>(\$ 145,852)</u> | <u>(\$ 145,408)</u> |

- (3) Movements in net defined benefit liabilities are as follows

| | <u>Present value of defined benefit obligations</u> | <u>Fair value of plan assets</u> | <u>Net defined benefit liabilities</u> |
|---|---|----------------------------------|--|
| Balance | | | |
| At January 1 2020 | (\$ 264,907) | \$ 119,499 | (\$ 145,408) |
| Current service cost | (4,181) | - | (4,181) |
| Interest (expense) income | (1,831) | 854 | (977) |
| Past service cost | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(270,919)</u> | <u>120,353</u> | <u>(150,566)</u> |
| Remeasurements: | | | |
| Return on plan assets (not including the amount included in interest income or expense) | - | 3,974 | 3,974 |
| Change in demographic assumptions | (2) | - | (2) |
| Change in financial assumptions | (11,941) | - | (11,941) |
| Experience adjustments | <u>(11,081)</u> | <u>-</u> | <u>(11,081)</u> |
| | <u>(23,024)</u> | <u>3,974</u> | <u>(19,050)</u> |
| Pension fund contribution | - | 23,764 | 23,764 |

| | | | |
|---|---|--------------------------------------|--|
| Paid pension | 8,711 | (8,711) | - |
| Balance at December 31 | <u>(\$ 285,232)</u> | <u>\$ 139,380</u> | <u>(\$ 145,852)</u> |
| | <u>Present value of defined benefit obligations</u> | <u>Fair value of plan assets</u> | <u>Net defined benefit liabilities</u> |
| 2019 | | | |
| Balance at January 1 | (\$ 276,898) | \$ 91,197 | (\$ 185,701) |
| Current Service Cost | (4,575) | - | (4,575) |
| Interest (expense) income | (2,735) | 941 | (1,794) |
| Past service cost | <u>2,325</u> | <u>-</u> | <u>2,325</u> |
| | <u>(281,883)</u> | <u>92,138</u> | <u>(189,745)</u> |
| Remeasurements: | | | |
| Return on plan assets (not including the amount included in interest income or expense) | - | 3,785 | 3,785 |
| Change in demographic assumptions | (486) | - | (486) |
| Change in financial assumptions | (8,400) | - | (8,400) |
| Experience adjustments | <u>(585)</u> | <u>-</u> | <u>(585)</u> |
| | <u>(9,471)</u> | <u>3,785</u> | <u>(5,686)</u> |
| Pension fund contribution | - | 50,023 | 50,023 |
| Paid pension | <u>26,447</u> | <u>(26,447)</u> | <u>-</u> |
| Balance at December 31 | <u>(\$ 264,907)</u> | <u>\$ 119,499</u> | <u>(\$ 145,408)</u> |

- (4) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). Relating condition of execution is supervised by Labor Funds Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings are less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The

composition of fair value of plan assets as of December 31, 2020 and 2019 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(5) The principal actuarial assumptions used were as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------|--------------|--------------|
| Discount rate | <u>0.30%</u> | <u>0.70%</u> |
| Future salary increases | <u>2.00%</u> | <u>2.00%</u> |

The assumptions for future mortality are based on the fifth experience life table of the Taiwan life insurance industry.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | <u>Discount rate</u> | | <u>Future salary increase rate</u> | |
|---|-----------------------|-----------------------|------------------------------------|-----------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| <u>December 31, 2020</u> | | | | |
| Effect on present value of defined benefit obligation | <u>(\$ 7,547)</u> | <u>\$ 7,837</u> | <u>\$ 7,685</u> | <u>(\$ 7,441)</u> |
| <u>December 31, 2019</u> | | | | |
| Effect on present value of defined benefit obligation | <u>(\$ 6,967)</u> | <u>\$ 7,240</u> | <u>\$ 7,129</u> | <u>(\$ 6,897)</u> |

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (6) Expected contributions to the defined benefit pension plans of the Company and its domestic subsidiaries for the year ending December 31, 2021 amounts to \$12,468.
- (7) As of December 31, 2020, the weighted average duration of the retirement plan is 10 years.

The analysis of timing of the future pension payment was as follows:

| | |
|---------------|-------------------|
| Within 1 year | \$ 5,756 |
| 1-5 years | 50,493 |
| Over 5 years | <u>236,511</u> |
| | <u>\$ 292,760</u> |

2. Defined contribution plans

- (1) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (2) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2020 and 2019 were \$25,249 and \$24,161, respectively.

(16) Share capital

1. As of December 31, 2020, the Company has a paid-in capital of \$4,733,292, divided into 473,329,000 shares, with a stated capital of \$10,000,000. Each share has a par value of \$10.

A reconciliation of the number of outstanding shares of the Company's common stock at the beginning and at the end of the period is as follows:

| | <u>2020 (Note)</u> | <u>2019 (Note)</u> |
|-----------------------------------|--------------------|--------------------|
| At January 1(same as December 31) | <u>473,329</u> | <u>473,329</u> |

Note: (1) The unit is thousands of shares.

(2) Before deducting the number of shares of the Company held by subsidiaries.

2. Treasury Stocks

- (1) The Securities and Exchange Act stipulates that the number of shares repurchased by

the Company shall not exceed 10% of the total number of issued shares, and the total amount of shares repurchased shall not exceed the amount of retained earnings plus the share premium and realized capital surplus.

- (2) The treasury stock held by the Company may not be pledged under the Securities and Exchange Act and may not be entitled to shareholders' rights until it is transferred.
- (3) The breakdown of the Company's shares held by the subsidiaries as of December 31, 2020 and 2019 is as follows:

December 31, 2020

| <u>Name of the company holding the shares</u> | <u>Reason of Recovery</u> | <u>Shares (in 1,000)</u> | <u>Book Amount</u> | <u>Fair Value/Share</u> |
|---|---------------------------|--------------------------|--------------------|-------------------------|
| Subsidiary -Federex | Purpose of investment | 7,842 | \$ 116,469 | \$ 19.70 |
| Subsidiary- Tai Cheng | Purpose of investment | 5,913 | 66,566 | 19.70 |

December 31, 2019

| <u>Name of the company holding the shares</u> | <u>Reason for recovery</u> | <u>Shares (in 1,000)</u> | <u>Book Amount</u> | <u>Fair Value/Share</u> |
|---|----------------------------|--------------------------|--------------------|-------------------------|
| Subsidiary -Federex | Purpose of investment | 7,842 | \$ 116,469 | \$ 13.95 |
| Subsidiary- Tai Cheng | Purpose of investment | 5,913 | 66,566 | 13.95 |

(17)Capital Surplus

In accordance with the Company Act, capital surplus from the issuance of shares in excess of par value and capital surplus from gifts may be used to offset losses, and new shares or cash may be issued in proportion to the shareholders' original shares when the Company has no accumulated losses. In accordance with the Securities and Exchange Act, the total amount of the above capital surplus shall not exceed 10% of the paid-in capital each year. The Company may not use the capital surplus to supplement the capital surplus unless there is still a shortfall in the capital surplus to cover the capital deficit.

| | <u>Common Stock Premium</u> | <u>Treasury Stocks Transactions</u> | <u>Donated Assets</u> | <u>Total</u> |
|---|-----------------------------|-------------------------------------|-----------------------|------------------|
| At January 1, 2020 (same as December 31,2020) | <u>\$ 37,860</u> | <u>\$ 107,735</u> | <u>\$ 11,169</u> | <u>\$156,764</u> |
| | <u>Common Stock Premium</u> | <u>Treasury Stocks Transactions</u> | <u>Donated Assets</u> | <u>Total</u> |
| At January 1, 2019 | \$ 37,860 | \$ 107,735 | \$ 151 | \$145,746 |
| Occurring from gift receiving | - | - | 11,018 | 11,018 |
| December 31 | <u>\$ 37,860</u> | <u>\$ 107,735</u> | <u>\$ 11,169</u> | <u>\$156,764</u> |

Dividends received as a result of a gift are unclaimed by the shareholders after five years or more.

(18)Retained earnings

1. In accordance with the Company's Articles of Incorporation, if there is any surplus in the annual final accounts, after deducting taxes, making up for prior years' deficits, setting aside 10% of the legal reserve and setting aside a special reserve in accordance with the regulations, if there is any remaining balance in the year, the Board of Directors shall give priority to the distribution of dividends to preferred shares for the year, and then the remaining balance, together with the undistributed earnings (including adjusted undistributed earnings) at the beginning of the period, shall prepare a proposal for the distribution of earnings and submit it to the Board of Directors shall prepare a proposal for the distribution of earnings and submit it to the shareholders' meeting for approval of dividend distribution.

2. The Company's dividend policy is as follows.

The Company's industry is currently in a mature stage. Considering future capital needs

and financial planning, and taking into account the interests of shareholders, the Board of Directors shall, depending on the operating conditions, prepare a proposal for the distribution of earnings between 5% and 50% and submit it to the shareholders' meeting; in the case of cash dividends, a resolution shall be made by a majority of the Board of Directors with at least two-thirds of the directors present and reported to the shareholders' meeting. Cash dividends are preferred over stock dividends, and stock dividends may be distributed at a rate of not more than 80% of the total amount of dividends; however, if there are significant investment plans and future development, the surplus may be retained.

3. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of the legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
4. Appropriated Special Retained Earnings
 - (1) In accordance with the regulations, the Company shall set aside a special reserve for the debit balance on other equity items at the balance sheet date before distributing earnings. When the debit balance on other equity items is reversed subsequently, the reversed amount should be included in the distributable earnings.
 - (2) Upon the initial adoption of IFRSs, the special reserve set aside under the letter No. Financial-Supervisory-Securities-Issuing-1010012865 dated April 6, 2012 is reversed in proportion to the original special reserve set aside when the Company subsequently uses, disposes of or reclassifies the related assets, and if the aforementioned related assets are investment properties, the land portion is reversed upon disposal or reclassification, and the portion other than land is reversed period by period during use.
5. Distribution of surplus
 - (1) The Company resolved at the shareholders' meeting on June 19, 2020 not to distribute earnings due to an operating loss in fiscal 2019; and resolved at the shareholders' meeting on June 17, 2019 not to distribute earnings.
 - (2) On March 26, 2021, the Board of Directors proposed the following distribution of earnings for 2020.

| | <u>2020</u> | |
|--|---------------|------------------------------------|
| | <u>Amount</u> | <u>Earnings per share (in NTD)</u> |
| Legal reserve | \$ 3,071 | |
| Appropriated Special Retained Earnings | 1,591 | |
| Cash Dividend | 9,467 | \$ 0.02 |

The aforementioned proposal for the distribution of earnings for fiscal 2020 has not been resolved by the shareholders' meeting as of March 26, 2021.

(19) Operating revenue

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|---------------------|---------------------|
| Revenue from contracts with customers | <u>\$ 5,399,165</u> | <u>\$ 4,274,885</u> |

1. Breakdown of revenue from customer contracts:

The Company's revenue is derived from goods and services transferred at a point in time and can be subdivided into the following main geographical areas.

| <u>Location</u> | <u>2020</u> <u>Revenue</u> | <u>Location</u> | <u>2019</u> <u>Revenue</u> |
|-----------------|-------------------------------|-----------------|-------------------------------|
| Domestic | \$ 132,725 | Domestic | \$ 145,005 |
| Asia | 80,713 | Asia | 158,310 |
| America | 4,693,457 | America | 3,409,345 |
| Oceania | 201,370 | Oceania | 242,740 |
| Europe | 201,206 | Europe | 204,908 |
| Others | <u>89,694</u> | Others | <u>114,577</u> |
| Total | <u>\$ 5,399,165</u> | Total | <u>\$ 4,274,885</u> |

Note: Classified by the location of the customers.

2. Contract liabilities

(1) The Company recognized contract liabilities related to customer contract revenue as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> | <u>January 1, 2019</u> |
|----------------------|--------------------------|--------------------------|------------------------|
| Contract Liabilities | | | |
| - Advance | | | |
| Receivables | <u>\$ 32,320</u> | <u>\$ 23,271</u> | <u>\$ 24,944</u> |

(2) Beginning contract liabilities recognized as revenue

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| Opening balance of contract liabilities recognized as revenue in the current period | | |
| Advance resembles | <u>\$ 10,601</u> | <u>\$ 13,414</u> |

(20)Interest income

| | <u>2020</u> | <u>2019</u> |
|-----------------------|---------------|-----------------|
| Bank deposit interest | <u>\$ 876</u> | <u>\$ 1,180</u> |

(21)Other income

| | <u>2020</u> | <u>2019</u> |
|---------------------|------------------|------------------|
| Dividend income | \$ 6,324 | \$ 6,324 |
| Other income -other | <u>6,670</u> | <u>5,375</u> |
| | <u>\$ 12,994</u> | <u>\$ 11,699</u> |

(22)Other gains and loss

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|
| Gain (loss) on financial assets at fair value through profit or loss | \$ 1,290 | (\$ 1,802) |
| Foreign exchange loss, net | (64,497) | (13,097) |
| Disposal loss of Property, Plant and Equipment | (40) | (4,712) |
| Other gains and loss | <u>(3,144)</u> | <u>(1,874)</u> |
| Total | <u>(\$ 66,391)</u> | <u>(\$ 21,485)</u> |

(23)Financial costs

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| Interest expense : | | |
| Bank loans | \$ 63,834 | \$ 77,944 |
| Lease liabilities | 177 | 317 |
| Less: Financial cost capitalized that meet the criteria | <u>-</u> | <u>(855)</u> |
| | <u>\$ 64,011</u> | <u>\$ 77,406</u> |

(24)Additional information on the nature of costs and expenses

| | <u>2020</u> | | |
|---|------------------------|---------------------------|---------------------|
| | <u>Operating costs</u> | <u>Operating expenses</u> | <u>Total</u> |
| Employee benefit expense | \$ 688,783 | \$ 182,955 | \$ 871,738 |
| Property, Plant and Equipment Depreciation | 346,740 | 66,973 | 413,713 |
| Right-of-use Assets Depreciation | 422 | 7,232 | 7,654 |
| Intangible Assets Amortization expense | - | 8,130 | 8,130 |
| Other Non Current Assets Amortization expense | <u>65,240</u> | <u>8,950</u> | <u>74,190</u> |
| | <u>\$ 1,101,185</u> | <u>\$ 274,240</u> | <u>\$ 1,375,425</u> |

| | <u>2019</u> | | |
|---|------------------------|---------------------------|----------------|
| | <u>Operating costs</u> | <u>Operating expenses</u> | <u>Total</u> |
| Employee benefit expense | \$ 578,843 | \$ 186,690 | \$ 765,533 |
| Property, Plant and Equipment Depreciation | 378,969 | 63,557 | 442,526 |
| Right-of-use Assets Depreciation | 317 | 8,651 | 8,968 |
| Intangible Assets Amortization expense | - | 10,223 | 10,223 |
| Other Non Current Assets Amortization expense | <u>103,224</u> | <u>20,175</u> | <u>123,399</u> |

\$ 1,061,353 \$ 289,296 \$ 1,350,649

(25)Employee benefit expense

| | <u>2020</u> | | |
|---------------------------------|------------------------|---------------------------|-------------------|
| <u>Items</u> | <u>Operating costs</u> | <u>Operating expenses</u> | <u>Total</u> |
| Wages and salaries | \$ 581,616 | \$ 154,175 | \$ 735,791 |
| Labor and health insurance fees | 55,445 | 14,056 | 69,501 |
| Pension costs | 23,242 | 7,165 | 30,407 |
| Bonus for Directors | - | 3,905 | 3,905 |
| Other personnel expenses | <u>28,480</u> | <u>3,654</u> | <u>32,134</u> |
| | <u>\$ 688,783</u> | <u>\$ 182,955</u> | <u>\$ 871,738</u> |
| | <u>2019</u> | | |
| <u>Items</u> | <u>Operating costs</u> | <u>Operating expenses</u> | <u>Total</u> |
| Wages and salaries | \$ 479,421 | \$ 160,628 | \$ 640,049 |
| Labor and health insurance fees | 49,800 | 15,203 | 65,003 |
| Pension costs | 22,967 | 5,238 | 28,205 |
| Bonus for Directors | - | 2,630 | 2,630 |
| Other personnel expenses | <u>26,655</u> | <u>2,991</u> | <u>29,646</u> |
| | <u>\$ 578,843</u> | <u>\$ 186,690</u> | <u>\$ 765,533</u> |

Note: As of December 31, 2020 and 2019, the number of employees of the Company was 1,158 and 1,092, respectively, of which 8 and 6 were directors who were not also employees.

1. In accordance with the Company's Articles of Incorporation, the Company shall contribute no less than 1% of the employees' remuneration and no more than 3% of the directors' remuneration if there is any remaining balance after deducting accumulated losses based on the Company's profitability for the year.

2. The estimated amount of employees' compensation and directors' and supervisors' compensation for 2020 is \$665, which is recorded as salary expense.

The estimated amount for 2020 is based on the profitability as of the end of the year and is estimated based on the percentage set by the Company's Articles of Incorporation (1%).

3. Information on the remuneration of employees and directors approved by the board of directors and resolved at the shareholders' meeting can be found on the Market Observation Post System.

4. The Company's shares are listed and traded on the stock exchange, therefore, the following information has been added.

(1) The average employee benefit cost of the Company is \$755 and \$695 in 2020 and 2019, respectively.

(2) The average salary of the Company's employees in 2020 and 2019 is \$640 and \$631, respectively.

(3) The change in average employee salary cost adjustment was 1.43%.

(4) The Company has set up an audit committee, so there is no need to disclose the remuneration information of the supervisors.

5. The Company's salary and compensation policy

(1) The overall compensation level of employees is based on external competitiveness and internal fairness, and is effective in attracting and retaining talents.

(2) The performance management system is linked to employee compensation to provide motivation for employee development and to drive the positive development of the company.

(3) Linking the company's long-term and short-term goals, individual time commitment, duties and overall work performance to achieve the purpose of motivating employees.

(4) To establish a compensation committee to effectively measure the overall compensation of directors and managers of the Company.

(26)Income tax

1.Components of income tax expenses (gains) :

| | <u>2020</u> | <u>2019</u> |
|---|------------------|--------------------|
| Current income tax : | | |
| Current tax on profit of the year | \$ - | \$ - |
| Underestimation of past year income tax | - | - |
| Underestimation of prior year income tax | - | - |
| Total current income tax | - | - |
| Deferred tax | | |
| Origination and reversal of temporary differences | 13,951 | (11,368) |
| Total deferred tax | <u>13,951</u> | <u>(11,368)</u> |
| Income tax expense (gains) | <u>\$ 13,951</u> | <u>(\$ 11,368)</u> |

2. Reconciliation between income tax expense and accounting profit:

| | <u>2020</u> | <u>2019</u> |
|--|------------------|--------------------|
| Income tax on net income before income tax at statutory tax rate | \$ 25,086 | (\$ 136,186) |
| Income tax effect of items adjusted according to the law | (1,146) | (867) |
| Change in assessment of realizability of deferred income tax | (9,989) | 27,086 |
| Deferred income tax assets not recognized for tax losses | - | 98,599 |
| Income tax expense (gains) | <u>\$ 13,951</u> | <u>(\$ 11,368)</u> |

3. The amount of each deferred income tax asset or liability arising from temporary differences, tax losses and investment tax credits is as follows.

| | <u>January 1</u> | <u>2020</u> <u>Recognized profit (loss)</u> | <u>December 31</u> |
|--|-------------------|--|--------------------|
| Temporary differences: | | | |
| -Deferred tax assets : | | | |
| Unrealized decline in value of inventories and doubtful losses | \$ 3,139 | (\$ 2,327) | \$ 812 |
| Estimated Product Warranty Costs | 5,748 | 2,016 | 7,764 |
| Pension | 35,979 | (3,721) | 32,258 |
| Unused vacation bonus | 4,339 | 242 | 4,581 |
| Loss of doubtful accounts | 10,279 | (1,470) | 8,809 |
| Tax loss | 50,756 | (8,061) | 42,695 |
| Unrealized exchange loss | 2,084 | (630) | 1,454 |
| Other | 480 | - | 480 |
| Total | <u>\$ 112,804</u> | <u>(\$ 13,951)</u> | <u>\$ 98,853</u> |

| | <u>January 1</u> | <u>2019</u> <u>Recognized profit (loss)</u> | <u>December 31</u> |
|--|-------------------|--|--------------------|
| Temporary differences: | | | |
| -Deferred tax assets : | | | |
| Unrealized decline in value of inventories and doubtful losses | \$ 3,636 | (\$ 497) | \$ 3,139 |
| Product Warranty Costs | 2,737 | 3,011 | 5,748 |
| Fire loss | 14,845 | (14,845) | - |
| Pension | 44,709 | (8,730) | 35,979 |
| Unused vacation bonus | 3,273 | 1,066 | 4,339 |
| Loss of doubtful accounts | 5,363 | 4,916 | 10,279 |
| Tax loss | 26,122 | 24,634 | 50,756 |
| Unrealized exchange loss | 271 | 1,813 | 2,084 |
| Other | <u>480</u> | <u>-</u> | <u>480</u> |
| Total | <u>\$ 101,436</u> | <u>\$ 11,368</u> | <u>\$ 112,804</u> |

4. Expiration dates of unused taxable loss and amounts of unrecognized deferred tax assets are as follows.

December 31, 2020

| <u>Year incurred</u> | <u>Amount filed/assessed</u> | <u>Unused amount</u> | <u>Unrecognized</u> <u>Deferred tax assets</u> | <u>Usable until</u> |
|----------------------|------------------------------|----------------------|---|---------------------|
| 2017 | \$ 342,158 | \$ 315,213 | \$ 101,744 | 2027 |
| 2018 | 384,729 | 384,729 | 384,729 | 2028 |
| 2019 | 493,010 | 493,010 | 493,010 | 2029 |

December 31, 2019

| <u>Year incurred</u> | <u>Amount filed/assessed</u> | <u>Unused amount</u> | <u>Unrecognized</u> <u>Deferred tax assets</u> | <u>Usable until</u> |
|----------------------|------------------------------|----------------------|---|---------------------|
| 2016 | \$ 51,351 | \$ 51,351 | \$ 28,717 | 2026 |
| 2017 | 342,158 | 315,213 | 268,901 | 2027 |
| 2018 | 384,729 | 384,729 | 384,729 | 2028 |
| 2019 | 493,010 | 493,010 | 493,010 | 2029 |

5. The Company's income tax returns through 2018 have been assessed and approved by the Tax Authority.

(27)Earnings (loss) per share

| | <u>2020</u> | | |
|---|-------------------------|---|--|
| | <u>Amount after tax</u> | <u>Weighted average number of ordinary shares outstanding (shares in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic earnings per share</u> | | | |
| Net income for the period | \$ 111,477 | 459,574 | \$ 0.24 |
| <u>Diluted Earnings per share</u> | | | |
| Net income for the period | \$ 111,477 | 459,574 | |
| Effect of dilutive potential common stock on employee compensation | - | 34 | |
| Net income for the period attributable to common shareholders plus the effect of potential common shares | <u>\$ 111,477</u> | <u>459,608</u> | <u>\$ 0.24</u> |

| | <u>2019</u> | | |
|-------------------------------|-------------------------|---|--|
| | <u>Amount after tax</u> | <u>Weighted average number of ordinary shares outstanding (shares in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| <u>Basic loss per share</u> | | | |
| Current net loss | (\$ 669,563) | 459,574 | (\$ 1.46) |
| <u>Diluted loss per share</u> | | | |
| Current net loss | (\$ 669,563) | 459,574 | (\$ 1.46) |

(28)Supplementary cash flow information

Investing activities that are only partially paid in cash.

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Purchase of Property, Plant and Equipment | \$ 357,220 | \$ 196,312 |
| Add: Beginning payable for equipment | 69,588 | 64,763 |
| Less: Ending payable for equipment | (145,996) | (69,588) |
| Less: Interest capitalized | - | (855) |
| Cash paid | <u>\$ 280,812</u> | <u>\$ 190,632</u> |

(29)Changes of liabilities from financing activities

| | <u>Short-term borrowings</u> | <u>Long-term Loans</u> | <u>Lease Liabilities</u> | <u>Total liabilities from financing activities</u> |
|---------------------------------|------------------------------|------------------------|--------------------------|--|
| January 1, 2020 | \$ 467,933 | \$4,175,728 | \$ 17,930 | \$ 4,661,591 |
| Changes in financing cash flows | 458,508 | (72,864) | (7,828) | 377,816 |

| | | | | |
|------------------------|-------------------|--------------------|-----------------|---------------------|
| Other non-cash changes | - | - | (607) | (607) |
| December 31, 2020 | <u>\$ 926,441</u> | <u>\$4,102,864</u> | <u>\$ 9,495</u> | <u>\$ 5,038,800</u> |

| | <u>Short-term borrowings</u> | <u>Long-term Loans</u> | <u>Lease Liabilities</u> | <u>Total liabilities from financing activities</u> |
|---------------------------------|------------------------------|------------------------|--------------------------|--|
| January 1, 2019 | \$ 450,207 | \$4,238,430 | \$ 22,682 | \$ 4,711,319 |
| Changes in financing cash flows | 17,726 | (62,702) | (9,083) | (54,059) |
| Other non-cash changes | - | - | 4,331 | 4,331 |
| December 31, 2019 | <u>\$ 467,933</u> | <u>\$4,175,728</u> | <u>\$ 17,930</u> | <u>\$ 4,661,591</u> |

7.Related party transactions

(1)Name and relationship with related party

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|--|--------------------------------------|
| Federal Tire (Jiang-Xi) Limited (Jiang-Xi Federal) | Subsidiary |
| Tai-Cheng Development Co, Ltd. (Tai-Cheng) | Subsidiary |
| Tai-Xin Construction Co. Ltd. (Tai-Xin) | Subsidiary |
| Federex International Co. Ltd. (Federex) | Subsidiary |
| HIGHPOINT TRADING LTD.(HTL) | Subsidiary |
| FEDERAL TIRE NORTH AMERICA LLC(FTNA) | Sub-subsidiary |

Note: The subsidiaries mentioned in Note 7(2) of the related party transactions refer to the consolidated number of the above related parties.

(2)Material transactions with related party:

1.Operating income/Other operating income

| | <u>2020</u> | <u>2019</u> |
|--------------------|---------------------|---------------------|
| Sales : | | |
| -FTNA | \$ 1,250,934 | \$ 1,013,692 |
| -other subsidiary | 122,948 | 131,543 |
| Service sales | | |
| - other subsidiary | - | 2,110 |
| | <u>\$ 1,373,882</u> | <u>\$ 1,147,345</u> |

The prices sold by the company to its subsidiaries are subject to preferential treatment depending on their sales volume and type. There is no major difference from general distributors. The credit period is approximately 90-180 days from the monthly settlement, which is also the same as general customers. Service sales are the technical service income received from subsidiaries.

2. Purchase

| | <u>2020</u> | <u>2019</u> |
|------------|-----------------|------------------|
| Subsidiary | <u>\$ 4,246</u> | <u>\$ 11,900</u> |

The Company's purchases from its subsidiaries are based on current prices and on general terms of purchase.

3. Accounts receivable

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------|--------------------------|--------------------------|
| FTNA | \$ 603,178 | \$ 399,080 |
| Other subsidiary | <u>43,792</u> | <u>42,509</u> |
| | <u>\$ 646,970</u> | <u>\$ 441,589</u> |

The receivables from related parties are due 90 to 180 days after the transaction date and are unsecured and do not carry interest. No provision for liabilities has been made for amounts due from related parties.

4. Accounts payable

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------|--------------------------|--------------------------|
| Subsidiary | <u>\$ 67</u> | <u>\$ 1,328</u> |

5. Other payable

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------|--------------------------|--------------------------|
| Subsidiary | <u>\$ 11,973</u> | <u>\$ 12,010</u> |

The main factor is the payment for the purchase of property, plant and equipment from subsidiaries in 2018.

6. Revenue from management consulting services (listed as "other revenue")

| | <u>2020</u> | <u>2019</u> |
|------------|---------------|-----------------|
| Subsidiary | <u>\$ 644</u> | <u>\$ 1,227</u> |

The revenue is mainly from supporting the maintenance of information system software and computer equipment of subsidiaries.

7. Pension subsidy expenses (listed as "Operating expenses")

| | <u>2020</u> | <u>2019</u> |
|------------|-----------------|-------------|
| Subsidiary | <u>\$ 1,128</u> | <u>\$ -</u> |

When the retired employees of the subsidiaries used to work for the Company, they receive pension subsidies from the Company upon retirement, and the pension subsidy expense is \$1,128 and \$0 for 2020 and 2019, respectively.

8. Leasing arrangements – lessee

- (1) In 2020 and 2019 The Company leases the Chung-li Plant from Tai Shing for the period from January 1 to December 31, 2020, with the following major lease terms.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------|--------------------------|--------------------------|
| Subsidiary – Deposit guarantee | <u>\$ 5,659</u> | <u>\$ 5,659</u> |
| | <u>2020</u> | <u>2019</u> |
| Subsidiary – Rent expenses | <u>\$ 42,559</u> | <u>\$ 42,552</u> |

(2) In 2020 and 2019, the Company leases parking lots for employee from Tai-Xin for the periods from July 1, 2020 to June 30, 2021 and January 1, 2017 to December 31, 2019, with the following major lease terms.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------|--------------------------|--------------------------|
| Subsidiary – Deposit guarantee | <u>\$ 1,414</u> | <u>\$ -</u> |
| | <u>2020</u> | <u>2019</u> |
| Subsidiary – Rent expenses | <u>\$ 16,971</u> | <u>\$ 16,967</u> |

9. Commission expenses (listed as "Operating expenses")

| | <u>2020</u> | <u>2019</u> |
|------------|-----------------|-----------------|
| Subsidiary | <u>\$ 6,390</u> | <u>\$ 6,812</u> |

Commissions paid to subsidiaries for the Company's domestic sales

10. Endorsement guarantee situation

The Company provided endorsement guarantees for bank borrowing facilities of its subsidiaries as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------|--------------------------|--------------------------|
| Jiang-Xi Federal | \$ - | \$ 89,940 |
| FTNA | - | <u>89,940</u> |
| | <u>\$ -</u> | <u>\$ 179,880</u> |
| | | (USD 6,000,000) |

(3) Key Management compensation

| | <u>2020</u> | <u>2019</u> |
|------------------------------|------------------|------------------|
| Short-term employee benefits | \$ 15,453 | \$ 25,957 |
| Post-employment benefits | <u>207</u> | <u>1,013</u> |
| | <u>\$ 15,660</u> | <u>\$ 26,970</u> |

8. Pledged assets

The Company's assets pledged as collateral are as follows:

| <u>Asset Item</u> | <u>Book value</u> | | <u>Purpose</u> |
|-----------------------------------|--------------------------|--------------------------|--------------------------|
| | <u>December 31, 2020</u> | <u>December 31, 2019</u> | |
| Financial Assets at amortized Cos | \$ 861 | \$ 611 | Export Guarantee Letters |

| | | |
|-------------------------------|---------------------|---|
| -Current | | |
| Property, Plant and Equipment | | |
| -Land | 1,410,176 | 1,410,176Long-term Loans |
| -Buildings | 1,171,033 | 1,197,853Long-term Loans |
| -Machinery Equipment | 1,952,201 | 1,158,274Long-term Loans |
| | | |
| | | Participation in tender, lease deposit,and customs |
| Refundable Deposits | <u>12,965</u> | <u>11,781</u> deposit |
| | <u>\$ 4,546,375</u> | <u>\$ 3,778,084</u> |

9. Significant Contingent Liabilities and Unrecognized Contractual Commitments

(1) Contingencies

On December 30, 2020, the Company received the preliminary anti-dumping results from the U.S. Department of Commerce (DOC) on "passenger car and light truck tires" including those from Taiwan, Korea, Thailand and Vietnam, which determined that the anti-dumping rates for Taiwan products ranged from 52.42% to 98.44%, of which the Company was a non-compulsory respondent, so the applicable weighted average rate was 88.82%. After the additional information provided by Other Compulsory Respondents, the weighted average tax rate applied by the Company was reduced to 84.83%. The U.S. Department of Commerce (DOC) is expected to finalize the final dumping rate on May 21, 2021, and the U.S. International Trade Commission (ITC) is expected to announce its final determination of material injury to U.S. domestic industry on July 21, 2021. The Company has sought the assistance of counsel to clarify the Company's situation, however, as the overall case is focused on the overall industry of the country and there is no direct access or assistance from the non-compulsory respondent companies, the Company is unable to assess the likely outcome and impact of the ITC's final determination as it has not yet been made.

For the period from January 1, 2021 to March 26, 2021, the Company deposited \$75,174 in bonds with the U.S. Customs in connection with the aforementioned anti-dumping case.

(2) Commitments

As of December 31, 2019, and 2020, the outstanding amounts were \$336,288 and \$312,992, respectively, for the purchase of raw materials and property, plant and machinery and equipment, for which letters of credit had been signed and opened.

10. Major Disaster Losses

None.

11. Significant events after the Balance Sheet date

1. Please refer to Note 6 (19) 5 for the appropriation of earnings in fiscal 2020.

2. Please refer to Note 9 (1) for the anti-dumping case in the United States.

3. On March 26, 2021, the Board of Directors approved the spin-off of Tai Cheng Development Co., Ltd. ("Tai Cheng Development"), a 100% reinvested subsidiary of the Company, to operate its land development division (including assets, liabilities and operations) independently in accordance with the spin-off under the Business Merger and Acquisition Act, the Company Act and other related laws and regulations. (hereinafter referred to as "Development business unit") with a book value of \$10,000, and establish Rong Cheng Development Co. The newly established Rong Cheng Development issued 1,000,000 shares of common stock to the sole shareholder of Tai Cheng Development (i.e. the Company) for the business value it assumed, and Tai Cheng Development correspondingly reduced its capital by \$10,000 and cancelled 1,000,000 shares in addition to the issued shares. After the demerger, the Company's investment in Tai Cheng Development will be reduced to 15,000,000 shares, and the Company will invest in Rong Cheng Development and hold 1,000,000 shares.

12.Other

(1)Capital Management

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide remuneration to shareholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors its capital by using a debt-to-capital ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as reported in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" plus net debt as reported in the consolidated balance sheet. As of December 31, 2020, and 2019, the Company's debt-to-capital ratios were as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---------------------------------|--------------------------|--------------------------|
| Total liabilities | \$ 5,029,305 | \$ 4,643,661 |
| Less: Cash and cash equivalents | <u>774,103</u> | <u>(310,020)</u> |
| Net liabilities | 5,803,408 | 4,333,641 |
| Total Equity | <u>7,543,425</u> | <u>7,319,790</u> |
| Total capital | <u>\$ 13,346,833</u> | <u>\$ 11,653,431</u> |
| Liabilities/Equity ratio | 36.02% | 37.19% |

(2)Financial Instruments

1. Type of Financial Instruments

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| <u>Financial Assets</u> | | |
| Financial assets at fair value through profit or loss | | |
| Financial assets mandatorily measured at fair value through profit or loss | <u>\$ 45,038</u> | <u>\$ 663</u> |
| Financial assets at fair value through other comprehensive income or loss | | |
| Investments in equity instruments selected for designation | <u>\$ 391,450</u> | <u>\$ 267,077</u> |
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents | \$ 774,103 | \$ 310,020 |
| Financial assets measured at amortized cost | 1,156 | 611 |
| Notes receivable | 2,441 | 2,781 |
| Accounts receivable | 960,232 | 683,685 |
| Accounts receivable - related parties | 646,970 | 441,589 |
| Other receivables | 1,856 | 590 |
| Guarantee deposits | <u>12,965</u> | <u>11,781</u> |
| | <u>\$ 2,399,723</u> | <u>\$ 1,451,057</u> |

Financial liabilities

Financial liabilities measured at
amortized cost

| | | |
|--|---------------------|---------------------|
| Short-term borrowings | \$ 926,441 | \$ 467,933 |
| Accounts payable | 293,643 | 247,460 |
| Accounts payable - related parties | 68 | 1,328 |
| Other payables | 567,452 | 385,451 |
| Other payables - related parties | 11,973 | 12,010 |
| Lease liabilities-current | 6,416 | 9,316 |
| Lease liabilities-non-current | 3,079 | 8,614 |
| Long-term loans (including those due within one year or one business cycle) | 4,102,864 | 4,175,728 |
| Deposits received | <u>2,659</u> | <u>2,657</u> |
| | <u>\$ 5,914,595</u> | <u>\$ 5,310,497</u> |

2. Risk Management Policy

The Company's financial risk is mainly the risk associated with its investment in financial instruments. The Company adopts the most stringent control standards for the financial risk of each financial instrument investment. All financial investments and operations are thoroughly evaluated for possible market risk, credit risk, liquidity risk and cash flow risk, and the less risky ones are always selected.

3. Nature and extent of significant financial risks

(1) Market risk

Exchange rate risk

- A. The Company operates on a multinational basis and is exposed to exchange rate risk arising from transactions with different functional currencies from those of the Company and its subsidiaries, mainly the U.S. dollar and Renminbi. The related exchange rate risk arises from future commercial transactions and recognized assets and liabilities.
- B. The Company's operations involve certain non-functional currencies (the functional currency of the Company is the New Taiwan dollar, and the functional currencies of certain subsidiaries are the U.S. dollar, Singapore dollar and Renminbi) and are therefore subject to exchange rate fluctuations.

| (Currency: functional currency) | <u>December 31, 2020</u> | | | | <u>2020</u> | | |
|---------------------------------|------------------------------------|----------------|---------------------------------|------------------|------------------------------|--|--------|
| | <u>Currency (in 1,000 dollars)</u> | <u>FX rate</u> | <u>Book Amount (in NTD)</u> | <u>Changes %</u> | <u>Sensitivity analysis</u> | | |
| | | | | | <u>Profit or loss impact</u> | <u>Other comprehensive income impact</u> | |
| <u>Financial Assets</u> | | | | | | | |
| <u>Currency Item</u> | | | | | | | |
| USD: NTD | USD | 54,689 | 28.48 | \$1,557,543 | 1% | \$ 15,575 | \$ - |
| <u>Non Currency Item</u> | | | | | | | |
| USD: NTD | USD | 47,108 | 28.48 | 1,341,636 | 1% | - | 13,416 |
| <u>Financial Liabilities</u> | | | | | | | |
| <u>Currency Item</u> | | | | | | | |
| USD: NTD | USD | 29,015 | 28.48 | 826,347 | 1% | 8,263 | - |

| (Currency: functional currency) | <u>December 31, 2019</u> | | | | <u>2019</u> | | |
|---------------------------------|------------------------------------|----------------|---------------------------------|------------------|------------------------------|------------------------------------|--------|
| | <u>Currency (in 1,000 dollars)</u> | <u>FX rate</u> | <u>Book Amount (in NTD)</u> | <u>Changes %</u> | <u>Sensitivity analysis</u> | | |
| | | | | | <u>Profit or loss impact</u> | <u>Currency (in 1,000 dollars)</u> | |
| <u>Financial Assets</u> | | | | | | | |
| <u>Currency Item</u> | | | | | | | |
| USD: NTD | USD | 44,416 | 29.98 | \$1,331,592 | 1% | \$ 13,316 | \$ - |
| <u>Non Currency Item</u> | | | | | | | |
| USD: NTD | USD | 46,517 | 29.98 | 1,394,580 | 1% | - | 13,946 |
| <u>Financial Liabilities</u> | | | | | | | |
| <u>Currency Item</u> | | | | | | | |
| USD: NTD | USD | 16,198 | 29.98 | 485,616 | 1% | 4,856 | - |

- C. The aggregate amount of the Company's monetary items that are materially affected by exchange rate fluctuations in 2020 and 2019 Recognized Total Conversion Loss (both realized and unrealized) is \$64,635 及 \$13,097, respectively.

Price risk

- A. The investments held by the Company are classified as financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income or loss in the Consolidated Statement of Assets Liabilities. The Company is not exposed to the price risk of Equity instruments as the Company's investments are classified as Financial Assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income or loss. The Company has no exposure to commodity price risk. In order to manage the price risk of Equity instruments, the Company diversifies its investment portfolio in accordance with the limits set by the Company.
- B. The Company invests mainly in Equity instruments issued by domestic companies. The prices of these Equity instruments are affected by the uncertainty of the future value of the underlying investments. If the price of these Equity instruments increases or decreases by 1%, with all other factors remaining unchanged, the impact on other comprehensive income in 2020 and 2019 would be increased or decreased by \$3,990, respectively, due to gains or losses measured at fair value through other comprehensive income. The increase or decrease of \$3,915 and \$2,671 for 2020 and 2019, respectively, for other comprehensive income measured at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term Loans. Borrowings issued at floating rates expose the Company to Cash flow interest rate risk, partially offset by cash and cash equivalents held at floating rates. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. In 2020 and 2019, the Company's borrowings at floating interest rates are denominated in New Taiwan Dollars and the increase in cash outflow for each 1% increase in market interest rates is \$41,029 and \$41,757, respectively.

(2) Credit Risk

- A. The Company's credit risk is the risk of financial loss resulting from the failure of customers or counterparties to Financial Instruments to meet their obligations under contracts, primarily due to the failure of counterparties to settle Accounts Receivable, which are paid on a collection basis, and Contract Cash flows from investments in Equity Instruments, which are classified as fair value through Other comprehensive income.
- B. The Company establishes the management of credit risk from a corporate perspective. Only banks and financial institutions with an independent credit rating of at least "A" are accepted as counterparties. In accordance with the internal credit policy, each operating entity and each new customer within the Company is required to manage and analyze credit risk prior to establishing payment and delivery terms and conditions. Internal risk control is performed by considering the financial condition, past experience and other factors to assess the credit quality of customers. Individual risk limits are established by the board of directors based on internal or external ratings, and the use of credit limits is monitored regularly.
- C. The Company adopts IFRS 9 to consider that the credit risk of Financial Assets has increased significantly since the original recognition when the contract amount is overdue for more than 30 days according to the agreed payment terms.
- D. The Company is deemed to be in default when the contract amount is more than 90

days past due according to the contractual payment terms.

- E. The Company's the Accounts Receivable to customers according to the characteristics of the customer type and uses a simplified approach to estimate the expected credit loss based on the reserve matrix and loss rate method.
- F. The Company adjusted the loss rate established based on historical and current information for a specific period to estimate the allowance for losses on accounts receivable by incorporating forward-looking considerations from the Taiwan Institute of Economic Research's (TISE) Outlook Report, and the prospective matrix and loss rate method as of December 31, 2020 and 2019 are as follows :

| | | Overdue | | |
|--------------------------|---------------------|----------------------|-------------------|--------------------|
| <u>December 31, 2020</u> | <u>Not overdue</u> | <u>30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> |
| Expected loss rate | 0%~0.11% | 1.43%~5% | 9%~21% | 32%~43% |
| Total book value | \$ 872,431 | \$ 89,822 | \$ 3,432 | \$ - |
| Allowance for loss | \$ 809 | \$ 4,321 | \$ 323 | \$ - |
| | | Overdue | Overdue | |
| <u>December 31, 2020</u> | <u>181-365 days</u> | <u>Over 365 days</u> | <u>Total</u> | |
| Expected loss rate | 50%~72% | 100% | | |
| Total book value | \$ - | \$ 55,296 | \$1,020,981 | |
| Allowance for loss | \$ - | \$ 55,296 | \$ 60,749 | |
| | | Overdue | Overdue | Overdue |
| <u>December 31, 2019</u> | <u>Not overdue</u> | <u>30 days</u> | <u>31-90 days</u> | <u>91-180 days</u> |
| Expected loss rate | 0%~0.2% | 0.2%~3% | 13%~25% | 33%~45% |
| Total book value | \$ 614,848 | \$ 46,449 | \$ 489 | \$ 12,530 |
| Allowance for loss | \$ 1,436 | \$ 1,282 | \$ 69 | \$ 4,952 |
| | | Overdue | Overdue | |
| <u>December 31, 2019</u> | <u>181-365 days</u> | <u>Over 365days</u> | <u>Total</u> | |
| Expected loss rate | 54%~72% | 100% | | |
| Total book value | \$ 37,978 | \$ 34,695 | \$ 746,989 | |
| Allowance for loss | \$ 20,870 | \$ 34,695 | \$ 63,304 | |

G. the Company's condensed statement of changes in the allowance for:

| | <u>2020</u> | <u>2019</u> |
|---------------------------|----------------------------|----------------------------|
| | <u>Accounts Receivable</u> | <u>Accounts Receivable</u> |
| At January 1 | \$ 63,304 | \$ 38,050 |
| Impairment loss(Reversal) | (2,555) | 25,254 |
| December 31 | <u>\$ 60,749</u> | <u>\$ 63,304</u> |

(3) Liquidity Risk

- A. Cash flow forecasts are performed by each operating entity within the Company and are compiled by the Company Finance Department. The Company Finance Department monitors the forecast of the Company's liquidity requirements to ensure that it has sufficient funds to meet its operational needs.
- B. Surplus cash held by each operating entity is transferred back to the Company Finance Department when it exceeds the working capital management requirements. The Company's treasury department invests the remaining funds in interest-bearing demand deposits, time deposits, money market deposits and marketable securities in instruments with appropriate maturities or sufficient liquidity to meet the above projections and to provide adequate deployment levels. As of December 31, 2020, and 2019, the Company held money market positions of \$773,903 and \$309,820, respectively, and financial assets at amortized cost - current of \$1,156 and \$611, respectively, which are expected to generate immediate cash flow to manage liquidity risk. The Company's unutilized borrowings are expected to generate immediate cash flows to manage liquidity risk.

C. The breakdown of the Company's unutilized borrowing facilities is as follows.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|------------------------|--------------------------|--------------------------|
| Floating interest rate | | |
| Expires in over 1 year | <u>\$ 2,425,032</u> | <u>\$ 111,572</u> |

D. The following table presents the Company's non-derivative financial liabilities and derivative financial liabilities settled on a net or gross basis, grouped by their respective maturity dates. Non-derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the contractual maturity date; derivative financial liabilities are analyzed based on the remaining period from the balance sheet date to the expected maturity date.

| December 31, 2020 | <u>Within 1 year</u> | <u>More than 1 year</u> |
|---|----------------------|-------------------------|
| <u>Non-derivative financial liabilities :</u> | | |
| Short-term borrowings | \$ 928,454 | \$ - |
| Accounts Payable (including related parties) | 293,711 | - |
| Other Payables (including related parties) | 579,425 | - |
| Lease Liabilities | 6,522 | 3,135 |
| Long-term Loans | 346,132 | 4,124,394 |
| (Includes expiration within one year or one business cycle) | | |

| December 31, 2019 | <u>Within 1 year</u> | <u>More than 1 year</u> |
|---|----------------------|-----------------------------|
| <u>Non-derivative financial liabilities :</u> | | |
| Short-term borrowings | \$ 470,381 | \$ - |
| Accounts Payable (including related parties) | 248,788 | - |
| Other Payables (including related parties) | 397,461 | - |
| Lease Liabilities | 9,526 | 8,705 |
| Long-term Loans (Includes expiration within one year or one business cycle) | 185,135 | 4,493,920 |

The Company does not expect the timing of the cash flows for the maturity analysis to occur significantly earlier or the actual amounts to be significantly different.

(3)Fair value information

1. The different levels of the inputs used in valuation techniques to measure the fair value of financial and non-financial instruments are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks, beneficiary certificates and on-the-run Taiwan central government bonds is included in Level 1.

Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Company's investments in derivative instruments is included.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in equity investments without an active market is included in Level 3.

2. The carrying amounts of the Company's cash and cash equivalents, Notes Receivable, Accounts Receivable, Other Receivable, short-term loans, accounts payable and other payables are reasonable approximations of their fair values.

3. For financial and non-financial instruments measured at fair value, the Company classifies them according to the nature, characteristics and risks of the assets and liabilities and the basis of the fair value hierarchy, and the related information is as follows :

| December 31, 2020 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|------------------|----------------|------------------|------------------|
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial Assets at fair value through profit or loss | | | | |
| Derivatives | <u>\$ 45,038</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 45,038</u> |
| Financial Assets at fair value through other comprehensive income | | | | |
| Equity securities | <u>\$ -</u> | <u>\$ -</u> | <u>\$391,450</u> | <u>\$391,450</u> |
| December 31, 2019 | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial Assets at fair value through profit or loss | | | | |
| Derivatives | <u>\$ -</u> | <u>\$ 663</u> | <u>\$ -</u> | <u>\$ 663</u> |
| Financial Assets at fair value through other comprehensive income | | | | |
| Equity securities | <u>\$ -</u> | <u>\$ -</u> | <u>\$267,077</u> | <u>\$267,077</u> |

4. The methods and assumptions used by the Company to measure fair value are described as follows.

- (1) The Company uses quoted market prices as fair value inputs (i.e. Level 1), which are broken down by the characteristics of the instruments as follows.

| | |
|----------------------|-----------------------|
| | <u>Open-end funds</u> |
| Quoted market prices | Net value |

- (2) Except for the above-mentioned financial instruments with active markets, the fair values of the remaining financial instruments are obtained by valuation techniques or by referring to counterparty quotes. The fair values obtained through valuation techniques may be calculated by reference to the current fair values of other financial instruments with substantially similar conditions and characteristics, the discounted cash flow method, or other valuation techniques, including the use of models based on market information available at the date of the Consolidated Statement of Assets Liabilities (e.g., over-the-counter (OTC) reference colonial interest rate curves, Reuters' reference rate curves, and other market information). (e.g., the over-the-counter (OTC) reference yield curve, Reuters average commercial paper interest rate quotation).
- (3) Derivative financial instruments are evaluated based on valuation models that are widely accepted by market users, such as the discount method and option pricing models. ◦ Forward foreign exchange contracts are usually evaluated based on current forward exchange rates.
5. There is no transfer between the first tier and the second tier in 2020 and 2019.
6. Please refer to Note 6 (3) for the changes of Level 3 in 2020 and 2019.
7. There are no transfers in and out of Level 3 in 2020 and 2019.
8. The Company's evaluation process for fair value classification in Level 3 is conducted by an external appraiser to ensure that the valuation results are reasonable by using independent sources of information that approximate market conditions, confirming that the sources are independent, reliable, consistent with Other resources and representative of executable prices.
9. The quantitative information regarding the significant unobservable inputs of the valuation model used for the Level 3 fair value measurement Item and the Sensitivity analysis of changes in significant unobservable inputs are described as follows.

| | December 31, 2020 | December 31, 2019 | <u>Valuation technique</u> | <u>Significant unobservable input</u> | <u>Range (weighte d average)</u> | <u>Relationship of input to fair value</u> |
|------------------------------------|----------------------|----------------------|-----------------------------------|--|--|---|
| | <u>Fair value</u> | <u>Fair value</u> | | | | |
| Non-derivative equity instrument : | | | | | | |
| Unlisted ,non- OTC stocks | <u>\$ 391,450</u> | <u>\$ 267,077</u> | Comparable to listed companies | Principal-to- benefit ratio multiplier, principal-to-net ratio multiplier and enterprise value to pre-tax interest rate gains ratio multiplier | - | The higher the multiplier and control equity value, the higher the fair value; the higher the discount for lack of marketability, the lower the fair value |

(4)Financial instruments with off-balance-sheet credit risk

| | <u>Guaranteed Amount</u> | |
|---------------------------------|--------------------------|--------------------------|
| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
| Subsidiary Guarantee Commitment | <u>-</u> | <u>US\$ 6,000,000</u> |

The Company provides endorsement and guarantee commitments in accordance with the "endorsement and guarantee method" and only for those investees with significant influence. As the Company has full control of their credit standing, no collateral is required. If the investees fail to perform, the potential loss is equal to the contract amount.

13.Supplementary Disclosures

(1)Significant transactions information

1. Loans to others: None
- 2.Provision of endorsements and guarantees to others : Please refer to Table 1 for details. °
3. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to Table 2.
4. Acquisition or sale of the same security with the accumulated cost reaching \$300 million or 20% of the Company's paid-in capital: None.
5. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
7. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: : Please refer to Table 3
8. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to Table 4
9. Trading in derivative instruments financial products: None.
10. Significant inter-company transactions during the reporting periods: Please refer to Table

5

(2) Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to Table 6.

(3) Information on investments in Mainland China

A. Basic information: Please refer to Table 7.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

(4) Major shareholders information: Please refer to Table 8.

14. Segment Information

None.

Federal Corporation
Statement of cash and cash equivalents
December 31, 2020

Statement 1

(In thousands of New Taiwan Dollars)

| | <u>Description</u> | <u>Amount</u> |
|--|--------------------------------|-------------------|
| Cash on hand and petty cash | | \$ 200 |
| Bank Deposits – New Taiwan Dollar Deposits | | 27,523 |
| -Foreign currency deposits | USD 6,143,000 , FX rate: 28.48 | 175,961 |
| Cash equivalents - with repurchase notes | | <u>570,419</u> |
| | | <u>\$ 774,103</u> |

(Blank below)

Federal Corporation
Statement of Accounts receivable revenues
December 31, 2020

Statement 2

(In thousands of New Taiwan Dollars)

| <u>Company Name</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|---------------------------------------|--------------------|-------------------|--|
| A Company | | \$ 314,867 | |
| B Company | | 259,028 | |
| C Company | | 214,095 | |
| D Company | | 76,201 | |
| E Company | | 74,875 | |
| F Company | | 70,366 | |
| Others | | 11,549 | The balance of each fractional customer does not exceed 5% of the balance of this account. |
| Subtotal | | <u>1,020,981</u> | |
| Less: Allowance for doubtful accounts | | <u>(60,749)</u> | |
| | | <u>\$ 960,232</u> | |

(Blank below)

Federal Corporation
Statement of Inventory
December 31, 2020

Statement3

(In thousands of New Taiwan Dollars)

| <u>Item</u> | <u>Description</u> | <u>Amount</u> <u>Cost</u> | <u>Net</u> <u>realizable</u> <u>value</u> | <u>Note</u> |
|--|--------------------|------------------------------|---|-------------|
| Raw Materials | | \$ 168,853 | \$ 167,510 | |
| Materials | | 79,103 | 79,103 | |
| Work in process | | 93,885 | 93,885 | |
| Finished Products | | 249,258 | 251,331 | |
| Merchandise Inventories | | 2,073 | 2,052 | |
| In-transit inventories | | <u>59,981</u> | <u>59,981</u> | |
| | | 653,153 | <u>\$ 653,862</u> | |
| Less: Allowance for reduction of inventory to market | | <u>(4,060)</u> | | |
| | | <u>\$ 649,093</u> | | |

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Federal Corporation
at fair value through other comprehensive income
2020

Statement 4

(In thousands of New Taiwan Dollars)

| Name | <u>Balance as of January 1, 2020</u> | | <u>Additions</u> | | <u>Decreases</u> | | <u>Balance as of December 31, 2020</u> | | Provision of guarantees or pledges | <u>Note</u> |
|---|--------------------------------------|-------------------|-------------------------|-------------------|-------------------------|---------------|--|-------------------|--|-------------|
| | <u>Number of shares</u> | <u>Book value</u> | <u>Number of shares</u> | <u>Amount</u> | <u>Number of shares</u> | <u>Amount</u> | <u>Number of shares</u> | <u>Fair value</u> | | |
| Non-current items: | | | | | | | | | | |
| Domestic common stocks – listed, OTC companies | | | | | | | | | | |
| Chiuho Motor Co. Ltd. | 12,522 | \$ 11,384 | - | \$ - | - | \$ - | 12,522 | \$ 11,384 | None | |
| Valuation adjustment | | 152,601 | | 58,435 | | - | | 211,036 | | |
| Ford Lio Ho Motor Company | 1,370,172 | 6,065 | - | - | - | - | 1,370,172 | 6,065 | " | |
| Valuation adjustment | | <u>97,027</u> | | <u>65,938</u> | | <u>-</u> | | <u>162,965</u> | | |
| | | <u>\$ 267,077</u> | | <u>\$ 124,373</u> | | <u>\$ -</u> | | <u>\$ 391,450</u> | | |

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Federal Corporation
Statement of Investment changes using the equity method
2020

Statement 5

(In thousands of New Taiwan Dollars)

| <u>Name</u> | <u>Balance as of January 1, 2020</u> | | <u>Investment (loss) income</u> | <u>Exchange differences on translation of financial statements of foreign operating institutions</u> | | <u>Balance as of December 31, 2020</u> | | | <u>Market or net equity</u> | <u>Collaterals</u> | <u>Note</u> |
|--|--------------------------------------|---------------------|---------------------------------|--|--------------------|--|---------------|---------------------|-----------------------------|--------------------|-------------|
| | <u>Shares (in 1,000)</u> | <u>Amount</u> | | <u>Others</u> | <u>Shares</u> | <u>Shareholding (%)</u> | <u>Amount</u> | <u>Total</u> | <u>or pledges</u> | | |
| Federex International Co. Ltd. | 19,000 | \$ 225,698 | (\$ 10,892) | | (\$ 1,491) | 19,000 | 100 | 213,315 | \$ 258,800 | none | Note1 |
| Tai-Xin Construction Co. Ltd. | 33,000 | - | (7,501) | - | - | 33,000 | 100 | - | 460,846 | " | Note 2 |
| Tai-cheng development Co., Ltd. | 16,000 | 1,627,166 | 19,053 | - | (15,977) | 16,000 | 100 | 1,630,242 | 1,649,275 | " | Note1 |
| Federal International Holding Inc. | 65,331 | 1,337,743 | (12,379) | 8,442 | - | 65,331 | 100 | 1,333,805 | 1,333,805 | " | - |
| Highpoint Trading Ltd. | 1,000 | 48,988 | (320) | (116) | (48,552) | - | - | - | - | " | Note 3 |
| Less: Shares of the Company held by subsidiaries are treated as treasury stock | | (183,035) | - | - | - | | | (183,035) | | | |
| | | <u>\$ 3,056,560</u> | <u>(\$ 12,039)</u> | <u>\$ 8,326</u> | <u>(\$ 66,020)</u> | | | <u>\$ 2,994,327</u> | | | |

Note 1: The other amount for the period includes the remeasurement of the defined benefit plan and cash dividends from the investee company.

Note 2: On November 13, 2019, the Board of Directors resolved to dispose of 100% of the shares of Tai-xin Construction Co., Ltd. and reclassify the related investment using the equity method as a non-current asset held for sale.

Note 3: On December 26, 2019, Highpoint Trading Ltd. (HTL) was liquidated by resolution of the board of directors (acting as the shareholders' meeting), and liquidation was conducted from May 2020, and the liquidation process was completed on October 19, 2020, with the return of shares amounting to \$29,673.

Federal Corporation
Statement of Short-term loan
FOR THE YEAR ENDED DECEMBER 31, 2020

Statement 6

(In thousands of New Taiwan Dollars)

| <u>The type of borrowings</u> | <u>Balance as of</u> | | <u>Contract Period</u> | <u>Interest rate range</u> | <u>Lines of credit</u> | <u>Collateral</u> | <u>Note</u> |
|--|----------------------|---------------------|------------------------|----------------------------|------------------------|-------------------|-------------|
| | <u>2020</u> | <u>December 31,</u> | | | | | |
| Purchase loan | | | | | | | |
| First Bank, Chengdong Branch | \$ 100,778 | | Within 180 days | 0.70%~1.85% | \$ 150,000 | None | |
| Land Bank, Shih-lin Branch | 118,247 | | " | " | 300,000 | " | |
| Taiwan Business Bank, Chungli Branch | 97,996 | | 1 year | " | 150,000 | " | |
| Mega Bank, Cheng-chong Branch | 127,958 | | " | " | 160,000 | " | |
| Taiwan Cooperative Bank, Chunghsiao Branch | 50,537 | | Within 180 days | " | 200,000 | " | |
| Hua Nan Bank, Cheng-Dong Branch | 63,952 | | " | " | 150,000 | " | |
| Changhwa Bank, Chungli Branch | <u>6,509</u> | | " | " | 200,000 | " | |
| Subtotal | <u>565,977</u> | | | | | | |
| Credit loan | | | | | | | |
| The Export-Import Bank | \$ 60,000 | | Within 180 days | 0.90%~0.99% | 80,000 | " | |
| Taiwan Business Bank, Chungli Branch | 170,880 | | Within 365 days | " | 284,800 | " | |
| Changhwa Bank, Chungli Branch | <u>129,584</u> | | Within 180 days | " | 200,000 | " | |
| Subtotal | <u>360,464</u> | | | | | | |
| Total | <u>\$ 926,441</u> | | | | | | |

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Federal Corporation
Statement of Accounts payable
For the year ended December 31, 2020

Statement 7

(In thousands of New Taiwan Dollars)

| <u>Company Name</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|---------------------|--------------------|-------------------|--|
| A Company | | \$ 76,577 | |
| B Company | | 45,595 | |
| C Company | | 23,615 | |
| D Company | | 22,044 | |
| E Company | | 20,533 | |
| F Company | | 16,070 | |
| | 122172.00 | | |
| Others | | <u>89,209</u> | The balance of each fractional customer does not exceed 5% of the balance of this account. |
| | | <u>\$ 293,643</u> | |

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FEDERAL CORPORATION

Statement of long-term loans (including expiration (Long-term loans (includes expiration within one year or one business cycle)

DECEMBER 31, 2020

Statement 8

(In thousands of New Taiwan Dollars)

| <u>Creditors</u> | <u>Description</u> | <u>Loan Amount</u> | <u>Contract Period</u> | <u>Collateral</u> | <u>Note</u> |
|---------------------------|--------------------|---------------------|------------------------|-------------------|-------------|
| HUA NAN COMMERCIAL BANK | | \$ 3,250,000 | 2018.02.22~2038.02.22 | Note | |
| HUA NAN COMMERCIAL BANK | | 29,317 | 2020.06.03~2030.06.03 | " | |
| HUA NAN COMMERCIAL BANK | | 8,400 | 2020.07.31~2030.06.03 | " | |
| HUA NAN COMMERCIAL BANK | | 8,316 | 2020.09.30~2030.06.30 | " | |
| HUA NAN COMMERCIAL BANK | | 69,936 | 2020.06.03~2030.06.03 | " | |
| Bank SinoPac | | 257,118 | 2018.05.04~2025.05.04 | " | |
| Shin Kong Commercial Bank | | 152,000 | 2018.10.23~2025.10.23 | " | |
| Changhwa Commercial Bank | | 327,777 | 2018.11.09~2025.11.09 | " | |
| | | <u>\$ 4,102,864</u> | | | |

Note: Please refer to Note 8 for the Company's long-term loans with property guarantees.

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FEDERAL CORPORATION
STATEMENT OF Operating Revenue
From January 1, 2020 to December 31, 2019
(In thousands of New Taiwan Dollars)

Statement 9

| Item | Quantity (piece) | Amount | Note |
|-----------------------------|------------------|---------------------|------|
| Outer Tire | 3,475,002 | \$ 5,675,021 | |
| Inner tube | 889 | 399 | |
| Cushion Belt | 797 | <u>133</u> | |
| Total | | 5,675,553 | |
| Less: Sales return | | (228,111) | |
| Discount on sales | | <u>(48,277)</u> | |
| Net sales revenue | | 5,399,165 | |
| Add: Other operating income | | <u>-</u> | |
| Total operating income | | <u>\$ 5,399,165</u> | |

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Federal Corporation
Statement of cost of good sold
From January 1, 2020 to December 31, 2019

Statement 10

(In thousands of New Taiwan Dollars)

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|---|--------------------|------------------|-------------|
| (1) Cost of self-made goods sold | | | |
| Inventory of raw materials at the beginning of the period | | \$ 202,318 | |
| Add: Purchase of materials | | 2,498,109 | |
| Gain on physical inventory for raw materials | | 145 | |
| Less: Inventory of raw materials at the end of the period | | (168,853) | |
| Transferred to other accounts | | (55) | |
| | | <u>2,531,664</u> | |
| Inventory of materials at the beginning of the period | | 64,586 | |
| Add: Purchases for the period | | 103,145 | |
| Transfer of work-in-progress | | 25,927 | |
| Less: Inventory of materials at the end of the period | | (79,103) | |
| Loss on physical inventory for raw materials | | (199) | |
| Scrapping of raw materials | | (1,846) | |
| Transferred to other accounts | | (4,921) | |
| | | <u>107,589</u> | 0 |
| Raw materials input during the period | | 2,639,253 | |
| Direct labor | | 493,299 | |
| Manufacturing Costs | | <u>1,125,787</u> | |
| Cost of production | | 4,258,339 | |
| Add: Inventory of work-in-progress at the beginning of the period | | 92,010 | |
| Current period incoming goods | | 10,010 | |
| Less: Inventory of work-in-progress at the end of the period | | (93,885) | |
| Loss on physical inventory for raw materials | | (798) | |
| Transfer of materials | | (25,927) | |
| Sale of work-in-progress | | (49) | |
| Transferred to other accounts | | (24,350) | |
| Cost of finished goods | | 4,215,350 | |
| Add: Inventory of finished goods at beginning of period | | 414,547 | |
| Less: Inventory of finished goods at end of period | | (249,258) | |
| Rights to products to be returned at the end of the period | | (172,472) | |
| Loss on physical inventory for raw materials | | (61) | |
| Scrapping of raw materials | | (639) | |
| Transferred to other accounts | | (1,605) | |

Federal Corporation
Statement of cost of good sold
From January 1, 2020 to December 31, 2019

(In thousands of New Taiwan Dollars)

Statement 10

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|------------------------------|--------------------|------------------|-------------|
| Cost of self-made goods sold | | <u>4,205,862</u> | |

Federal Corporation
Statement of cost of good sold
From January 1, 2020 to December 31, 2019

Statement 10

(In thousands of New Taiwan Dollars)

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|---|--------------------|---------------------|-------------|
| (2) Cost of goods sold and purchased | | | |
| Inventory of goods at the beginning of the period | | \$ 5,617 | |
| Add: Imports for the period | | 11,735 | |
| Less: Inventory of goods at the end of the period | | (2,073) | |
| Cost of goods sold and purchased | | <u>15,279</u> | |
| Cost of goods sold | | 4,221,141 | 4,209,110 |
| (3) Inventory-related gains/losses | | | |
| Gain on reversal of inventories | | (11,636) | |
| Loss on physical inventory for raw materials | | 913 | |
| Scrapping of raw materials | | 2,485 | |
| Income | | (3,793) | |
| Total operating costs | | <u>\$ 4,209,110</u> | |

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FEDERAL CORPORATION
Statement of Manufacturing costs
2020

Statement 11

(In thousands of New Taiwan
Dollars)

| <u>Item</u> | <u>Description</u> | <u>Amount</u> | <u>Note</u> |
|---|--------------------|---------------------|-------------|
| Depreciation expense | | \$ 346,740 | |
| Depreciation expense of the right-to-use asset | | 422 | |
| Expendable materials and fuels | | 74,189 | |
| Salary | | 142,877 | |
| Repair expenses | | 114,445 | |
| Utilities | | 129,248 | |
| various amortization | | 65,240 | |
| Rental expenses | | 42,563 | |
| Various purchases | | 31,749 | |
| Insurance expense | | 23,304 | |
| Meals | | 18,623 | |
| Other expenses | | <u>129,344</u> | Note |
| | | <u>\$ 1,125,787</u> | |

Note: Other expenses are summarized as operating expenses with a single account balance not exceeding 5% of the balance of this account.

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FEDERAL CORPORATION
Statement of operating costs
2020

Statement 12

(In thousands of New
Taiwan Dollars)

| <u>Item</u> | <u>Marketing</u> | <u>Management</u> | <u>R&D</u> | <u>Total</u> | <u>Note</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------|
| Shipping | \$ 250,845 | \$ - | \$ - | \$ 250,845 | |
| Export fee | 157,123 | - | - | 157,123 | |
| Salary | 61,488 | 48,706 | 43,981 | 154,175 | |
| Promotion fee | 12,550 | - | - | 12,550 | |
| Rent expense | 213 | 18,532 | 180 | 18,925 | |
| Various appropriations | 4,718 | 10,840 | 1,522 | 17,080 | |
| Goods tax | 15,905 | - | - | 15,905 | |
| Service fee | 992 | 26,246 | 228 | 27,466 | |
| Insurance | 23,140 | 1,314 | - | 24,454 | |
| Travel expenses | 2,548 | 1,229 | 609 | 4,386 | |
| Depreciation expense | 30,638 | 10,643 | 25,692 | 66,973 | |
| Depreciation expense on right-of-use assets | - | 6,767 | 465 | 7,232 | |
| Testing fees | - | - | 11,552 | 11,552 | |
| Test fees | - | - | 26,452 | 26,452 | |
| Other expenses | <u>50,034</u> | <u>80,380</u> | <u>13,080</u> | <u>143,494</u> | Note |
| | <u>\$ 610,194</u> | <u>\$ 204,657</u> | <u>\$ 123,761</u> | <u>\$ 938,612</u> | |

Note: Other expenses are summarized as operating expenses with a single account balance not exceeding 5% of the balance of this account.

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FEDERAL CORPORATION

Provision of endorsements and guarantees to others

January 1 to December 31 2020

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| No. | Endorser | Endorsed by | Relationship | Endorsement guarantee limit for a single enterprise | Maximum endorsement guarantee balance for the period | Endorsement guarantee balance at the end of the period | Actual expenditures | Amount of endorsement guarantee by property guarantee | Ratio of accumulated endorsement guarantee to net worth of the most recent financial statements | Endorsement Maximum Limit | Guarantee (Note 3) | Parent company endorsement of subsidiary (Note 7) | Subsidiary endorsement of parent company (Note 7) | Endorsement guarantee for China (Note 7) | Note |
|----------|--------------|--------------------------------|--------------|---|--|--|---------------------|---|---|---------------------------|--------------------|---|---|--|------|
| (Note 1) | Company Name | Company Name | (Note 2) | (Note 3) | (Note 4) | (Note 5) | (Note 6) | | | | | | | | |
| 0 | The Company | Federal Tire (Jiangxi) Ltd. | 2 | \$ 3,771,713 | \$ 90,750 | \$ - | \$ - | \$ - | - | \$ 7,543,425 | | Y | N | Y | |
| " | " | Federal Tire North America LLC | " | 3,771,713 | 90,750 | - | - | - | - | 7,543,425 | | Y | N | N | |

Note 1: The description of the numbered column is as follows.

- (1). The issuer fills in 0.
- (2). The investee companies are numbered by company in order starting from the Arabic numeral 1.

Note 2: There are 7 types of relationships between the guarantor and the target of the endorsement, and the types can be indicated as follows

- (1). (1) Companies that have business dealings.
- (2). A company in which the company directly or indirectly holds more than 50% of the voting shares.
- (3). A company that directly or indirectly holds more than 50% of the voting shares of the company.
- (4). A company in which the Company directly or indirectly holds more than 90% of the voting shares.
- (5). A company that is mutually insured under a contract between peers or co-founders based on the needs of the contracted work.
- (6). A company that is guaranteed by all shareholders in proportion to their Ownership due to joint investment.
- (7). Inter-company guarantee for the performance of the Presale House Sales Contract in accordance with the Consumer Protection Act.

Note 3: a. The total amount of the Company's external endorsement guarantee and the total amount of the Company's and its subsidiaries' endorsement guarantee are limited to the total amount of the Company's total shareholders' equity.

b. The limits of the Company's endorsement and guarantee for a single enterprise are as follows.

- (a) For companies with business relationship: The total amount of business transactions between the two parties in the most recent year shall not exceed 50% of the total equity of the Company's shareholders. The amount of business transactions refers to the higher of the amount of purchase or sale between the two parties.
- (b) From the Company to its subsidiaries: Not to exceed 50% of the Total equity of the Company's stockholders.

c. The total amount of the Company's subsidiary's external endorsement guarantee is limited to ten times the Company's most recent net financial statements.

d. The limit of endorsement by a subsidiary to a single enterprise is as follows.

- (a) The parent company holding 100% of the shares of the company shall be limited to not more than ten times the net value of the company's most recent financial statements.
- (b) The endorsement of other related companies is limited to the net value of the company's most recent financial statements.

(c) The amount of business transactions with Nonrelated companies shall not exceed the total amount of business transactions between the two parties in the most recent year and shall not exceed the net value of the Company's most recent financial statements (the amount of business transactions refers to the higher of the amount of imports or sales between the two parties).

Note 4: The maximum balance of the current year's endorsement and guarantee for others.

Note 5: The amount approved by the board of directors should be entered, but if the board of directors authorizes the chairman of the board of directors to make the decision in accordance with Article 12, Paragraph 8 of the Guidelines Governing the Lending of Funds and Endorsements and Guarantees to Public Companies, it refers to the amount decided by the chairman of the board of directors.

Note 6: The amount of actual expenditures of the endorsed company within the scope of using the endorsement guarantee Balance should be entered.

Note 7: Y is required to be entered only for the listed parent company's endorsement and guarantee of its subsidiary, the subsidiary's endorsement and guarantee of the listed parent company, and the endorsement and guarantee of the Mainland China.

FEDERAL CORPORATION

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2020

Expressed in thousands of NTD

(Except as otherwise indicated)

Table 2

| <u>Held by</u> The Company | Type and name of securities (Note 1) | Relationship with the securities issuer (Note 2) | <u>General ledger account</u> | <u>Number of Shares</u> | <u>As of December 31, 2020</u> | | | Note (Note 4) |
|-------------------------------|--|---|---|-------------------------|--------------------------------|------------------|-------------------|------------------|
| | | | | | <u>Book value</u> (Note 3) | <u>Ownership</u> | <u>Fair Value</u> | |
| | Stock/Chiuoho Motor Co.Ltd. | - | Financial assets at fair value through other comprehensive income or loss | 12,522 | \$ 222,420 | 6.32% | \$ 222,420 | - |
| " | " /Ford Lio Ho Motor Company | - | " | 1,370,172 | 169,030 | 1.73% | 169,030 | - |
| " | Beneficiary certificates/ Cathay Taiwan Money Market Fund | - | Financial Assets at fair value through profit or loss | 3,593,187 | 45,038 | - | 45,038 | - |

Note 1: The marketable securities mentioned in this table refer to the marketable securities derived from stocks, bonds, Beneficiary certificates and the above items within the scope of IFRS 9 "Financial Instruments".

Note 2: If the issuer of marketable securities is a Relationship, the column is not filled in.

Note 3: If the securities are measured at fair value, please fill in the Balance in the Amount column after fair value adjustment and after deducting the accumulated Impairment; if the securities are not measured at fair value, please fill in the Balance in the Amount column after the original Cost of acquisition or after amortization of Cost less accumulated Impairment.

Note 4: If the listed securities are subject to restrictions due to the provision of guarantee, pledged loans or other contracts, the number of shares provided as guarantee or pledged loans, the amount of guarantee or pledged loans and the restrictions on use should be indicated in the Note column.

FEDERAL CORPORATION

Amount of acquisition or sale of goods with related parties reaching at least NT\$100 million or 20 percent of the Company's paid-in capital

January 1 to December 31 2020

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

| <u>Purchaser (seller)</u> | <u>Name of the counterparty</u> | <u>Relationship</u> | <u>Transactions</u> | | | <u>Circumstances and reasons why the transaction conditions are different from those of ordinary transactions</u> | | | <u>Notes, accounts receivable (payable)</u> | | |
|---------------------------------|---------------------------------|-------------------------------|-------------------------|---------------|---------------------------------------|---|-------------------|--------------------|---|---|-----------------|
| | | | <u>Purchase (sales)</u> | <u>Amount</u> | Percentage of total purchases (sales) | <u>Credit term</u> | <u>Unit price</u> | <u>Credit term</u> | <u>Balance</u> | Percentage of total notes and accounts receivable (payable) | <u>Footnote</u> |
| The Company | Federal Tire North America LLC. | Sub-subsidiary of the Company | Sales | \$ 1,250,934 | 23 | Open Subject to sales account availability t 180 days | | 180 days | \$ 603,178 | 37 | |
| Federal Tire North America LLC. | " | The Company | Purchase | (1,250,934) | 100 | Open Subject to sales account availability t 180 days | | 180 days | (603,178) | (100) | |

FEDERAL CORPORATION

Receivables from related parties reaching NT\$100 million or 20% of the paid-in capital or more

January 1 to December 31 2020

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

| <u>Creditor</u> | <u>Name of the counterparty</u> | <u>Relationship</u> | Creditor Balance | <u>Turnover rate</u> | <u>Overdue receivables</u> | | <u>Amount collected subsequent to the balance sheet date</u> | <u>Allowance for doubtful accounts</u> |
|-----------------|---------------------------------|-------------------------------|------------------|----------------------|----------------------------|---------------------|--|--|
| | | | <u>(Note 1)</u> | | <u>Amount</u> | <u>Action taken</u> | | |
| The Company | Federal Tire North America LLC. | Sub-Subsidiary of the Company | \$ 603,178 | 2.50 | \$ - | - | \$ 116,596 | \$ - |

Note 1: If the terms of the related party's transaction are different from the normal terms of the transaction, the difference and the reasons for the difference should be stated in the unit price and credit period columns.

Note 2: If there is any advance receivable (prepayment), the reasons, contract terms, amounts and differences from the general transaction type should be stated in the Footnote column

FEDERAL CORPORATION

Significant inter-company transactions during the reporting periods

January 1 to December 31 2020

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number. (Note 1) | Company Name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|---------------------|--------------|---------------------------------|--------------------------|------------------------|------------|-------------------|---|
| | | | | General ledger account | Amount | Transaction terms | |
| 0 | The Company | FEDEREX MARKETING CO., LTD. | 1 | Sales | \$ 122,948 | Note 4 | 2 |
| " | " | Federal Tire North America LLC. | " | Sales | 1,250,934 | " | 22 |
| " | " | " | " | Accounts Receivable | 603,178 | " | 4 |

Note 1: Information on business transactions between the parent company and subsidiaries should be indicated in the numbered column respectively, and the numbers should be completed as follows.

- (1). Enter 0 for the parent company.
- (2). The subsidiaries are numbered by company, starting with the Arabic numeral 1.

Note 2: There are three types of relationships with the counterparties as follows. For example, if the parent company has disclosed the transaction with the subsidiary, the subsidiary does not need to disclose the transaction repeatedly.

For subsidiary-to-subsubsidiary transactions, if one subsidiary has already disclosed the transaction, the other subsidiary does not need to disclose it repeatedly).

- (1). Parent to subsidiary.
- (2). Subsidiary to parent company.
- (3). Subsidiaries to subsidiaries.

Note 3: The ratio of transaction amount to consolidated total revenue or total assets is calculated as Ending Balance to consolidated total assets for asset Liabilities Item and as cumulative Amounts to consolidated total revenue for Profit and Loss Item.

Note 4: Sales are made at normal sales prices and terms, taking into account the number of transactions and market conditions, and the collection period is not materially different from that of normal customers.

Note 5: The transaction amount is not disclosed if it does not reach 1% of total assets or total revenue.

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| FEDERAL CORPORATION | | | | | | | | | | | |
|---|------------------------------------|-----------|--|-----------------------------------|--------------------------------|-----------------------------------|-----------------------|----------------------------------|---|--|-------------------------|
| Names, locations and other information of investee companies (not including investees in Mainland China) | | | | | | | | | | | |
| January 1 to December 31 2020 | | | | | | | | | | | |
| Name of Investor The Company | Name of investee company | Location | Main business activities | Initial Investment Amount | | Shareheld as at December 31, 2020 | | | Net profit (loss) of the investee for the year ended December 31, 2020 (\$ 10,893) | Investment income (loss) recognized by the Company for the year ended December 31, 2020 (\$ 10,893) | Footnote |
| | | | | End of current year \$ 190,000 | End of past year \$ 190,000 | Shares 19,000,000 | Ownership (%) 100% | Book value(Note 1) \$ 213,315 | | | |
| | FEDEREX MARKETING CO., LTD. | Taiwan | Sales of various vehicle tire rims and parts | \$ 190,000 | \$ 190,000 | 19,000,000 | 100% | \$ 213,315 | (\$ 10,893) | (\$ 10,893) | Subsidiary |
| " | Tai Xin Construction Co., Ltd. | Taiwan | Commissioned builders to build residential and commercial buildings for lease and sale | 330,000 | 330,000 | 33,000,000 | 100% | 429,966 | (7,501) | (7,501) | Subsidiary |
| " | Tai Cheng Development Co., Ltd. | Taiwan | Commissioned builders to build residential and commercial buildings for lease and sale | 160,000 | 160,000 | 16,000,000 | 100% | 1,630,242 | 19,053 | 19,053 | Subsidiary |
| " | Federal International Holding Inc. | BVI | General Investment | 2,149,877 | 2,149,877 | 65,331,062 | 100% | 1,333,805 | (12,379) | (12,379) | Subsidiary |
| " | Highpoint Trading Ltd. | BVI | Sales of various types of vehicle tires | - | 34,760 | - | - | - | (319) | (319) | Subsidiary (Note 2) |
| Federal International Holding Inc. | Amberg Investments Pte. Ltd. | Singapore | General Investment | 2,072,937 | 2,072,937 | 103,494,400 | 100% | 1,166,482 | (22,781) | (22,781) | Sub-subsidiary |
| " | Federal Tire North America LLC. | USA | General Investment | 6,437 | 6,437 | - | 100% | 53,241 | 9,210 | 9,210 | Sub-subsidiary |
| " | Winberg Investments Pte. Ltd. | Samoa | General Investment | 3,192 | 3,192 | - | 100% | 1,868 | (104) | (104) | Sub-subsidiary (Note 3) |
| " | Chia Li Lai Development Ltd.. | Hong Kong | Commercial buildings leasing businesses | 74,566 | 74,566 | 2,000,000 | 100% | 37,021 | 3,069 | 3,069 | Sub-subsidiary |

Note 1: Before deducting the amount of the Company's shares held by Ending subsidiaries as Treasury Stocks

Note 2: On December 26, 2019, Highpoint Trading Ltd. was liquidated by the board of directors (acting as the shareholders' meeting), and the liquidation process was completed on October 19, 2020.

Note 3: Winberg Investments Pte. Ltd. was liquidated by resolution of the board of directors (acting as the shareholders' meeting) on December 31, 2020, and the liquidation has not been completed as of December 31, 2020.

FEDERAL CORPORATION

Basic information on investments in Mainland China

January 1 to December 31 2020

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

| <u>Investee in</u> | <u>Mainland China</u> | <u>Main business activities</u> | <u>Paid-in capital</u> | <u>Investment method</u> (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2020 | Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2020 | Net profit (loss) of investee for the year ended December 31, 2020 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognized by the Company for the year ended December 31, 2020 (Note 2) | Book value of investments as of December 31, 2020 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2020 | Footnote |
|-------------------------------------|-----------------------|---|------------------------|--------------------------------------|--|--|-----------------------------------|--|---|--|---|---|---|----------|
| | | | | | | <u>Remitted to</u> Mainland China | <u>Remitted back</u> to Taiwan | | | | | | | |
| Federal Tire (Jiangxi) Ltd. | | Manufacturing and sale of various tires and rubber products | \$ 2,149,974 | 2 | \$2,149,974 | \$ - | \$ - | \$2,149,974 | (\$ 22,667) | 100% | (\$ 22,667) | \$1,105,085 | \$ - | - |
| Federal Tires (Shanghai) Limited | | Sales of various vehicle tire rims and parts | 941 | " | - | - | - | - | (37) | - | (37) | - | - | Note 4、5 |

| <u>Company Name</u> | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2020 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|---------------------|---|---|---|
| The Company | \$ 2,149,974 | \$ 2,149,974 | \$ 4,526,055 |

Note 1: Investment methods are divided into the following three categories, and the labeling of each category is sufficient.

(1). Direct investment in mainland China

(2). The third-party investment company of Taifeng Tire (Jiangxi) Co., Ltd. is Amberg Investments Pte. Ltd.; Federal Tires (Shanghai) Limited is invested by Winberg Investments Pte. Ltd., which invests in mainland companies through third-party companies.

(3) Other method.

Note 2: The financial statements were audited by a certified public accountant of the parent company in Taiwan.

Note 3: The relevant figures in this table should be presented in New Taiwan dollars.

Note 4: The company invested US\$30,000 from Federal International Holding Inc. of the third region to establish Federal Tire (Shanghai) Co.

Note 5: Federal Tire (Shanghai) Co., Ltd. was liquidated on September 30, 2019 by resolution of the Board of Directors (acting as the shareholders' meeting), and the liquidation process was completed on May 28, 2020.

FEDERAL CORPORATION AND SUBSIDIARIES

Major shareholders' information

December 31, 2020

Table 8

| <u>Main shareholders</u> | <u>Ownership (Common Stocks)</u> | <u>Shares</u> <u>Shareholdings (preferred stocks)</u> | <u>Shareholdings %</u> |
|---------------------------------|----------------------------------|--|------------------------|
| Nankang Rubber Tire Corp., Ltd. | 93,688,000 | - | 19.79% |
| Tai Fu Investment Co Ltd. | 27,692,991 | - | 5.85% |

Note 1: (1) The information on major shareholders in this table is calculated by Tibco on the last business day of each quarter, and the total number of common and preferred shares held by shareholders of the Company that have been delivered without physical registration (including treasury shares) is 5% or more.

The number of shares recorded in the Company's financial statements and the actual number of shares delivered without physical registration may differ depending on the basis of calculation.

(2) The above information is revealed by the trustee's opening of a trust account with individual subaccounts of the trustee if the shareholder has delivered the shares to the trust. As for the shareholders' Ownership in excess of 10%, they are reported in accordance with the Securities and Exchange Act.

For information on insider ownership reporting, please refer to the Market Observation Post System.

6. The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2020 and as of the date of this Annual Report: None.

VII. Review and Analysis of Financial Condition and Financial Performance and Risk Management

1. Financial Status

Comparative Analysis of Financial Status

Unit: NT\$ thousands, %

| Items \ Year | 2020 | 2019 | Difference | | |
|-------------------------------------|------------|------------|------------|---------|---|
| | | | Amount | % | Description |
| Current Assets | 5,061,611 | 4,167,690 | 893,921 | 21.45 | The increase is mainly due to the increase in cash and cash equivalents and receivables compared to 2019. |
| Property, Plant and Equipment | 8,687,618 | 8,765,188 | (77,570) | (0.88) | |
| Other Assets | 826,576 | 670,197 | 156,379 | 23.33 | The increase is mainly due to the increase in unrealized gains or losses on investments in equity instruments measured at fair value through other comprehensive income compared to 2019. |
| Total Assets | 14,575,805 | 13,603,075 | 972,730 | 7.15 | |
| Current Liabilities | 2,531,446 | 1,531,549 | 999,897 | 65.29 | In response to the capital needs, the decrease mainly due to the increase in short-term loans and long-term liabilities due within 1 year. |
| Noncurrent Liabilities | 4,500,934 | 4,751,736 | (250,802) | (5.28) | |
| Total Liabilities | 7,032,380 | 6,283,285 | 749,095 | 11.92 | |
| Capital Stock | 4,733,292 | 4,733,292 | 0 | 0.00 | |
| Capital Surplus | 156,764 | 156,764 | 0 | 0.00 | |
| Retained Earning | 2,675,169 | 2,584,233 | 90,936 | 3.52 | |
| Others | (21,800) | (154,499) | 132,699 | (85.89) | The increase is mainly due to the increase in unrealized gains or losses on investments in equity instruments measured at fair value through other comprehensive income compared to 2019. |
| Equity attributable to shareholders | 7,543,425 | 7,319,790 | 223,635 | 3.06 | |

2. Financial Performance

Comparative Analysis of Financial Performance

Unit: NT\$ thousands, %

| Item \ Year | 2020 | 2019 | Difference | % | Description |
|--|-----------|-----------|------------|----------|---|
| Net Revenue | 5,704,663 | 4,541,002 | 1,163,661 | 25.63 | Sales increase |
| Cost of Revenue | 4,402,644 | 3,855,187 | 547,457 | 14.20 | |
| Gross Profit | 1,302,019 | 685,815 | 616,204 | 89.85 | Mainly due to product portfolio adjustment and cost reduction. |
| Operating Expenses | 1,032,704 | 1,071,849 | (39,145) | (3.65) | Effective control of operating expenses |
| Operating Income and Expenses | 269,315 | (386,034) | 655,349 | (169.76) | |
| Non-operating Incomes or Gains | 23,198 | 46,818 | (23,620) | (50.45) | |
| Non-operating Expenses or Losses | 127,524 | 323,212 | (195,688) | (60.54) | JiangXi Federal assets were impaired by approximately NT\$214 million in 2019 |
| Income from Continuing Operation before Income Tax | 164,989 | (662,428) | 827,417 | (124.91) | |
| Income Tax Expenses | (29,044) | 1,658 | 30,702 | 1,851.75 | |
| Income from Continuing Operation after Income Tax | 135,945 | (660,770) | 796,715 | (120.57) | |
| Income (Loss) from Discontinued Operation | (24,468) | (8,793) | 15,675 | (178.27) | |
| Net Income | 111,477 | (669,563) | 781,040 | (116.65) | Turnaround in 2020 |

3. Cash Flow

(1) Cash Flow Projection from 2019 to 2020

| Item \ Year | 2020 | 2019 | % |
|------------------------------|-------|-------|------|
| Cash Flow Ratio (%) | 23.46 | 30.49 | (23) |
| Cash Flow Adequacy Ratio (%) | 51.17 | 73.29 | (30) |
| Cash Reinvestment Ratio (%) | 3.56 | 2.84 | 25 |

(2) Cash Flow Projection for Next Year

Unit: NT\$ thousands

| Initial Cash Balance (a) | Net Cash Provided by Operating Activities in 2021 (b) | Cash Flow in 2021 (c) | Cash Balance (Shortfall) in 2021 (a)+(b)-(c) | Remedy for Liquidity Shortfall | |
|-----------------------------|--|--------------------------|---|--------------------------------|----------------|
| | | | | Investment Plan | Financing Plan |
| 1,681,441 | 506,343 | 308,103 | 1,879,681 | None | None |

Description:

1. Analysis of Cash Flow

- a. Operating Activities: Estimated net cash inflows (outflows) from operating activities based on annual budget.
- b. Investing Activities: Capital expenses are mainly attributable to the acquisition of fixed assets.
- c. Financing Activities: In response to the short-term financing of operating activities, and medium- and long-term loans in capital expenses.

2. Cash Flow Projection for Next Year

The net cash inflow for the next year along with the initial cash balance of approximately NT\$2,187,784,000 is expected to be greater than the net cash outflow of approximately NT\$308,103,000.

4. Recent Years Major Capital Expenditures and Impact on Financial and Business: None

5. The Company's Reinvestment Policy for the Most Recent Fiscal Year, and Main Reasons for the Profits/Losses Generated thereby, the Plan for Improving Reinvestment Profitability, and Investment Plans for the Coming Year

(1) Long-term Investment Policy and Results:

The Company reinvested in the Jiangxi plant to cease production and set up equipment to reduce losses, and has entrusted the domestic sales market in China to a domestic OEM to supply products along with imported tires, to continue the RE market and strengthen the existing distributor channels.

(2) Investment Plan for Next Year: None

6.Risk Assessment Analysis

(1) Risks Associated with Changes in Interest Rate, Foreign Exchange and Inflation

1. Interest Rate Fluctuation

The Company's interest rate risk is mainly due to the long- and short-term liabilities from supporting operating activities. The Company will adopt an adequate proportion of fixed-rate financing instruments to reduce the risk arising from interest rate fluctuations, depending on market conditions and annual budgetary capital requirements.

2. Foreign Exchange Volatility

More than half of the Company's capital expenditures and production costs are incurred in U.S. dollars and euros. Over 90% of revenue is earned in U.S. dollars and other currencies, therefore, any significant changes in exchange rates could have an impact on the financial position. The Company engages in foreign currency hedges by using short-term loans and forward exchange agreements in foreign currencies.

3. Inflation

When there is a sudden change in market psychology regarding inflation and deflation expectations, it often affects the global economy and market efficiency, and has impact on the aggregate and individual economies, causing market volatility of various assets. These fluctuations may have a negative impact on the Company's operating costs.

(2) Risks Associated with High-Risk / Highly Leveraged Investments; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

1. The Company does not engage in high-risk, highly leveraged investment activities.

2. The Company provides loan guarantee commitments in accordance with the "Guideline for the Lending Funds and Endorsement/Guarantee" and through a prudent procedures; the total amount of loans and the single party are limited. Endorsements and loans are currently limited to subsidiaries, which are 100% invested and have limited risk.

3. The target, with which the Company trades derivative financial instruments are all financial institutions with excellent credit ratings, and the Company also allocates transactions to spread risks. The derivative transactions are carried out in accordance with the Company's "Procedures for the Acquisition or Disposal of Assets" to hedge the foreign exchange risk of receivables and payables and reduce the impact of currency volatility on the Company's operations.

(3) Future R&D Plans and Expected R&D Spending

For the following key projects, each of them will be put into special R&D operation, and the investment expenses of this year are expected to be about NTD 40 million.

a. Serialization Development

b. New Product Development

c. New Ingredient Recipe Development

d. Product Performance Improvement

e. Process improvement to enhance production efficiency and product quality

(4) Risks Associated with Changes in Government Policies and Regulatory Environment

At the end of 2020, The Department of Commerce, the U.S suddenly issued a preliminary anti-dumping rate of 52.42% to 98.44% against Taiwan, which has affected the tire industry in Taiwan. Due to the

influence of the high tax rate of 98.44% by Nankang Tire, one of the responding manufacturers, the company and other manufacturers were also affected by the initial ruling rate of 88.82%, and before the final judgment in late-May, the company has also appointed the U.S. attorney to file a lawsuit and coordinate through the Rubber Association and the Ministry of Economic Affairs.

(5) Risks Associated with Changes in Technology and Industry

In response to the rapid changes in the economic environment, the Company has been upgrading its software and hardware facilities, and moving towards the integration of total corporate resources and electronation, such as the introduction of automatic production scheduling systems and product lifecycle management systems, in order to improve production workflow and control efficiency and strengthen the Company's competitiveness in the market.

In recent years, due to the glut of production capacity in China, the market price has been disrupted and vicious competition has formed in the tire industry. The Company aims to improve its competitiveness by developing high value-added products, reducing production costs and maintaining quality to improve profitability.

(6) Changes in Corporate Reputation and Impact on Company's Crisis Management

In order to root in/with Taiwan, and share the corporate philosophy of "Use What Is Taken From The Society", The Company cannot be excluded from the social recognition and acknowledgment, so we have been actively participating in various charity activities for a long time. For example, The Company have co-sponsored local government folklore events, donated land to build parks and local community centers, or over-employed disabled staffs, and organized various charity activities through the Ma Chi Shan Foundation to contribute to the local community.

The Company have spared no effort to improve environmental protection and have installed new equipment or renovations to achieve the standard of a Green Factory, thereby providing a positive appreciation and recognition to the society. In addition, we have established an organization "Crisis Response System" to respond to any legal, quality, or safety crisis in the most efficient and effective way.

(7) Risks Associated with Mergers and Acquisitions

(8) Risks Associated with Capacity Expansion

(9) Risks Associated with Import or Sales Concentration

(10) Risks Associated with Litigation

(11) Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by Directors, and/or Major Shareholders Who Own 10% or more of Total Outstanding Shares: None

(12) Risks Associated with Litigation: None

(13) Other Material Risks: None

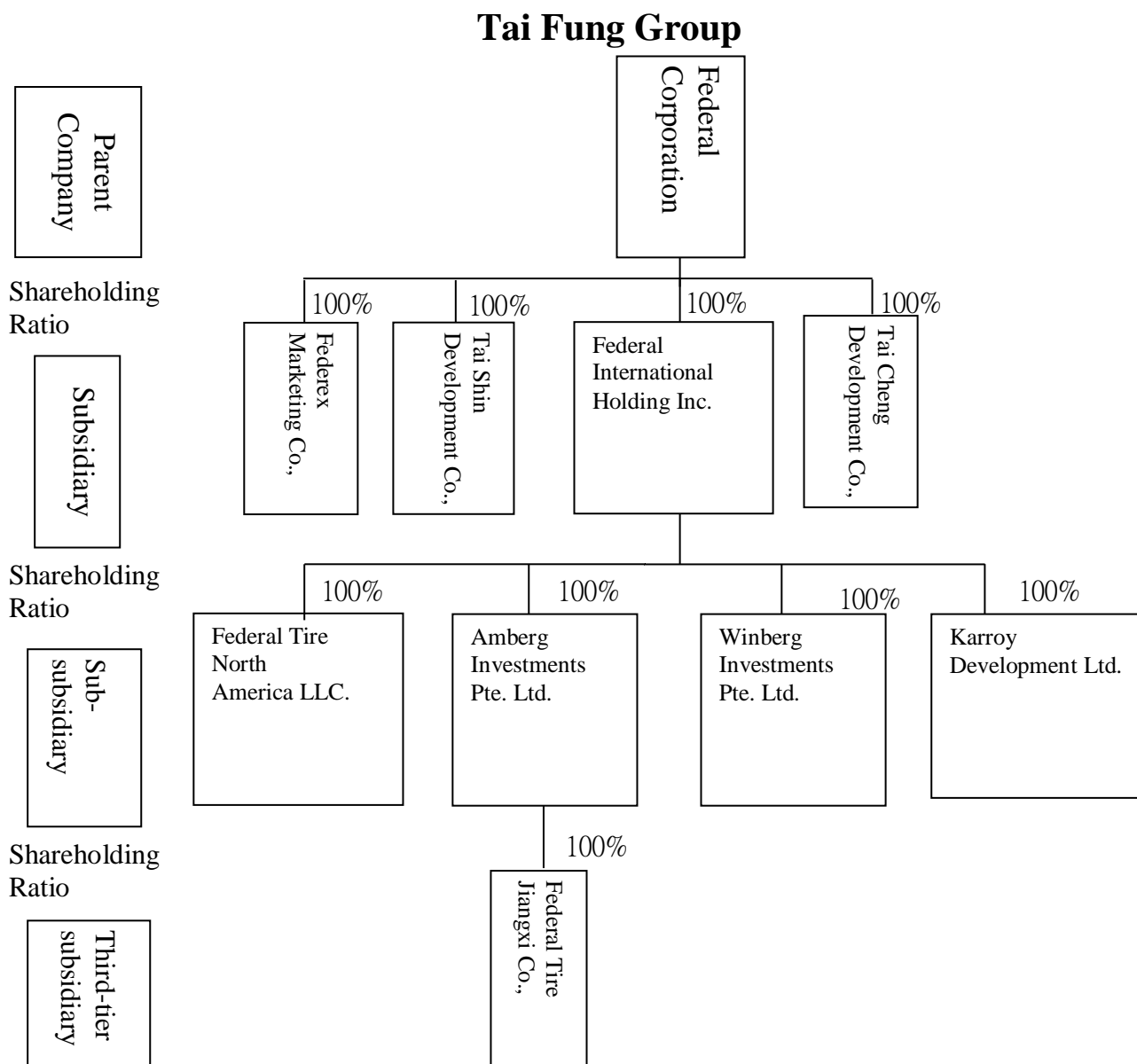
7. Other Significant Matters: None

VIII. Other Special Notes

1. Subsidiaries Information

(1) Consolidated Business Report

1. Subsidiaries Chart



Note: Winberg was liquidated by resolution of the Board of Directors (acting as the shareholders' meeting) on December 31, 2020, and has not been liquidated as of December 31, 2020.

2. Federal Co., Subsidiaries

Unit: NT\$ thousand (unless specified)

| Company | Date of Incorporation | Place Registration | Capital Stock | Business Activities |
|------------------------------------|-----------------------|--|-------------------|---|
| Federex Marketing Co. | Sep.16,1991 | No. 14, Yunong Road, Shilin District Taipei City | TWD 190,000 | vehicle tire rims and components sales activities |
| Tai Shin Development Co, | Oct.01,1993 | No. 14, Yunong Road, Shilin District Taipei City | TWD 330,000 | Entrust builders to build residential and commercial buildings for lease and sale |
| Tai Cheng Development Co., | Feb.15, 2005 | No. 14, Yunong Road, Shilin District Taipei City | TWD 160,000 | Entrust builders to build residential and commercial buildings for lease and sale |
| Federal International Holding Inc. | Apr. 27, 2004 | ScotiaCentre,4 th Floor,P.O.Box2804,GeorgeTown,GrandCaymanIsland | USD 65,331,062 | Investment activities |
| Amberg Investment Pte. Ltd. | Jun. 26, 1996 | 8CrossStreet#11-00PWCBuildingSingapore048424 | SGD 103,587,418 | Investment activities |
| Federal Tire Co., Nanchung Plant | Jan. 08, 1997 | 639 Shanghai Rd, Qingshanhu Qu, Nanchang Shi, Jiangxi Sheng, China, 330029 | CNY 538,973,200 | Manufacturing and sale tires and rubber product |
| Karroy Development Ltd. | Nov. 12, 2007 | Room 1401,14/F.,Kowloon Center,29 Ashley Road,Tsim Sha Tsui,Kowloon, Hong Kong | HKD 2,000,000 | Commercial building lease activities |
| Winberg Investments Pte. Ltd. | Sep. 21, 2015 | Portcullis TrustNet Chambers,P.O.Box1225,Apia,Samoa. | USD 100,000 | Investment activities |
| Federal Tire North America.LLC | Sep. 16 2015 | 160 Greentree Drive,Ste.101 Dover,Delaware 19904 | USD 200,000 | Tire sale activities |

Note: Winberg was liquidated by resolution of the Board of Directors (acting as the shareholders' meeting) on December 31, 2020, and has not been liquidated as of December 31, 2020.

3. Shareholders in Common of Federal Co. and Its Subsidiaries with Deemed Control and Subordination: None
4. Industries involved in the overall business of the affiliated companies: investment, sales, and construction.

5. Rosters of Directors, and Presidents of Federal's Subsidiaries

| Company | Title | Name | Shareholding | |
|--|---|---|--------------------|------|
| | | | Shares | % |
| Federex Marketing Co. | Chairman | Shu-Jam Ma | 19,000,000 | 100% |
| Tai Shin Development Co. | Chairman | Shu-Jam Ma | 33,000,000 | 100% |
| Tai Cheng Development Co. | Chairman | Shu-Jam Ma | 16,000,000 | 100% |
| Federal International Holding Inc. | Director | Shu-Jam Ma | USD 65,331,062 | 100% |
| Amberg Investments Pte. Ltd. | Director | Shu-Jam Ma | SGD 103,587,418 | 100% |
| Federal Tire Co., Nanchung Plant | Chairman Director Director President | Yu Wu Shu-Jam Ma Qiang Huang Qiang Huang | CNY 538,973,200 | 100% |
| Karroy Development Ltd. | Director | Shu-Jam Ma | HKD 2,000,000 | 100% |
| Federal Tire North America LLC | Director | Xin-Yu Lee | USD 200,000 | 100% |
| Winberg Investments Pte.Ltd.(Winberg) | Director | Shu-Jam Ma | USD 100,000 | 100% |

Note: Winberg was liquidated by resolution of the Board of Directors (acting as the shareholders' meeting) on December 31, 2020, and has not been liquidated as of December 31, 2020.

6. Operational Highlights of Federal Co., Subsidiaries

2020/12/31
Unit: NT\$ thousand

| Company | Capital Stock | Assets | Liability | Net Worth | Net Revenue | Income (Loss) from Operation | Net Income (Loss) | Basic Earnings Per Share |
|------------------------------------|---------------|-----------|-----------|-----------|-------------|------------------------------|-------------------|--------------------------|
| Federex Marketing Co. | 190,000 | 328,501 | 69,701 | 213,315 | 205,780 | (11,491) | (10,893) | (0.57) |
| Tai Shin Development Co. | 330,000 | 525,875 | 65,029 | 429,966 | 0 | (22,098) | (7,501) | (0.23) |
| Amberg Investments Pte. Ltd. | 2,247,246 | 1,166,482 | 0 | 1,166,482 | 0 | (314) | (22,781) | |
| Federal Tire Co., Nanchung Plant | 2,321,169 | 1,125,283 | 20,198 | 1,105,085 | 42,354 | (23,723) | (22,667) | |
| Federal International Holding Ltd. | 1,849,762 | 1,334,020 | 215 | 1,333,805 | 0 | (3,164) | (12,379) | |
| Tai Cheng Development Co., Ltd. | 160,000 | 2,165,928 | 516,653 | 1,630,242 | 42,605 | 23,798 | 19,053 | 1.19 |
| Karroy Development Ltd. | 7,347 | 65,298 | 28,277 | 37,021 | 0 | (164) | 3,069 | |
| Winberg Investments Pte.Ltd. | 2,848 | 1,893 | 25 | 1,868 | 0 | (61) | (104) | |
| Federal Tire North.America.LLC | 5,696 | 687,178 | 633,937 | 53,241 | 1,448,010 | 1,741 | 9,210 | |

Note 1: If the subsidiary is a foreign company, the relevant figures are converted to NT\$ at the balance sheet date of December 31, 2020 and the average exchange rate for the year.

Note 2: Winberg was liquidated by resolution of the Board of Directors (acting as the shareholders' meeting) on December 31, 2020, and has not been liquidated as of December 31, 2020.

(2) Combined Financial Statement

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Federal Tire Corporation Limited as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the consolidated financial statements is included in the consolidated financial statements. Consequently, Federal Tire Corporation Limited and Subsidiaries do not prepare a separate set of consolidated financial statements.

Very truly yours,

Federal Tire Corporation Limited

By

Shu-Jam Ma

Person in Charge

2021/03/26

(3) Affiliation Report: None

2. Private Placement Securities in 2020 and as of the Date of this Annual Report:

| Item | Date of Publish: None (Note) |
|--|--|
| Types of Private Placement Securities | Common Shares |
| Date and amount approved by shareholders | No Resolution of the shareholders' meeting |
| Basis and Reasonableness of Pricing | <p>1. The price of common stock by private placement shall be set at no less than 80% of the higher price as of the date of pricing based on the following two bases.</p> <p>a. The simple average closing price of the common shares of the Company for either the 1, 3, or 5 business days.</p> <p>b. The simple average closing price of the common shares for the 30 business days before the price determination date, after adjustment for any distribution of stock dividends, cash dividends, or capital reduction.</p> <p>2. Upon the approval of the shareholders' meeting, it is proposed that the board of directors be authorized to determine the actual pricing date and the actual issuance price of common shares by private placement within the range of no less than the percentage of the shareholders' meeting, depending on the future market conditions and the selection of strategic investors.</p> <p>3. The aforementioned private placement price, determining in accordance with the relevant provisions of the "Directions for Public Companies Conducting Private Placements of Securities", and considering that the transfer of private placement securities is limited in terms of entity and quantity within three years from the date of transfer, which cannot be reported to the competent authority for public issuance and listing before three years from the date of transfer, is reasonable.</p> |
| The method for selection of a specific person | <p>1. The common stock by private placement is limited to specific person in accordance with Article 43-6 of the Securities and Exchange Act and the Financial Supervisory Commission's letter No. 0910003455 dated June 13, 2002 (91).</p> <p>2. The Company does not yet have any identified subscribers, but the method, purpose, necessity and the expected benefits are set forth below.</p> <p>a. The Pricing Method: The selection of subscribers is based on the principle of added value to the Company, and priority is given to those who can directly or indirectly enhance the operating performance of the Company's future operations.</p> <p>b. Necessity and Expected benefits: The Subscribers' experience, skills, knowledge, brand or reputation will help the Company to improve its technology, costs, market expansion or strengthen supplier and customer relationships.</p> |
| Reasons for private placement | Compared with public placement, the three-year non-transferability requirement for private placement of securities ensures a long-term partnership with strategic investment partners. In addition, by authorizing the Board of Directors to conduct private placements in accordance with the actual needs of the Company's operations, the Company will effectively increase its flexibility and mobility in raising capital. |
| Date of completion of payment | N/A |
| Subscribers Profile | has not been arranged |
| Actual subscription (or transfer) price | N/A |
| Difference between the actual subscription (or transfer) price and the reference price | N/A |
| Impact of private placement on shareholders' equity | N/A |
| Private Placement Capital and Plan Progress | N/A |
| Private Placement Performance | N/A |

Note: The private placement of common stock has been approved by the board of directors on May 7, 2021, but has not yet been resolved through the shareholders' meeting.

3. The Shares in the Company Held or Disposed of by Subsidiaries in The Most Recent Years as of The Date of This Annual Report

Unit: NT\$ thousands, %

| Subsidiary | Capital Stock | Fund Source | Shareholding Ratio of the Company | Date of Acquisition or Disposition | Shares and Amount Acquired | Shares and Amount Disposed of | Investment Gain (Loss) | Shareholdings and Amount in Most Recent Year | Mortgage | Endorsement Amount Made for the Subsidiary | Amount Loaned to the Subsidiary |
|----------------------------|---------------|-------------|-----------------------------------|------------------------------------|----------------------------|-------------------------------|------------------------|--|----------|--|---------------------------------|
| Tai Cheng Developments Co. | 160,000 | Owned | 100% | 2007/08/05 | 0 | 0 | 0 | 5,913,145 Shares \$66,566 | 0 | 0 | 0 |
| Federex Marketing Co. | 190,000 | Owned | 100% | 2007/08/05 | 0 | 0 | 0 | 7,842,462 shares \$116,469 | 0 | 0 | 0 |

4. Other Necessary Supplement: None

IX. Any Events in 2020 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None

FEDERAL CORPORATION

Chairman : Shu-Jam Ma