

**YFC-BONEAGLE ELECTRIC CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of YFC-BONEAGLE ELECTRIC CO., LTD. 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 International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, YFC-BONEAGLE ELECTRIC CO., LTD. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: YFC-BONEAGLE ELECTRIC CO., LTD.

Chairman: Andrew Yeh

Date: March 29, 2021



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' Report

To the Board of Directors of YFC-BONEAGLE ELECTRIC CO., LTD. :

Opinion

We have audited the consolidated financial statements of YFC-BONEAGLE ELECTRIC CO., LTD. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2020 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Revenue recognition

Please refer to note (4)(n) for significant accounting policy related to revenue recognition. For the details of revenue, please refer to note (6)(u).

Description of key audit matter:

The sale transactions of the Group are mainly under FOB shipping point terms. Transfers of risk and rewards generally occurs upon loading the goods onto the relevant carrier at the port. The Group's online retail company transfer their control over the goods upon delivery of the goods to customers due to the nature of the industry. In addition, the Group's private-label online retail company and wholesale companies provide customers discounts based on the agreements, and allow customers to return items within a specific period of time in accordance with the policy, resulting high sales discounts and returns amounts. Consequently, revenue recognition has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our audit procedures include:

- Testing the related controls surrounding revenue collection and assessing whether the revenue recognition policies comply with the accounting standards.
- Examining the agreements of selected customers to determine whether the accounting treatment is consistent with the contract terms and provisions stated and executing specific audit procedures.
- Performing trend analysis on major customers and products and compare the actual sales with the prior one to determine whether any significant variances exist.
- Testing the accuracy and appropriateness of management's calculation of sales discounts and returns by estimating them based on the actual sales discounts and returns in the previous years; examining subsequent sale returns to assess whether there are any significant differences.
- Assessing the adequacy of the Group's disclosures in respect of revenue recognition.

2. Impairment assessment of inventory

Please refer to note (4)(h) for significant accounting policies of inventory valuation. For the inventory disclosures, please refer to note (6)(d).

Description of key audit matter:

Inventories of the Group are measured at the lower of cost and net realizable value. Inventory valuation loss is recognized for inventories exceeding specific stock ages or identified as obsolete stocks. Since copper is vulnerable to the impact of rapid price changes in the international market, there is a risk that the carrying value of inventories may exceed its net realizable value. In addition, the sales of online retail and wholesale subsidiaries are strongly influenced by preferences of customers, resulting in short product life-cycles and challenging inventory management. Therefore, the valuation of inventory has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our audit procedures include:

- Testing the related controls surrounding the production cycle and ensuring consistent application of accounting policies to the cost of inventories.
- Obtaining complete aging analysis of inventories and analyzing changes therein; assessing the appropriateness of provisions.
- Evaluating the reasonableness of inventories individually identified as obsolete or damaged with supporting documents, and agreeing to information obtained from physical inventory.
- Understanding the assumptions used by management in determining net realizable value and evaluating its reasonableness.
- Assessing the adequacy of the Group's disclosures in respect of inventory.

Other Matter

YFC-BONEAGLE ELECTRIC CO., LTD. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2020 and 2019, on which we have issued an unqualified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines 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 is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the Audit committee) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the auditing standards generally accepted in the Republic of China 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 consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period 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.

The engagement partners on the audit resulting in this independent auditors' report are Yuan-Chen Mei and Chiu-Hua Hsieh.

KPMG

Taipei, Taiwan (Republic of China)

March 29, 2021

Notes to Readers

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

The independent auditors' audit report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | December 31, 2020 | | | | December 31, 2019 | | | | December 31, 2020 | | December 31, 2019 | | |
|---|--------------------------|----------------------------|-------------------|-------------------------|--------------------------|------|--|----------|----------------------------|-------------------|--------------------------|-------------------|--|
| | | | Amount | % | | | Amount | % | | | Amount | % | |
| Assets | | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | | |
| 1100 Cash and cash equivalents (note (6)(a)) | | \$ 838,816 | 10 | 1,432,714 | 17 | 2100 | Short-term borrowings (note (6)(i)) | | \$ 2,356,577 | 26 | 1,881,475 | 21 | |
| 1170 Notes and accounts receivable (note (6)(b) and (8)) | | 2,500,763 | 28 | 1,994,094 | 23 | 2110 | Short-term notes and bills payable (note (6)(j)) | | 129,886 | 1 | 229,823 | 3 | |
| 1200 Other receivables, net (note (6)(c)) | | 21,758 | - | 17,595 | - | 2130 | Current contract liabilities (note (6)(u)) | | 141,558 | 2 | 93,679 | 1 | |
| 1220 Current tax assets | | 41,688 | - | 47,482 | - | 2170 | Notes and accounts payable | | 946,956 | 10 | 668,982 | 8 | |
| 130X Inventories (note (6)(d)) | | 2,835,079 | 31 | 2,282,649 | 27 | 2200 | Other payables (note (6)(m)) | | 636,130 | 7 | 459,398 | 5 | |
| 1410 Prepayments | | 319,162 | 4 | 261,422 | 3 | 2230 | Current tax liabilities | | 67,138 | 1 | 14,479 | - | |
| 1470 Other current assets (note (6)(h)) | | 21,002 | - | 16,569 | - | 2251 | Current provisions for employee benefits | | 25,736 | - | 14,775 | - | |
| 1481 Right to the return goods-current | | 5,797 | - | 5,777 | - | 2280 | Current lease liabilities (note (6)(n)) | | 84,844 | 1 | 82,800 | 1 | |
| Total current assets | | <u>6,584,065</u> | <u>73</u> | <u>6,058,302</u> | <u>70</u> | 2365 | Refund liabilities-current (note (6)(m)) | | 91,697 | 1 | 63,940 | 1 | |
| Non-current assets: | | | | | | 2320 | Long-term liabilities, current portion (note (6)(k)(l) and (8)) | | 280,766 | 3 | 1,211,071 | 14 | |
| 1600 Property, plant and equipment (note (6)(e)(h) and (8)) | | 1,352,349 | 15 | 1,284,443 | 15 | 2300 | Other current liabilities (note (6)(o)) | | 6,418 | - | 2,193 | - | |
| 1755 Right-of-use assets (note (6)(f)) | | 421,624 | 5 | 491,456 | 6 | | Total current liabilities | | <u>4,767,706</u> | <u>52</u> | <u>4,722,615</u> | <u>54</u> | |
| 1780 Intangible assets (note (6)(g)) | | 446,345 | 5 | 502,167 | 6 | 2530 | Non-Current liabilities: | | | | | | |
| 1840 Deferred tax assets (note (6)(r)) | | 182,366 | 2 | 154,134 | 2 | 2540 | Bonds payable (note (6)(l)) | | 138,370 | 2 | - | - | |
| 1915 Prepayments for business facilities | | 21,197 | - | 28,413 | - | 2570 | Long-term borrowings (note (6)(k) and (8)) | | 1,070,035 | 12 | 1,051,501 | 12 | |
| 1900 Other non-current assets (note (6)(h) and (8)) | | 27,161 | - | 131,705 | 1 | 2580 | Deferred tax liabilities (note (6)(r)) | | 55,364 | 1 | 72,979 | 1 | |
| Total non-current assets | | <u>2,451,042</u> | <u>27</u> | <u>2,592,318</u> | <u>30</u> | 2600 | Non-current lease liabilities (note (6)(n)) | | 351,385 | 4 | 414,033 | 5 | |
| Total assets | | <u><u>\$ 9,035,107</u></u> | <u><u>100</u></u> | <u><u>8,650,620</u></u> | <u><u>100</u></u> | | Other non-current liabilities (note (6)(o)) | | 20,526 | - | 4,454 | - | |
| | | | | | | | Total non-current liabilities | | <u>1,635,680</u> | <u>19</u> | <u>1,542,967</u> | <u>18</u> | |
| | | | | | | | Total liabilities | | <u>6,403,386</u> | <u>71</u> | <u>6,265,582</u> | <u>72</u> | |
| | | | | | | | Equity attributable to owners of parent (note (6)(l)(s)): | | | | | | |
| | | | | | | | 3110 Ordinary share | | 1,310,466 | 15 | 1,245,545 | 14 | |
| | | | | | | | 3130 Bond conversion entitlement certificates | | 4,570 | - | - | - | |
| | | | | | | | Subtotal | | <u>1,315,036</u> | <u>15</u> | <u>1,245,545</u> | <u>14</u> | |
| | | | | | | | 3200 Capital surplus | | 800,209 | 9 | 677,621 | 8 | |
| | | | | | | | 3300 Retained earnings | | 848,924 | 9 | 651,204 | 8 | |
| | | | | | | | 3400 Other equity interest | | (339,218) | (4) | (196,131) | (2) | |
| | | | | | | | Total equity attributable to owners of parent | | <u>2,624,951</u> | <u>29</u> | <u>2,378,239</u> | <u>28</u> | |
| | | | | | | | 36XX Non-controlling interests | | 6,770 | - | 6,799 | - | |
| | | | | | | | Total equity | | <u>2,631,721</u> | <u>29</u> | <u>2,385,038</u> | <u>28</u> | |
| | | | | | | | Total liabilities and equity | | <u><u>\$ 9,035,107</u></u> | <u><u>100</u></u> | <u><u>8,650,620</u></u> | <u><u>100</u></u> | |

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

| | 2020 | | 2019 | |
|---|-------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| 4110 Operating revenue (note (6)(u)) | \$ 11,435,995 | 100 | 11,572,582 | 100 |
| 5110 Operating costs (note (6)(d)(n)(q)(v) and (12)): | <u>8,652,663</u> | <u>76</u> | <u>8,934,296</u> | <u>77</u> |
| 5900 Gross profit from operations | <u>2,783,332</u> | <u>24</u> | <u>2,638,286</u> | <u>23</u> |
| Operating expenses (note (6)(b)(n)(q)(v), (7) and (12)): | | | | |
| 6100 Selling expenses | 1,534,790 | 13 | 1,566,766 | 14 |
| 6200 Administrative expenses | 647,172 | 6 | 652,345 | 6 |
| 6300 Research and development expenses | 42,315 | - | 46,049 | - |
| 6450 Expected credit loss | <u>21,846</u> | <u>-</u> | <u>24,139</u> | <u>-</u> |
| 6000 Total operating expenses | <u>2,246,123</u> | <u>19</u> | <u>2,289,299</u> | <u>20</u> |
| 6900 Operating income | <u>537,209</u> | <u>5</u> | <u>348,987</u> | <u>3</u> |
| Non-operating income and expenses (note (6)(l)(n)(w)): | | | | |
| 7010 Other income | 24,402 | - | 13,524 | - |
| 7020 Other gains and losses, net | (42,360) | - | (13,522) | - |
| 7100 Interest income | 6,140 | - | 13,458 | - |
| 7050 Finance costs, net | (100,495) | (1) | (125,800) | (1) |
| 7000 Total non-operating income and expenses | <u>(112,313)</u> | <u>(1)</u> | <u>(112,340)</u> | <u>(1)</u> |
| 7900 Profit from continuing operations before tax | <u>424,896</u> | <u>4</u> | <u>236,647</u> | <u>2</u> |
| 7950 Less: Income tax expenses (note (6)(r)) | <u>120,245</u> | <u>1</u> | <u>62,875</u> | <u>-</u> |
| Profit | <u>304,651</u> | <u>3</u> | <u>173,772</u> | <u>2</u> |
| 8300 Other comprehensive income: | | | | |
| 8310 Items that may not be reclassified subsequently to profit or loss (note(6)(q)) | | | | |
| 8311 Gains on remeasurements of defined benefit plans | (1,193) | - | (620) | - |
| 8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | - | - | - | - |
| Total items that may not be reclassified subsequently to profit or loss | <u>(1,193)</u> | <u>-</u> | <u>(620)</u> | <u>-</u> |
| 8360 Items that may be reclassified subsequently to profit or loss (note (6)(r)(s)) | | | | |
| 8361 Exchange differences on translation of foreign operation | (178,859) | (2) | (125,846) | (1) |
| 8399 Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss | (35,772) | - | (25,169) | - |
| Total items that may be reclassified subsequently to profit or loss | <u>(143,087)</u> | <u>(2)</u> | <u>(100,677)</u> | <u>(1)</u> |
| 8300 Other comprehensive income | <u>(144,280)</u> | <u>(2)</u> | <u>(101,297)</u> | <u>(1)</u> |
| 8500 Total comprehensive income | <u>\$ 160,371</u> | <u>1</u> | <u>72,475</u> | <u>1</u> |
| Profit, attributable to: | | | | |
| 8610 Profit, attributable to owners of parent | \$ 304,783 | 3 | 172,272 | 2 |
| 8620 Profit, attributable to non-controlling interests | (132) | - | 1,500 | - |
| 8600 Net profit | <u>\$ 304,651</u> | <u>3</u> | <u>173,772</u> | <u>2</u> |
| 8710 Comprehensive income attributable to: | | | | |
| Comprehensive income, attributable to owners of parent | \$ 160,503 | 1 | 70,975 | 1 |
| Comprehensive income, attributable to non-controlling interests | (132) | - | 1,500 | - |
| 8700 Comprehensive income | <u>\$ 160,371</u> | <u>1</u> | <u>72,475</u> | <u>1</u> |
| Earnings per share (in NT dollars) (note (6)(t)) | | | | |
| 9750 Basic earnings per share | <u>\$ 2.40</u> | | <u>1.38</u> | |
| 9850 Diluted earnings per share | <u>\$ 2.21</u> | | <u>1.35</u> | |

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Equity attributable to owners of parent

| | Equity attributable to owners of parent | | | | | | | | | | Total other equity interest | | |
|--|--|---|--------------------------------|----------------------------|--------------------------|----------------------------|---|--|--|---|--|-----------|--|
| | Share capital | | | | Retained earnings | | | | Exchange differences on translation of foreign financial statements | | | | |
| | Ordinary shares | Bond conversion entitlement certificates | Total share capital | Capital surplus | Legal reserve | Special reserve | Unappropri- ated retained earnings | Total retained earnings | Attributable to owners of parent | Non- controlling interests | | | |
| Balance at January 1, 2019 | \$ 1,245,545 | - | 1,245,545 | 677,621 | 140,470 | 170,064 | 418,127 | 728,661 | (95,454) | 2,556,373 | 5,581 | 2,561,954 | |
| Profit | - | - | - | - | - | - | 172,272 | 172,272 | - | 172,272 | 1,500 | 173,772 | |
| Other comprehensive income | - | - | - | - | - | - | (620) | (620) | (100,677) | (101,297) | - | (101,297) | |
| Total comprehensive income | - | - | - | - | - | - | 171,652 | 171,652 | (100,677) | 70,975 | 1,500 | 72,475 | |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | - | - | 35,324 | - | (35,324) | - | - | - | - | - | |
| Cash dividends of ordinary share | - | - | - | - | - | - | (249,109) | (249,109) | - | (249,109) | - | (249,109) | |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | (282) | (282) | |
| Balance at December 31, 2019 | 1,245,545 | - | 1,245,545 | 677,621 | 175,794 | 170,064 | 305,346 | 651,204 | (196,131) | 2,378,239 | 6,799 | 2,385,038 | |
| Profit (loss) | - | - | - | - | - | - | 304,783 | 304,783 | - | 304,783 | (132) | 304,651 | |
| Other comprehensive income | - | - | - | - | - | - | (1,193) | (1,193) | (143,087) | (144,280) | - | (144,280) | |
| Total comprehensive income | - | - | - | - | - | - | 303,590 | 303,590 | (143,087) | 160,503 | (132) | 160,371 | |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | - | - | 17,165 | - | (17,165) | - | - | - | - | - | |
| Special reserve appropriated | - | - | - | - | - | 26,067 | (26,067) | - | - | - | - | - | |
| Cash dividends of ordinary share | - | - | - | - | - | - | (105,870) | (105,870) | - | (105,870) | - | (105,870) | |
| Due to recognition of equity component of convertible bonds issued | - | - | - | 21,093 | - | - | - | - | - | 21,093 | - | 21,093 | |
| Conversion of convertible bonds | - | 69,491 | 69,491 | 101,495 | - | - | - | - | - | 170,986 | - | 170,986 | |
| Conversion of certificates of bond conversion entitlement | 64,921 | (64,921) | - | - | - | - | - | - | - | - | - | - | |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - | 103 | 103 | |
| Balance at December 31, 2020 | \$ 1,310,466 | 4,570 | 1,315,036 | 800,209 | 192,959 | 196,131 | 459,834 | 848,924 | (339,218) | 2,624,951 | 6,770 | 2,631,721 | |

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|---|-------------------------|-----------------------|
| Cash flows from (used in) operating activities: | | |
| Profit before tax | \$ 424,896 | 236,647 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expense | 191,601 | 202,730 |
| Amortization expense | 44,750 | 50,777 |
| Expected credit loss | 21,846 | 24,139 |
| Interest expense | 100,495 | 125,800 |
| Interest income | (6,140) | (13,458) |
| Loss (gain) on disposal of property, plant and equipment | 4,023 | (462) |
| Unrealized foreign exchange loss (gain) | (19,449) | (893) |
| Gain on repurchase of convertible bonds | (8,018) | - |
| Total adjustments to reconcile profit | <u>329,108</u> | <u>388,633</u> |
| Changes in operating assets and liabilities: | | |
| Notes and accounts receivable | (643,088) | 181,097 |
| Other receivables | 556 | (12,402) |
| Inventories | (647,910) | (31,019) |
| Prepayments | (60,967) | (33,940) |
| Other current assets and right to the return goods | (4,740) | (3,590) |
| Total changes in operating assets | <u>(1,356,149)</u> | <u>100,146</u> |
| Notes and accounts payable | 339,323 | (38,149) |
| Other payables | 194,207 | 64,405 |
| Refund liabilities and provisions for employee benefits | 43,874 | 26,114 |
| Other current liabilities and contract liabilities | 55,555 | 3,610 |
| Other non-current liabilities | 3,524 | - |
| Total changes in operating liabilities | <u>636,483</u> | <u>55,980</u> |
| Total changes in operating assets and liabilities | <u>(719,666)</u> | <u>156,126</u> |
| Total adjustments | <u>(390,558)</u> | <u>544,759</u> |
| Cash inflow generated from operations | 34,338 | 781,406 |
| Interest received | 6,239 | 13,365 |
| Interest paid | (92,434) | (111,435) |
| Income taxes paid | (79,063) | (102,160) |
| Net cash flows from (used in) operating activities | <u>(130,920)</u> | <u>581,176</u> |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|--|-------------------|------------------|
| Cash flows from (used in) investing activities: | | |
| Acquisition of property, plant and equipment | (85,626) | (193,891) |
| Proceeds from disposal of property, plant and equipment | 4,211 | 21,133 |
| Acquisition of intangible assets | (12,662) | (20,140) |
| Decrease (increase) in other financial assets and non-current assets | 9,928 | (5,270) |
| Increase in prepayments for business facilities | (10,700) | (21,779) |
| Increase in prepayments for land purchases | - | (71,128) |
| Net cash flows used in investing activities | (94,849) | (291,075) |
| Cash flows from (used in) financing activities: | | |
| Increase in short-term loans | 3,328,999 | 2,645,022 |
| Decrease in short-term loans | (2,836,474) | (2,439,617) |
| (Decrease) increase in short-term notes and bills payable | (99,937) | (19,942) |
| Proceeds from issuing bonds | 401,501 | - |
| Repayments of bonds | (434,100) | - |
| Repurchase of convertible bonds | (331,676) | - |
| Proceeds from long-term debt | 1,819,844 | 1,677,157 |
| Repayments of long-term debt | (2,004,045) | (1,537,046) |
| Payment of lease liabilities | (81,769) | (79,185) |
| Decrease in other non-current liabilities | 12,377 | (2,657) |
| Cash dividends paid | (105,870) | (249,109) |
| Change in non-controlling interests | 103 | (282) |
| Net cash flows used in financing activities | (331,047) | (5,659) |
| Effect of exchange rate changes on cash and cash equivalents | (37,082) | (29,917) |
| Net (decrease) increase in cash and cash equivalents | (593,898) | 254,525 |
| Cash and cash equivalents at beginning of period | 1,432,714 | 1,178,189 |
| Cash and cash equivalents at end of period | \$ 838,816 | 1,432,714 |

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

**(Expressed in Thousands of New Taiwan Dollars Except for Earnings Per Share Information
and Unless Otherwise Specified)**

(1) Company history

YFC-BONEAGLE ELECTRIC CO., LTD. (the “Company”) was incorporated on September 3, 1983 as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The address of the Company’s registered office is No.12-9, Ln. 130, Sec. 2, Zhongshan E. Rd., Xinwu Dist., Taoyuan City 327, Taiwan (R.O.C.). The Company and subsidiaries (together referred to as the “Group”) primarily engaged in the developing, manufacturing, and selling of power cord sets, LAN cables, patch cords, and related networking accessories, as well as the sales of consumer electronics. Please refer to note (14) for segment information.

Since January 9, 2003, the Company’s ordinary shares have been listed on the Taiwan Over-The-Counter Securities Exchange (Gre Tai Securities Market).

(2) Approval date and procedures of the consolidated financial statements:

The consolidated financial statements for the years ended December 31, 2020 and 2019 were authorized for issue by the board of directors on March 29, 2021.

(3) New standards, amendments and interpretations adopted:

(a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2020:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”
- Amendments to IAS 1 and IAS 8 “Definition of Material”
- Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

(b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2”

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards, which may be relevant to the Group, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

| Standards or Interpretations | Content of amendment | Effective date per IASB |
|--|---|--------------------------------|
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” | <p>The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.</p> <p>The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.</p> | January 1, 2023 |

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

The Group does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated in note (3), the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial supervisory commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Financial assets at fair value through other comprehensive income are measured at fair value;
- 2) The defined benefit liabilities (assets) are measured at fair value of the plan assets less the present value of defined benefit obligations, limited as explained in note (4)(p)

(ii) Functional and presentation currency

The functional currency of the Group entities is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollars, the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity when it is exposed to, 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.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income 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.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

List of subsidiaries in the consolidated financial statements are as follows:

| Name of investor | Name of subsidiary | Principal activity | Shareholding | | Note |
|------------------|---|--|-------------------|-------------------|------------------------|
| | | | December 31, 2020 | December 31, 2019 | |
| The Company | BESTLINK NETWARE, INC. (BESTLINK) | Trading business | 100 % | 100 % | Subsidiary |
| " | YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD. (B.V.I.) | Holding company set up for investments in Philippines, China and USA | 100 % | 100 % | " |
| " | UNC INVESTMENT & DEVELOPMENT INC. (UNC) | Real estate investment business | 100 % | 100 % | " |
| " | PREMIUM-LINE KSI GMBH (KSI) | Trading business | 100 % | 100 % | " |
| " | MONOPRICE HOLDINGS, INC. (MONOPRICE HOLDINGS) | Holding company set up for investments in USA | 100 % | 100 % | " |
| " | PREMIUM-LINE SYSTEMS GMBH (PREMIUM-LINE SYSTEMS) | Sale of network equipment and electronic appliances | 100 % | 100 % | " |
| " | YUE FONG COMPANY LIMITED (Note3) | Trading business | 100 % | - % | " |
| B.V.I. | YFC-BONEAGLE HOLDINGS (CAYMANS) CO., LTD. (CAYMANS) | Holding company set up for investments in China and USA | 100 % | 100 % | Second-tier subsidiary |
| " | EUROPOWER INTERNATIONAL LIMITED (EUROPOWER) | Trading business | 100 % | 100 % | " |
| " | UNIVERSAL NETWORK CORPORATION (UNIVERSAL) | Holding company set up for investments in China | 100 % | 100 % | " |
| " | MAX SYNERGY LIMITED (MAX) | Holding company set up for investments in China | 80 % | 80 % | " |
| " | PREMIUM LINE ASIA LTD. (PREMIULINE) | Trading business | 100 % | 100 % | " |
| " | YFC-BONEAGLE INTERNATIONAL, INC. (PHILIPPINES) | Trading business | 100 % | 100 % | " |
| " | BESZIN CORPORATION INC. (BESZIN) | Trading business | 100 % | 100 % | " |
| " | YFC DEVELOPMENT CORPORATION (Note1) | Real estate investment business | 100 % | 100 % | " |
| " | YFC-BONEAGLE ELECTRONIC TECHNOLOGY PHILS. CORPORATION (Note2) | Manufacturing and sale of power cables, wires, and outlets | 100 % | 100 % | " |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

| Name of investor | Name of subsidiary | Principal activity | Shareholding | | |
|-------------------------|---|--|--------------------------|--------------------------|-----------------------|
| | | | December 31, 2020 | December 31, 2019 | Note |
| MONOPRICE HOLDINGS | MONOPRICE INC. (MONOPRICE) | Trading business | 100 % | 100 % | Third-tier subsidiary |
| CAYMANS | DONGGUAN YFC-BONEAGLE ELECTRONIC TECHNOLOGY CO., LTD. (DONGGUAN YFC) | Manufacturing and sale of power cables, wires, and outlets | 100 % | 100 % | 〃 |
| 〃 | PRIME WIRE & CABLE, INC. (PRIME WIRE) | Retailing of cord sets and network cabling system | 100 % | 100 % | 〃 |
| 〃 | CHENZHOU YFC-BONEAGLE ELECTRONIC CO., LTD. (CHENZHOU YFC) | Processing and sale of communication products and internet cables | 100 % | 100 % | 〃 |
| UNIVERSAL | WUXI UNIVERSAL NETWORK CORPORATION ((WUXI)) | Manufacturing and sale of high-speed high-frequency LAN cables | 100 % | 100 % | 〃 |
| MAX | YFC INTERNATIONAL TRADING (WUXI) CO., LTD. (INTERNATIONAL TRADING (WUXI)) | Sale of electronic calculator software and hardware, network equipment and electronic appliances | 94.5 % | 94.5 % | 〃 |

Note 1: The Company remitted the amount of \$608 in October 2019 to BVI for the investment and establishment of its new subsidiary, YFC DEVELOPMENT CORPORATION.

Note 2: The Company remitted the amount of \$6,170 in October 2019 to BVI for the investment and establishment of its new subsidiary, YFC-BONEAGLE ELECTRONIC TECHNOLOGY PHILS. CORPORATION.

Note 3: The Company remitted the amount of \$5,989 in February 2020 for the direct investment and establishment of its new subsidiary, YUE FONG COMPANY LIMITED.

(iii) List of subsidiaries which are not included in the consolidated financial statements: None.

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- an investment in equity securities designated as at fair value through other comprehensive income.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated at the average exchange rate. Translation differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing of equity instruments do not affect its classification.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(f) Cash and cash equivalents

Cash comprise cash on hand, check deposits, and demand deposits. Cash equivalents are 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 criteria above and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are recognized as cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(g) Financial Instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost and fair value through other comprehensive income (FVOCI) – equity investment.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and trade receivables, other receivable, guarantee deposit paid and other financial assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 360 days past due its credit obligations to the Group in full.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost is credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the customer;
- a breach of contract such as a default or being more than 360 days past due;
- the Group, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the Group would not otherwise consider;
- it is probable that the customer will enter bankruptcy or other financial reorganization;
- or

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

4) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost, that are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. In the case of merchandises, cost refers to the acquired amount.

Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses. For merchandises, net realizable value refers to estimated selling price in the ordinary course of business.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings 3~50 years
- 2) Machinery and equipment 2~20 years
- 3) Office and other equipment 1~10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Lease

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

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- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

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The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

If an arrangement contains lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group has elected not to recognize the right-of-use assets and lease liabilities for short-term leases of its buildings and vehicles that have a lease term of 12 months or less, as well as leases of low-value assets of its office equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a practical expedient, the Group elects not to assess whether all rent concessions that meets all the following conditions are lease modifications or not:

- the rent concessions occurring as a direct consequence of the COVID-19 pandemic;
- the change in lease payments that resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

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- any reduction in lease payments that affects only those payments originally due on, or before, June 30, 2021; and
- there is no substantive change in other terms and conditions of the lease.

In accordance with the practical expedient, the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(k) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with indefinite useful lives, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

- 1) Patents: 3 years
- 2) Customer relationships: 2~6 years
- 3) Trademarks: 15 years
- 4) Computer software: 1~10 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(1) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite useful lives are tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill and intangible assets with indefinite useful lives are not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

(n) Revenue recognition

(i) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

1) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or order agreement, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

The Group, based on the contract or order agreement, provides customers volume discounts as sales products cumulatively reach a certain amount or quantity within a specific period of time. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales of the Group's products are made with a credit term of 30 to 120 days, which is consistent with the market practice.

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The Group's private-label online retail company and wholesale companies pay a certain percentage of sales amount to customers for advertising expenses, promotional sponsorship, and compensation for damaged goods, based on the contract or order agreement. However, since the payments were not differentiable goods or services, the payments should be treated as deduction items of the transaction price and revenue; while the prepayment to customers should be treated as refund liabilities.

The Group's private-label online retail company grants its customers the right to return the product within thirty days. Therefore, the Group reduces revenue by the amount of expected returns and recognizes a refund liability and a right to the returned goods. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the rate of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. At each reporting date, the Group reassesses the estimated rate of expected returns.

2) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(o) Government grants

The Group recognizes an unconditional government grant related to a low-interest loan from government in profit or loss as other income when the grant becomes receivable. Other government grants related to assets are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

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(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(q) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

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- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(r) Earnings per share

The Group discloses the Company basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholder of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjusting for the effects of all potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise convertible notes and employee compensation not yet resolved by the shareholders.

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(s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Lease term (applicable from January 1, 2019)

The Group determines the lease term as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably not to exercise that option. In assessing whether a lessee is reasonably certain to exercise the options, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee. The Group reassesses whether it is reasonably certain to exercise an extension option or not to exercise the option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. If there is a change in the lease term, the Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Please refer to note (6)(f) and (n).

(b) Lessee's incremental borrowing rates (applicable from January 1, 2019)

In determining a lessee's incremental borrowing rate used in discounting lease payments, the Group depend on duration equivalents and currency with risk-free rates, the estimated lessee's credit spreads and secured status.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows: none.

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(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Cash on hand | \$ 1,030 | 1,040 |
| Demand deposits | 619,670 | 1,195,081 |
| Check deposits | 136,681 | 174,921 |
| Time deposits | 81,435 | 61,672 |
| Cash and cash equivalents in consolidated statement of cash flows | \$ 838,816 | 1,432,714 |

For the interest rate risk and sensitivity analysis of the Group's financial assets and liabilities, please refer to note (6)(x).

(b) Notes and accounts receivables

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Notes receivable from operating activities | \$ 15,592 | 32,411 |
| Accounts receivable - measured as amortized cost | 2,534,243 | 1,989,935 |
| Less: Loss allowance | (49,072) | (28,252) |
| Net | \$ 2,500,763 | 1,994,094 |

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including macroeconomic and relevant industry information. The loss allowance provision was determined as follows:

| | December 31, 2020 | | |
|-----------------------------|----------------------------------|--|-------------------------------------|
| | Gross carrying amount | Weighted- average loss rate | Loss allowance provision |
| Current | \$ 2,081,845 | 0% | - |
| Past due 1 to 30 days | 120,936 | 0% | - |
| Past due 31 to 120 days | 231,397 | 2.9% | 6,709 |
| Past due 121 to 180 days | 17,389 | 25.4% | 4,414 |
| Past due 181 to 360 days | 90,284 | 33.2% | 29,965 |
| Past due more than 360 days | 7,984 | 100% | 7,984 |
| Total | \$ 2,549,835 | | 49,072 |

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| | December 31, 2019 | | |
|-----------------------------|------------------------------|-----------------------------------|---------------------------------|
| | Gross carrying amount | Weighted-average loss rate | Loss allowance provision |
| Current | \$ 1,701,895 | 0% | - |
| Past due 1 to 30 days | 90,124 | 0% | - |
| Past due 31 to 120 days | 183,687 | 5.1% | 9,329 |
| Past due 121 to 180 days | 18,409 | 22.6% | 4,161 |
| Past due 181 to 360 days | 23,808 | 43.4% | 10,339 |
| Past due more than 360 days | <u>4,423</u> | 100% | <u>4,423</u> |
| Total | <u>\$ 2,022,346</u> | | <u>28,252</u> |

The movement in the allowance for notes and accounts receivable was as follows:

| | 2020 | 2019 |
|--|-------------------------|----------------------|
| Balance at January 1, 2020 and 2019 | \$ 28,252 | 16,037 |
| Expect credit loss (gain) | 21,846 | 24,139 |
| Amounts written off | (683) | (11,308) |
| Foreign exchange (gains) losses | <u>(343)</u> | <u>(616)</u> |
| Balance at December 31, 2020 and 2019 | <u>\$ 49,072</u> | <u>28,252</u> |

The aforementioned notes and account receivable of the Group had been pledged as collateral for long-term borrowings; please refer to note (8).

(c) Other receivables

| | December 31, 2020 | December 31, 2019 |
|--|--------------------------|--------------------------|
| Value-added tax returned by export trade | \$ 10,906 | 9,491 |
| Other | 10,852 | 8,104 |
| Less: Loss allowance | <u>-</u> | <u>-</u> |
| Net | <u>\$ 21,758</u> | <u>17,595</u> |

As of December 31, 2020 and 2019, loss allowance for other receivables were measured at an amount equal to life time expected credit loss, and no provisions were required.

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(d) Inventory

| | December 31, 2020 | December 31, 2019 |
|-----------------------|------------------------------|------------------------------|
| Merchandise inventory | \$ 2,199,437 | 1,945,234 |
| Finished goods | 219,184 | 82,235 |
| Work in progress | 308,682 | 180,812 |
| Raw materials | 99,411 | 67,550 |
| Supplies | 8,365 | 6,818 |
| Total | <u><u>\$ 2,835,079</u></u> | <u><u>2,282,649</u></u> |

Other than cost of inventory sold, other component of operating costs were as follows:

| | 2020 | 2019 |
|---|---------------------------|---------------------|
| Inventory valuation and obsolescence (gains) losses | \$ (24,352) | 29,984 |
| Revenue from sale of scraps | <u>(38,540)</u> | <u>(25,776)</u> |
| Total | <u><u>\$ (62,892)</u></u> | <u><u>4,208</u></u> |

For the years ended December 31, 2020, the reversals of write-downs were recognized as gain due to the recovery of inventory of net realizable value.

The Group did not pledged its inventories as collaterals for its loans.

(e) Property, plant, and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2020 and 2019 were as follows:

| | Land | Buildings and construction | Machinery and equipment | Office and other equipment | Total |
|---|--------------------------|---|--|---|-------------------------|
| Costs or deemed cost: | | | | | |
| Balance at January 1, 2020 | \$ 215,057 | 998,082 | 1,063,389 | 315,632 | 2,592,160 |
| Additions | 77,850 | 790 | 87,598 | 27,461 | 193,699 |
| Reclassification | - | - | - | 6,031 | 6,031 |
| Disposals | - | (6,784) | (38,142) | (5,007) | (49,933) |
| Effect of changes in foreign exchange rate | (580) | (19,739) | 1,855 | (9,197) | (27,661) |
| Balance at December 31, 2020 | <u><u>\$ 292,327</u></u> | <u><u>972,349</u></u> | <u><u>1,114,700</u></u> | <u><u>334,920</u></u> | <u><u>2,714,296</u></u> |
| Balance at January 1, 2019 | \$ 81,608 | 1,029,800 | 1,155,277 | 304,041 | 2,570,726 |
| Additions | 133,449 | 1,996 | 26,337 | 28,501 | 190,283 |
| Disposals | - | (5,925) | (89,292) | (7,768) | (102,985) |
| Effect of changes in foreign exchange rate | - | (27,789) | (28,933) | (9,142) | (65,864) |
| Balance at December 31, 2019 | <u><u>\$ 215,057</u></u> | <u><u>998,082</u></u> | <u><u>1,063,389</u></u> | <u><u>315,632</u></u> | <u><u>2,592,160</u></u> |

(Continued)

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| | <u>Land</u> | <u>Buildings and construction</u> | <u>Machinery and equipment</u> | <u>Office and other equipment</u> | <u>Total</u> |
|--|-------------------|---|--|---|------------------|
| Depreciation and impairment loss: | | | | | |
| Balance at January 1, 2020 | \$ - | 295,067 | 797,943 | 214,707 | 1,307,717 |
| Depreciation for the period | - - | 16,950 | 50,157 | 31,765 | 98,872 |
| Reclassification | - - | - - | - - | 2,320 | 2,320 |
| Disposals | - - | (6,784) | (30,388) | (4,527) | (41,699) |
| Effect of changes in foreign exchange rate | - - | 323 | 417 | (6,003) | (5,263) |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>305,556</u> | <u>818,129</u> | <u>238,262</u> | <u>1,361,947</u> |
| Balance at January 1, 2019 | \$ - | 288,067 | 834,233 | 196,926 | 1,319,226 |
| Depreciation for the period | - - | 21,483 | 53,803 | 30,436 | 105,722 |
| Disposals | - - | (5,925) | (70,034) | (6,355) | (82,314) |
| Effect of changes in foreign exchange rate | - - | (8,558) | (20,059) | (6,300) | (34,917) |
| Balance at December 31, 2019 | <u>\$ -</u> | <u>295,067</u> | <u>797,943</u> | <u>214,707</u> | <u>1,307,717</u> |
| Carrying value: | | | | | |
| Balance at December 31, 2020 | <u>\$ 292,327</u> | <u>666,793</u> | <u>296,571</u> | <u>96,658</u> | <u>1,352,349</u> |
| Balance at January 1, 2019 | <u>\$ 81,608</u> | <u>741,733</u> | <u>321,044</u> | <u>107,115</u> | <u>1,251,500</u> |
| Balance at December 31, 2019 | <u>\$ 215,057</u> | <u>703,015</u> | <u>265,446</u> | <u>100,925</u> | <u>1,284,443</u> |

Information on the Group's additional parcel of land in September 2020 was disclosed in note (6)(h).

In order to meet customer's demand and to seek the most effective solution in dealing with the current trading situation between China and the United States, the Board of Directors approved a resolution in March 2019 to purchase a piece of land in Dayuan District, Taoyuan City, with the amount of \$132,191 based on the agreement, wherein the full payment had been made in May 2019.

For the years ended December 31, 2020 and 2019, the Group replaced their obsolete and worn equipment amounting to \$49,933 and \$102,985, acquired new equipment at a total cost of \$115,489 and \$56,834, and the accumulated depreciation derecognized were \$41,699 and 82,314.

Information on depreciation for the period is disclosed in note (12). For information on the Group's property, plant, and equipment pledged as collateral, please refer to note (8).

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(f) Right-of-use assets

The Group leases many assets including land, buildings, and vehicles. Information about leases for which the Group as a lessee is presented below:

| | Land | Buildings | Vehicles | Total |
|--|------------------|------------------|-----------------|----------------|
| Cost: | | | | |
| Balance at January 1, 2020 | \$ 15,075 | 557,485 | 3,388 | 575,948 |
| Additions | - | 50,151 | 301 | 50,452 |
| Write-off | - | (20,983) | (1,099) | (22,082) |
| Effect of changes in foreign exchange rate | 235 | (18,609) | (254) | (18,628) |
| Balance at December 31, 2020 | \$ 15,310 | 568,044 | 2,336 | 585,690 |
| Balance at January 1, 2019 | \$ 15,699 | 433,653 | 4,645 | 453,997 |
| Additions | - | 152,679 | - | 152,679 |
| Write-off | - | (13,339) | (1,233) | (14,572) |
| Effect of changes in foreign exchange rate | (624) | (15,508) | (24) | (16,156) |
| Balance at December 31, 2019 | \$ 15,075 | 557,485 | 3,388 | 575,948 |
| Accumulated depreciation: | | | | |
| Balance at January 1, 2020 | \$ 3,422 | 79,191 | 1,879 | 84,492 |
| Depreciation for the period | 300 | 91,198 | 1,231 | 92,729 |
| Write-off | - | (7,291) | (1,099) | (8,390) |
| Effect of changes in foreign exchange rate | 60 | (4,587) | (238) | (4,765) |
| Balance at December 31, 2020 | \$ 3,782 | 158,511 | 1,773 | 164,066 |
| Balance at January 1, 2019 | \$ 3,250 | - | - | 3,250 |
| Depreciation for the period | 314 | 94,799 | 1,895 | 97,008 |
| Write-off | - | (13,339) | - | (13,339) |
| Effect of changes in foreign exchange rate | (142) | (2,269) | (16) | (2,427) |
| Balance at December 31, 2019 | \$ 3,422 | 79,191 | 1,879 | 84,492 |
| Carrying value: | | | | |
| Balance at December 31, 2020 | \$ 11,528 | 409,533 | 563 | 421,624 |
| Balance at January 1, 2019 | \$ 12,449 | 433,653 | 4,645 | 450,747 |
| Balance at December 31, 2019 | \$ 11,653 | 478,294 | 1,509 | 491,456 |

In order to seek the most effective solution in dealing with the current trading situation between China and the United States and to comply with the adjustments made to the Group's business strategies, the Group acquired its right-of-use assets at a total cost of \$50,452 and \$152,679 for the years ended December 31, 2020 and 2019.

Information on depreciation for the period is disclosed in note (12). The Group did not provide any of the aforementioned assets as collaterals for its loans.

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(g) Intangible assets

The costs and amortization of intangible assets of the Group for the years ended December 31, 2020 and 2019 were as follows:

| | <u>Goodwill</u> | <u>Trademark</u> | <u>Patent and customer relationships</u> | <u>Computer software and development cost</u> | <u>Total</u> |
|--|-------------------|------------------|--|---|----------------|
| Costs or deemed cost: | | | | | |
| Balance at January 1, 2020 | \$ 308,850 | 96,997 | 82,701 | 210,210 | 698,758 |
| External acquisition | - | - | - | 12,662 | 12,662 |
| Effect of changes in foreign exchange rate | (15,482) | (4,861) | (3,921) | (12,811) | (37,075) |
| Balance at December 31, 2020 | <u>\$ 293,368</u> | <u>92,136</u> | <u>78,780</u> | <u>210,061</u> | <u>674,345</u> |
| Balance at January 1, 2019 | \$ 316,437 | 99,379 | 84,691 | 196,493 | 697,000 |
| External acquisition | - | - | - | 15,696 | 15,696 |
| Acquisition-internally developed | - | - | - | 4,444 | 4,444 |
| Effect of changes in foreign exchange rate | (7,587) | (2,382) | (1,990) | (6,423) | (18,382) |
| Balance at December 31, 2019 | <u>\$ 308,850</u> | <u>96,997</u> | <u>82,701</u> | <u>210,210</u> | <u>698,758</u> |
| Amortization: | | | | | |
| Balance at January 1, 2020 | \$ - | 6,163 | 62,365 | 128,063 | 196,591 |
| Amortization for the period | - | 458 | 8,470 | 35,822 | 44,750 |
| Effect of changes in foreign exchange rate | - | (325) | (3,251) | (9,765) | (13,341) |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>6,296</u> | <u>67,584</u> | <u>154,120</u> | <u>228,000</u> |
| Balance at January 1, 2019 | \$ - | 5,838 | 55,034 | 91,128 | 152,000 |
| Amortization for the period | - | 479 | 8,822 | 41,476 | 50,777 |
| Effect of changes in foreign exchange rate | - | (154) | (1,491) | (4,541) | (6,186) |
| Balance at December 31, 2019 | <u>\$ -</u> | <u>6,163</u> | <u>62,365</u> | <u>128,063</u> | <u>196,591</u> |
| Carrying value: | | | | | |
| Balance at December 31, 2020 | <u>\$ 293,368</u> | <u>85,840</u> | <u>11,196</u> | <u>55,941</u> | <u>446,345</u> |
| Balance at January 1, 2019 | <u>\$ 316,437</u> | <u>93,541</u> | <u>29,657</u> | <u>105,365</u> | <u>545,000</u> |
| Balance at December 31, 2019 | <u>\$ 308,850</u> | <u>90,834</u> | <u>20,336</u> | <u>82,147</u> | <u>502,167</u> |

The amortizations of intangible assets are included in the statement of comprehensive income. Also, please refer to note (12) sets out information about the amortization fee for the period:

| | 2020 | 2019 |
|-----------------------------------|-------------------------|----------------------|
| Operating cost – amortization | \$ 1,895 | 821 |
| Operating expenses – amortization | 42,855 | 49,956 |
| Total | <u><u>\$ 44,750</u></u> | <u><u>50,777</u></u> |

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YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
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Goodwill and trademark of the Group arose from the acquisition of the subsidiaries PRIME WIRE and MONOPRICE INC. In 2019, the Group determined that the gross profit of the third-party brand goods sold by MONOPRICE is lower than that of its own brand, wherein it needs to invest high purchase cost and bear inventory pressure, and adjusts (i) its product assortment in order to decrease the frequency of promotion of the third-party brand and its own brand, as well as (ii) the sales items of the third-party brands. Additionally, the original 3D printer products sold by MONOPRICE were affected by the U.S.-China trade war. MONOPRICE sales and gross profit were not as inspiring as expected, therefore, the estimated M&A benefits will be postponed. As of December 31, 2020 and 2019, after performing the impairment test, the recoverable amount of each unit is still greater than the book value, and the Group determined that no impairment allowance was necessary.

(i) Trademark

In 2016, Group obtained the trademark of an American online retailer through acquisition. Due to the subsidiary's considerable share in the American market and its ability to respond to consumer needs, the Group believes the trademark will continuously generate cash inflows.

(ii) Development cost of computer software

In 2019, the development cost of computer software was derived from the website development cost of the US subsidiaries.

(h) Other current asset and other non-current assets

Other current and non-current assets of the Group were as follows:

| | December 31, 2020 | December 31, 2019 |
|------------------------------------|------------------------------|------------------------------|
| Other current assets: | | |
| Other current financial assets | \$ 9,964 | 9,661 |
| Temporary payments | <u>11,038</u> | <u>6,908</u> |
| Subtotal | <u>21,002</u> | <u>16,569</u> |
| Other non-current assets: | | |
| Other non-current financial assets | 5,533 | 5,709 |
| Guarantee deposits paid | 19,264 | 29,483 |
| Net defined benefit assets | 204 | 1,324 |
| Prepaid for land purchases | - | 88,381 |
| Other | <u>2,160</u> | <u>6,808</u> |
| Subtotal | <u>27,161</u> | <u>131,705</u> |
| Total | <u>\$ 48,163</u> | <u>148,274</u> |

(i) Other current financial assets

Other current financial assets refer to time deposits with more than three months and less than one year.

(ii) Temporary payments

Temporary payments are mainly payments made on behalf of others.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Other non-current financial assets

Other non-current financial assets are time deposits with more than one year or time deposits pledged as collaterals for long-term borrowings.

(iv) Guarantee deposits paid

Guarantee deposits paid are security deposits on leases and car rentals, performance bonds, and customs security deposits.

(v) Prepaid for land purchases

In order to meet customer's demand and to seek the most effective solution in dealing with the current trading situation between China and the United States, the Board of Directors approved a resolution in November 2018 to set up a new factory in Philippines; hence, purchased a piece of land from a third party, with an area of 36,271 square meters, amounting to \$88,381 (PHP148,711 thousand). Based on the agreement, the Group has paid a reservation fee amounting to \$17,253 (PHP29,742 thousand) in December 2018 and completed the registration procedure of its new subsidiary, YFC DEVELOPMENT CORPORATION, as well as paid the remaining purchase amount of \$71,128 (PHP118,969 thousand) in October 2019 to acquire the new piece of land mentioned above. The registration of transfer of ownership on the piece of land to YFC DEVELOPMENT CORPORATION, at the amount of \$77,850, was completed in September 2020. Please refer to note (6)(e).

For additional information on the Group's other non-current financial assets and guarantee deposits paid pledged as collaterals, please refer to note (8).

(i) Short-term borrowings

The details of the Group's short-term borrowings were as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Unsecured bank loans | \$ 2,356,577 | 1,881,475 |
| Secured bank loans | - | - |
| Total | \$ 2,356,577 | 1,881,475 |
| Unused short-term and long-term credit lines | \$ 1,516,895 | 2,268,083 |
| Interest rates | <u>0.72~2.73%</u> | <u>0.91~3.55%</u> |

The Group did not provide any assets as collateral for short-term borrowings.

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Notes to Consolidated Financial Statements

(j) Short-term notes and bills payable

The details of short-term notes and bills payable of the Group were as follows:

| | December 31, 2020 | | |
|--|---------------------------------------|----------------------|-------------------|
| | Institution | Interest rate | Amount |
| Commercial paper payable | Mega Bills Finance and Taiwan Finance | 1.14~1.16% | \$ 130,000 |
| Less: Discount on short-term notes and bills payable | | | (114) |
| Total | | | \$ 129,886 |

| | December 31, 2019 | | |
|--|--|----------------------|-------------------|
| | Institution | Interest rate | Amount |
| Commercial paper payable | China Bills Finance, Mega Bills Finance, and International Bills Finance | 1.14~1.17% | \$ 230,000 |
| Less: Discount on short-term notes and bills payable | | | (177) |
| Total | | | \$ 229,823 |

The Group did not provide any assets as collateral for short-term notes payable.

(k) Long-term borrowings

The details of the Group's long-term borrowings were as follows:

| | December 31, 2020 | | | |
|----------------------------|--------------------------|-----------------------|-------------------|---------------------|
| | Currency | Interest rates | Expiration | Amount |
| Unsecured bank loans | NTD | 1.25~1.55% | 110~115 | \$ 556,853 |
| Secured bank loans | NTD | 1.18~1.42% | 117~129 | 160,524 |
| Unsecured bank loans | USD and PHP | 2.38~3.00% | 110~112 | 227,877 |
| Secured bank loans | USD | 4.40% | 117 | 405,547 |
| Total | | | | 1,350,801 |
| Less: Current portion | | | | (280,766) |
| Non-current portion | | | | \$ 1,070,035 |

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YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
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| | December 31, 2019 | | | |
|-----------------------|--------------------------|-----------------------|-------------------|---------------------|
| | Currency | Interest rates | Expiration | Amount |
| Unsecured bank loans | NTD | 0.10~1.84% | 109~115 | \$ 784,333 |
| Secured bank loans | NTD | 1.70% | 117 | 62,152 |
| Unsecured bank loans | USD and PHP | 4.00% | 109~111 | 149,965 |
| Secured bank loans | USD | 4.00~4.40% | 109~117 | <u>572,800</u> |
| Total | | | | <u>1,569,250</u> |
| Less: Current portion | | | | <u>(517,749)</u> |
| Non-current portion | | | | <u>\$ 1,051,501</u> |

(i) Collateral for long-term borrowings

For information on assets pledged as collateral for long-term borrowings, please refer to note (8).

(ii) Low-interest loan from government

According to “Guidelines of Project Loans for Returning Overseas Taiwanese Businesses”, the Group has been awarded a low-interest loan from Bank of Taiwan at the beginning of 2020 with the maximum credit amounting to \$484,000, including the amounts of \$284,000 and \$200,000 for the purpose of its business operation, as well as acquisition of its machinery and equipment, respectively. The project will continue for 7 years with an actual preferential interest rate of 0.1%. For the years ended December 31, 2020, the actual used credit facilities amounted to \$84,840, while the fair value imputed by the market interest rate of 1.4% amounted to \$79,400, with the difference of \$5,440, deemed as government grant and recognized in deferred income. Please refer to note (6)(o).

(l) Bonds payable

(i) The details on the Group’s bonds payable were as follows:

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Convertible bonds issued | \$ 400,000 | 704,200 |
| Less: Unamortized discount on convertible bonds | (5,030) | (10,878) |
| Accumulated converted and redeemed amount | <u>(256,600)</u> | <u>-</u> |
| | 138,370 | 693,322 |
| Less: Current portion | - | (693,322) |
| Non-current portion | <u>\$ 138,370</u> | <u>-</u> |
| Equity component – conversion options (included in “Capital surplus – stock options”) | <u>\$ 7,561</u> | <u>41,035</u> |
| | 2020 | 2019 |
| Interest expense (effective rate of 1.67%~2.06%) | <u>\$ 9,421</u> | <u>14,097</u> |

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YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
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(ii) The major terms of bonds payable were as follows:

| Period | Type | Issuance Period | Total Amount (in thousands dollars) | Coupon Rate | Effective Rate | Conversion Price (in dollar) |
|----------|-------------------------------------|-----------------|---|----------------|-------------------|------------------------------------|
| Period 8 | Unsecured convertible bonds payable | 2017.06~2020.06 | 700,000 | 0 % | 2.06 % | 55.50 |
| Period 9 | Unsecured convertible bonds payable | 2020.02~2023.02 | 400,000 | 0 % | 1.67 % | 25.60 |

In June 2017, the Group issued the 8th unsecured convertible bonds for a total of 7,000 bonds, with a face value of \$100 each. The bonds were issued at a premium rate of 100.6% and the total issuance amounted to \$704,200. The Group recorded the capital surplus of stock options amounting to \$41,035.

In February 2020, the Group issued the 9th unsecured convertible bonds for a total of 4,000 bonds, with a face value of \$100 each. The bonds were issued at a premium rate of 101%; and the total issuance after deducting the dealer's handling fee amounted to \$401,501, resulting in the Group to recognize the capital surplus of stock options, amounting to \$21,093.

Except for the following periods, the bondholders may opt to convert their bonds into common shares within the period between three months after issuance and the maturity date:

- 1) the mandated book closure date of common shares;
- 2) the book closure date for stock grants or cash dividends;
- 3) the period starting from 15 business days prior to the book closure date of stock options until the distribution record date;
- 4) the period from capital reduction record date to one day prior to the stock renewal date.

The conversion price of the 8th unsecured convertible bonds at the issuance date was \$66 per share. In the event of any ex-rights or ex-dividend, the conversion price shall be adjusted using the conversion pricing formula. From July 22, 2017 to July 23, 2018, the adjusted conversion price was \$63.6 per share, resulting from the events of ex-rights or ex-dividend. As of the period between July 24, 2018 and August 18, 2019, the adjusted conversion price was \$59.5 per share, resulting from the events of ex-rights or ex-dividend. Beginning August 19, 2019, the adjusted conversion price had decreased to \$55.5 per share, resulting from the events of ex-rights or ex-dividend.

The conversion price of the 9th unsecured convertible bonds at the issuance date was \$26.8 per share. In the event of any ex-rights or ex-dividend, the conversion price shall be adjusted using the conversion pricing formula. Beginning August 25, 2020, the adjusted conversion price had decreased to \$25.6 per share due to the events of ex-rights.

Corporate bonds will be paid back at face value upon maturity, except for bonds that have been converted into common shares or bonds redeemed by the Group.

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(iii) Issuance of bonds

As mentioned above, there were bonds issued for the years ended December 31, 2020.

There were no issuance bond payables for the years ended December 31, 2019.

(iv) Conversion of bonds

In September 2020, the bondholders opted to convert the 9th unsecured convertible bonds for a total of 1,662 bonds, with the carrying amount of \$159,701, resulting in the capital surplus to increase by \$94,780, and the ordinary shares to be converted at the amount of \$64,921.

From November to December 2020, the bondholders opted to convert the 9th unsecured convertible bonds for a total of 117 bonds, with the carrying amount of \$11,285, resulting in the capital surplus to increase by \$6,715, and the ordinary shares to be converted at the amount of \$4,570. Please refer to note (6)(s) for details.

There were no conversion of bond payable for the years ended December 31, 2019.

(v) Repurchase of bonds

During the years ended December 31, 2020, the Company bought back 2,659 and 787 shares of the 8th and the 9th convertible bonds at the amounts of \$265,526 thousand and \$66,150 thousand and the carrying values of \$264,815 and \$74,879, respectively, resulting in net gain of \$8,018 thousand, which was recognized as other gains and losses; please refer to note (6)(w). The capital surplus of stock options, which was initially recognized when issued, was transferred to capital surplus of treasury stock transaction, per related regulations, amounting to \$19,741, please refer to note (6)(s).

There was no repurchase of bond payable for the years ended December 31, 2019.

(vi) Redeem of due bonds

The Company's eighth domestic unsecured convertible bonds had matured on June 19, 2020, with maturity repayment amounting to \$434,100 thousand. On July 6, 2020, the Company repaid its creditors due to the maturity of their bonds and termination of its trading on the Taiwan Over-The-Counter Securities Exchange.

(vii) Collateral

There were no bonds payable pledged as collateral by the Company for the years ended December 31, 2020, and 2019.

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(m) Other payables and refund liabilities

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Salaries and bonuses payable | \$ 109,646 | 79,560 |
| Compensation and bonus due to employees | 24,208 | 12,484 |
| Compensation due to directors and supervisors | 16,139 | 8,323 |
| Interest payable | 3,558 | 4,918 |
| Processing fee payable | 27,357 | 18,284 |
| Payable on machinery and equipment | 3,629 | 1,901 |
| Service fee payable | 3,317 | 4,176 |
| Freight payable | 207,022 | 106,084 |
| Rent payable | 1,474 | 3,232 |
| Utilities expense payable | 1,107 | 1,355 |
| VAT and sales tax payable | 129,232 | 92,158 |
| Other accrued expenses | 109,441 | 126,923 |
| Other payables | <u><u>\$ 636,130</u></u> | <u><u>459,398</u></u> |
| Refund liabilities | <u><u>\$ 91,697</u></u> | <u><u>63,940</u></u> |

Other payables and refund liabilities are expected to be settled within one year. Refund liabilities refer to expected payments to customers in relation to volume discounts of sales and right to the return goods.

(n) Lease liabilities

The carrying values of the Group's lease liabilities were as follows:

| | December 31, 2020 | December 31, 2019 |
|-------------|------------------------------|------------------------------|
| Current | <u><u>\$ 84,844</u></u> | <u><u>82,800</u></u> |
| Non-current | <u><u>\$ 351,385</u></u> | <u><u>414,033</u></u> |

For the maturity analysis, please refer to note (6)(x).

For the years ended December 31, 2020 and 2019, the Group recognized its lease liabilities amounting to \$50,452 and \$152,679, with an interest rate of 2.38%~3.10% and 1.15%~5.00%, respectively.

The amounts recognized in profit or loss were as follows:

| | 2020 | 2019 |
|---|-------------------------|----------------------|
| Interest on lease liabilities | <u><u>\$ 20,641</u></u> | <u><u>22,618</u></u> |
| Variable lease payments not included in the measurement of lease liabilities | <u><u>\$ 2,758</u></u> | <u><u>1,599</u></u> |
| Expenses relating to short-term leases | <u><u>\$ 2,477</u></u> | <u><u>1,649</u></u> |
| Expenses relating to leases of low-value assets (excluding low-value assets of short-term leases) | <u><u>\$ 185</u></u> | <u><u>697</u></u> |

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The amounts recognized in the statement of cash flows for the Group was as follows:

| | 2020 | 2019 |
|-------------------------------|--------------------------|-----------------------|
| Total cash outflow for leases | <u><u>\$ 107,830</u></u> | <u><u>105,748</u></u> |

(i) Real estate leases

The Group leases land and buildings for the use of its factories, warehouses, and offices. The leases of land typically run for a period of 50 years, and the buildings for 2 to 10 years. Some leases contain extension and cancellation options exercisable by the Group before the end of the non-cancellable contract period. These leases are negotiated and monitored by the local management, and accordingly, contain a wide range of different terms and conditions. The extension options held are exercisable only by the Group and not by the lessors. Some leases provide for additional rent payments that are calculated based on the area being used. Such leases are considered as variable lease payments, thus, are not included within lease liabilities.

(ii) Other leases

The Group leases certain buildings and vehicles which are short-terms, and office equipment which is deemed as low-value item. Since the leases of warehouses and office typically run for a period of 1 year, and the office equipment for 1 to 3 years, the Group has elected not to recognize its right-of-use assets and lease liabilities for these leases.

(o) Deferred income

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Deferred income-government grants | <u><u>\$ 4,654</u></u> | <u><u>-</u></u> |
| Current (recognized under other current liabilities) | <u><u>\$ 1,130</u></u> | <u><u>-</u></u> |
| Non-current (recognized under other non-current liabilities) | <u><u>3,524</u></u> | <u><u>-</u></u> |
| Total | <u><u>\$ 4,654</u></u> | <u><u>-</u></u> |

According to the “Guidelines of Project Loans for Returning Overseas Taiwanese Businesses”, the low interest loan offered by Bank of Taiwan to the Group can be availed for the purpose of business operation and acquisition of machinery and equipment in early 2020.

The Group received the government low-interest loan for its business operation, resulting in the difference between the market interest imputed using the effective interest method and the actual preferential interest to be reclassified from deferred income to other income over time.

The Group received the government low-interest loan for the acquisition of its machinery and equipment, resulting in the difference between the market interest imputed using the effective interest method and the actual preferential interest to be reclassified from deferred income to other income based on the useful life of the assets. Furthermore, the Group will have to comply with all the conditions associated with grant.

For the years ended December 31, 2020, the other income reclassified from deferred income amounted to \$786, please refer to note(6)(W).

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(p) Operating lease

The Group leases out its owner-occupied property for external other one. The Group has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note (6)(u) sets out information about the operating leases of operating revenue.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

| | December 31, 2020 |
|----------------------------------|------------------------------|
| Less than one year | \$ 9,796 |
| Between one and two years | 10,089 |
| Total undiscounted lease payment | \$ 19,885 |

(q) Employee benefits

(i) Defined benefit plans

Reconciliation of the Company's defined benefit obligations at present value and plan assets at fair value are as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Present value of defined benefit obligations | \$ 17,787 | 15,832 |
| Fair value of plan assets | (17,991) | (17,156) |
| Net defined benefit assets | \$ (204) | (1,324) |

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by the local banks.

As of December 31, 2020 and 2019, the Company's Bank of Taiwan labor pension reserve account balance amounted to \$17,991 and \$17,156, respectively. For information on the utilization of the labor pension fund assets, including the yield of the fund and asset allocation, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company were as follows:

| | 2020 | 2019 |
|--|------------------|---------------|
| Defined benefit obligation at January 1 | \$ 15,832 | 14,411 |
| Current service costs and interest | 199 | 212 |
| Remeasurement in net defined benefit liability | | |
| – Experience adjustments to actuarial losses (gains) | 949 | 737 |
| – Actuarial loss from changes in financial assumption | 807 | 472 |
| Defined benefit obligation at December 31 | <u>\$ 17,787</u> | <u>15,832</u> |

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

| | 2020 | 2019 |
|---|------------------|---------------|
| Fair value of plan assets at January 1 | \$ 17,156 | 16,339 |
| Interest income | 129 | 164 |
| Remeasurement in net defined benefit liability | | |
| – Expected return on plan assets (excluding interest income) | 563 | 589 |
| Contributions made | 143 | 64 |
| Fair value of plan assets at December 31 | <u>\$ 17,991</u> | <u>17,156</u> |

4) Movements in effect of limiting net defined benefit assets to asset ceiling

For the years 2020 and 2019, there were no change in effect of limiting net defined benefit assets to asset ceiling.

5) Pension recognized through profit or loss

The pension costs of the defined benefit plans recognized as expenses for the years 2020 and 2019 were as follows:

| | 2020 | 2019 |
|--|--------------|-------------|
| Current service cost | \$ 81 | 69 |
| Interest on net defined benefit obligation | (11) | (21) |
| Total (recognized under "Administrative expense – pension") | <u>\$ 70</u> | <u>48</u> |

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

6) Remeasurements of net defined benefit obligation recognized under other comprehensive income

The cumulative remeasurement of net defined benefit obligations recognized under other comprehensive income were as follows:

| | 2020 | 2019 |
|----------------------------------|-----------------|--------------|
| Cumulative amount at January 1 | \$ 6,918 | 7,538 |
| Obligations reversed | (1,193) | (620) |
| Cumulative amount at December 31 | \$ 5,725 | 6,918 |

7) Actuarial assumptions

The Company's principal actuarial assumptions were as follows:

| | December 31, 2020 | December 31, 2019 |
|------------------------------|------------------------------|------------------------------|
| Discount rate | 0.35 % | 0.75 % |
| Future salary rate increases | 2.00 % | 2.00 % |

As of December 31, 2020 and 2019, the amount of contributions expected to be made to the defined contribution plans within one year of the report date were \$338 and \$316, respectively. The weighted average term of defined contribution plans were 11 and 12 years, respectively.

8) Sensitivity analysis

In the event of changes in actuarial assumptions, the impact on defined benefit obligations are as follows:

| | Impact on defined benefit obligation | |
|--|---|------------------|
| | Increased | Decreased |
| December 31, 2020 | | |
| Discount rate (at a 0.25% change) | \$ 531 | 510 |
| Future salary increase (at a 0.25% change) | 521 | 503 |
| December 31, 2019 | | |
| Discount rate (at 0.25% change) | 491 | 471 |
| Future salary increase (at 0.25% change) | 483 | 466 |

The sensitivity analysis above is performed on the impact of changes in a single actuarial assumption, based on the condition that all other assumptions are held constant. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for the years 2020 and 2019.

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations. Other subsidiaries established the defined benefit retirement plans in accordance with each local regulation.

The Company's pension expenses under the defined contribution method amounted to \$4,088 and \$3,133 for the years ended December 31, 2020 and 2019, respectively. Payments were made to the Bureau of Labor Insurance.

Pension expenses made in accordance with local regulations for all subsidiaries amounted to \$19,640 and \$34,059 for the years ended December 31, 2020 and 2019, respectively.

Pension expenses recognized by the Group were as follows:

| | 2020 | 2019 |
|-----------------------------------|------------------|---------------|
| Operating costs | \$ 3,785 | 12,952 |
| Selling expenses | 17,301 | 19,082 |
| Administrative expenses | 1,958 | 3,240 |
| Research and development expenses | 684 | 1,918 |
| Total | \$ 23,728 | 37,192 |

(r) Income tax

(i) Income tax expense

The components of income tax expense (income) for the years ended December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---|-------------------|-----------------|
| Current tax expense | | |
| Current period | \$ 134,372 | 73,503 |
| Adjustments for prior periods | (2,045) | 2,747 |
| Subtotal | <u>132,327</u> | <u>76,250</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (12,082) | (13,375) |
| Subtotal | <u>(12,082)</u> | <u>(13,375)</u> |
| Income tax expense | \$ 120,245 | 62,875 |

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

The amounts of income tax expense (income) recognized in other comprehensive income for the years ended December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---|-----------------|-----------------|
| Items that may be reclassified subsequently to profit or loss: | | |
| Foreign currency translation differences of foreign operations \$ <u>(35,772)</u> | <u>(35,772)</u> | <u>(25,169)</u> |

Reconciliation of income tax and profit before tax for 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---|-------------------|----------------|
| Income before tax | \$ 424,896 | 236,647 |
| Income tax expense at the statutory rate | 84,979 | 47,329 |
| Effect of tax rates in foreign jurisdiction | 20,701 | 14,606 |
| Non-deductible expenses | 1,909 | 2,817 |
| Under (over) provision in prior periods | (2,045) | 2,113 |
| Surtax on unappropriated earnings | 1,128 | 3,508 |
| Others | <u>13,573</u> | <u>(7,498)</u> |
| Income tax expense | <u>\$ 120,245</u> | <u>62,875</u> |

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2020 and 2019, due to the need of increasing the funds for foreign operation, funds associated with investments in subsidiaries will not be transferred back in the foreseeable future. Thus, under IAS 12, the temporary difference associated with investments in subsidiaries was recognized as permanent difference. Details were as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Aggregate amount of temporary differences related to investments in subsidiaries | <u>\$ 392,907</u> | <u>376,181</u> |

2) Unrecognized deferred tax assets

The details of unrecognized deferred tax assets were as follows:

| | December 31, 2020 | December 31, 2019 |
|----------------------------------|------------------------------|------------------------------|
| Deductible temporary differences | \$ 9,024 | 1,567 |
| Tax losses | <u>3,950</u> | <u>3,158</u> |
| Total | <u>\$ 12,974</u> | <u>4,725</u> |

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
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Tax losses are deductions of deficits from previous five and three years of China-based and Philippines-based subsidiaries that were approved by local tax authorities from current year profit, in accordance with income tax law. Such tax losses are considered unrecognized deferred tax assets because the Group determines that it is not probable that future taxable profit will be available against which the Group can utilize the benefits.

As of December 31, 2020, China-based subsidiaries' income tax rate was 25%, the information of the China-based subsidiaries' unused tax losses for which no deferred tax assets were recognized are as follows:

| Year of occurrence | Remaining creditable amount | Expiry Year |
|---------------------------|------------------------------------|--------------------|
| The subsidiaries | | |
| 2016 (filing) | \$ 372 | 2021 |
| 2017 (filing) | 395 | 2022 |
| 2018 (filing) | 957 | 2023 |
| 2019 (filing) | 2,833 | 2024 |
| 2020 (forecast) | <u>2,445</u> | 2025 |
| Total | <u><u>\$ 7,002</u></u> | |

As of December 31, 2020, Philippines-based subsidiaries' income tax rate was 30%, the information of the Philippines-based subsidiaries' unused tax losses for which no deferred tax assets were recognized are as follows:

| Year of occurrence | Remaining creditable amount | Expiry Year |
|---------------------------|------------------------------------|--------------------|
| The subsidiaries | | |
| 2018 (filing) | \$ 5,860 | 2021 |
| 2020 (filing) | <u>1,469</u> | 2023 |
| Total | <u><u>\$ 7,329</u></u> | |

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

3) Recognized deferred tax assets and liabilities

Movements of deferred tax assets and liabilities for the years 2020 and 2019 were as follows:

a) Deferred tax assets

| | Unrealized inventory valuation and obsolescence loss | Temporary differences from depreciation and amortizations | Doubtful debts | Exchange difference on transaction of foreign financial statements | Other | Total |
|--|--|--|-------------------|---|---------------|----------------|
| January 1, 2020 | \$ 74,116 | 4,361 | 4,959 | 47,825 | 22,873 | 154,134 |
| Recognized in profit or loss | 5,280 | - | 373 | - | (8,050) | (2,397) |
| Recognized in other comprehensive income | - | - | - | 35,772 | - | 35,772 |
| Effect of changes in foreign exchange rates | (3,865) | (218) | (262) | - | (798) | (5,143) |
| December 31, 2020 | \$ 75,531 | 4,143 | 5,070 | 83,597 | 14,025 | 182,366 |
| January 1, 2019 | \$ 64,734 | 5,218 | 5,081 | 22,656 | 20,661 | 118,350 |
| Recognized in profit or loss | 11,238 | (753) | - | - | 2,676 | 13,161 |
| Recognized in other comprehensive income | - | - | - | 25,169 | - | 25,169 |
| Effect of changes in foreign exchange rates | (1,856) | (104) | (122) | - | (464) | (2,546) |
| December 31, 2019 | \$ 74,116 | 4,361 | 4,959 | 47,825 | 22,873 | 154,134 |

b) Deferred tax liabilities

| | Temporary differences from depreciation and amortization | Other | Total |
|---|---|------------|---------------|
| January 1, 2020 | \$ 72,979 | - | 72,979 |
| Recognized in profit or loss | (14,611) | 132 | (14,479) |
| Effect of changes in foreign exchange rates | (3,139) | 3 | (3,136) |
| December 31, 2020 | \$ 55,229 | 135 | 55,364 |
| January 1, 2019 | \$ 74,772 | 214 | 74,986 |
| Recognized in profit or loss | - | (214) | (214) |
| Effect of changes in foreign exchange rates | (1,793) | - | (1,793) |
| December 31, 2019 | \$ 72,979 | - | 72,979 |

(iii) Examination and approval

The Company's income tax returns for all years through 2018, have been examined by the R.O.C. income tax authorities.

The Group's overseas subsidiaries' income tax returns for all years through 2019 have been declared to, but have yet to be examined by, the local tax authorities.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(s) Capital and other equities

As of December 31, 2020 and 2019, the Company's registered total authorized capital amounted to \$1,800,000 with par value of \$10 per share (in NT dollars), which includes employee share option of \$3,500 thousand shares. Total issued common stock as of December 31, 2020 and 2019 were 131,046 and 124,554 thousand shares, respectively. All issued shares were issued and outstanding.

(i) Issuance of common stock

A resolution was approved during the board meeting held on October 21, 2020 for the issuance of convertible bonds amounting to \$64,921, which was converted into 6,492 thousand shares of common stocks by the Group, with the record date set on October 21, 2020. The related registration procedures were completed in November 2020.

A resolution was approved during the board meeting held on January 15, 2021 for the issuance of convertible bonds amounting to \$4,570, which was converted into 457 thousand shares of common stocks by the Group, with the record date set on January 15, 2021. The related registration procedures were completed in February 2021.

Changes in the numbers of outstanding shares for the years ended December 31, 2020 and 2019, were as follows:

| | Common Shares (in thousand shares) | | |
|---------------------------------|---|----------------|----------------|
| | For the years ended December 31 | 2020 | 2019 |
| Beginning balance at January 1 | | 124,554 | 124,554 |
| Conversion of convertible bonds | | 6,949 | - |
| Ending balance at December 31 | | 131,503 | 124,554 |

(ii) Capital surplus

The balances of additional paid-in capital were as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------------|------------------------------------|
| Premium issuance of common shares for cash | \$ 432,122 | 432,122 |
| Premium issuance of convertible bond | 309,766 | 198,890 |
| Transaction of treasury stock | 19,741 | - |
| Difference between consideration and carrying amount of shares | 334 | 334 |
| Stock options of convertible bonds issued | 7,561 | 41,035 |
| Expired employee stock options | <u>30,685</u> | <u>5,240</u> |
| Total | \$ 800,209 | 677,621 |

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Premium insurance of common shares for cash, premium insurance of convertible bond, transaction of treasury stock, and difference between the consideration and the carrying amount of shares, may be used to offset the Company's deficit. However, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of the ordinary shares.

Stock options of convertible bonds issued may not be used for any purpose, and expired employee stock options may only be used to offset a deficit.

In accordance with the Amended Companies Act, realized capital surplus can only be distributed as share capital or cash dividends (proportionate to the shareholders' respective interest) after offsetting against losses. The aforementioned capital surplus includes share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be distributed to capital shall not exceed 10% of the actual paid-in capital.

(iii) Retained earnings and dividend policy

Under the amended Company's Articles of Incorporation, upon closing of accounts, if there is profit, the Company shall first offset a deficit in the previous years and pay the income tax accordingly, then set aside a legal reserve of 10% of the profits left over as special reserve in accordance with the law, until the accumulated legal capital reserve equals paid-in capital. For any retained earnings left over, the board of directors shall propose distribution of unappropriated earnings to be approved in shareholders meeting, with the exception of distributable earnings that are lower than actual paid-in capital by 0.5%.

The payment of dividends could be done through transferring retained earnings to capital, transferring capital surplus to capital, or through cash dividend, depending on anticipated future development and growth, the Company's financial structure, and the rights and interests of shareholders. The distribution of dividends depends on the retained earnings of the year. In considering the maturing stage of the industry and the capital structure of the Company, dividends are mainly distributed through a combination of stock dividends and cash dividends wherein cash dividends may not be less than 10% of the sum of stock dividend and cash dividend. However, the actual methods and ratio of distribution may be adjusted through the shareholders meetings according to actual earnings and capital of the year.

1) Legal reserve

In accordance with the Company Act, 10% of the net income after tax should be set aside as legal reserve, until the legal reserve is equal to the authorized capital. If the Group experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting. The distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

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Notes to Consolidated Financial Statements

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the Company is required to set aside additional special capital reserve equivalent to the net debit balances of the other components of stockholders' equity. Similarly, for any cumulative prior period net debit balances of other components of stockholders' equity, special reserve are set aside from prior year unappropriated earnings. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed.

Pursuant to the ruling above, the Company sets aside additional special reserve from earnings of current period and any unappropriated prior year earnings equivalent to the difference between the debit balance of other components of stockholders' equity and the balance of special reserve. Similarly, for any cumulative prior period net debit balances of other components of stockholders' equity, special reserve are set aside from prior year unappropriated earnings. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed.

3) Earnings distribution

In the shareholders meeting held on June 18, 2020, the resolution for the distribution of earnings from the year 2019 has been approved. Based on the resolution, distributable earnings is calculated as net income after tax of \$172,272 for the year 2019, plus, actuarial loss of \$(620) and the beginning balance of unappropriated earnings of \$133,694, less, the required legal reserve of \$17,165 and special reserve of \$26,067, which amounted to \$262,114. The cash dividends that will be distributed to the shareholders in September, 2020 amounted to \$105,870, with a par value of \$0.85 per share.

In the shareholders meeting held on June 18, 2019, the resolution for the distribution of earnings from the year 2018 has been approved. Based on the resolution, distributable earnings is calculated as net income after tax of \$353,241 for the year 2018, plus, actuarial gain of \$1,347 and the beginning balance of unappropriated earnings of \$63,539, less, the required legal reserve of \$35,324, which amounted to \$382,803. The cash dividends that were distributed to the shareholders in August, 2019 amounted to \$249,109, with a par value of \$2.00 per share.

The related information can be accessed from "Market Observation Post System".

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iv) Other equity interest (net taxes)

| | Exchange differences on translation of foreign financial statements |
|---|--|
| Balance at January 1, 2020 | \$ (196,131) |
| Exchange differences on foreign operation | <u>(143,087)</u> |
| Balance at December 31, 2020 | <u><u>\$ (339,218)</u></u> |
| Balance at January 1, 2019 | \$ (95,454) |
| Exchange differences on foreign operation | <u>(100,677)</u> |
| Balance at December 31, 2019 | <u><u>\$ (196,131)</u></u> |

(t) Earnings per share

The calculations of basic earnings per share and diluted earnings per share for the years 2020 and 2019 were as follow:

| | 2020 | 2019 |
|--|-----------------------|--------------------|
| Basic earnings per share | | |
| Profit attributable to ordinary shareholders of the Company | \$ 304,783 | 172,272 |
| Weighted-average number of ordinary shares | <u>126,773</u> | <u>124,554</u> |
| Basic earnings per share (in dollars) | <u><u>\$ 2.40</u></u> | <u><u>1.38</u></u> |
| Diluted earnings per share | | |
| Profit attributable to ordinary shareholders of the Company | \$ 304,783 | 172,272 |
| Effects of dilutive potential ordinary shares: | | |
| Interest of convertible bond | 9,421 | 14,097 |
| Profit attributable to ordinary shareholders of the Company (adjusted for the effects of all dilutive potential ordinary shares) | \$ 314,204 | 186,369 |
| Weighted-average number of ordinary shares (in thousands of shares) | 126,773 | 124,554 |
| Effects of dilutive potential ordinary shares: | | |
| Effects of employee stock bonus (in thousands of share) | 892 | 491 |
| Effects of conversion of convertible bond (in thousands of share) | 14,479 | 12,613 |
| Weighted-average number of ordinary shares (adjusted for the effects of all dilutive potential ordinary shares) | <u>142,144</u> | <u>137,658</u> |
| Diluted earnings per share (in dollars) | <u><u>\$ 2.21</u></u> | <u><u>1.35</u></u> |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(u) Revenue from contracts with customers

(i) Details of revenue

| | 2020 | 2019 |
|---------------|----------------------|-------------------|
| Goods sold | \$ 11,425,998 | 11,562,134 |
| Rental income | 9,997 | 10,448 |
| Total | \$ 11,435,995 | 11,572,582 |

The Group provides customers discounts based on the contract and order agreement, and the Group's private-label online retail company permits customers to return items within a specific period of time upon return policy, which lead to a sales discounts and returns amount of \$427,645 and \$509,893 as of December 31, 2020 and 2019. The amount of sales discounts and returns are estimated based on expected value of the past experience and agreements, which are well-defined. The Group leases parts of its US property to non-related party and recognized as rental income.

(ii) Disaggregation of revenue

| | For the year ended December 31, 2020 | | | |
|--|---|--------------------|-------------------------|-------------------|
| | Manufacturing | Wholesaling | Online retailing | Total |
| Primary geographical markets | | | | |
| United States | \$ 2,898,166 | 1,909,466 | 5,036,890 | 9,844,522 |
| China | 416,565 | 69,531 | - | 486,096 |
| Taiwan | 264,617 | - | - | 264,617 |
| Canada | 44,822 | 219,595 | - | 264,417 |
| United Kingdom | 72,279 | - | - | 72,279 |
| Others | <u>365,727</u> | <u>128,340</u> | <u>-</u> | <u>494,067</u> |
| Total | \$ 4,062,176 | 2,326,932 | 5,036,890 | 11,425,998 |
| Main products/services lines | | | | |
| CABLE | \$ 1,018,770 | 121,891 | 1,853,483 | 2,994,144 |
| POWER CORD | 2,716,556 | 2,139,376 | - | 4,855,932 |
| Consumer electronics | - | - | 3,183,407 | 3,183,407 |
| Others | <u>326,850</u> | <u>65,665</u> | <u>-</u> | <u>392,515</u> |
| Total | \$ 4,062,176 | 2,326,932 | 5,036,890 | 11,425,998 |
| Timing of revenue recognition: | | | | |
| Product transferred at a point in time | <u>\$ 4,062,176</u> | <u>2,326,932</u> | <u>5,036,890</u> | <u>11,425,998</u> |
| Sales channels | | | | |
| Directly to customers | <u>\$ 4,062,176</u> | <u>2,326,932</u> | <u>5,036,890</u> | <u>11,425,998</u> |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
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| | For the year ended December 31, 2019 | | | |
|--|---|-------------------------|-------------------------|--------------------------|
| | Manufacturing | Wholesaling | Online retailing | Total |
| Primary geographical markets | | | | |
| United States | \$ 686,771 | 3,430,413 | 5,105,673 | 9,222,857 |
| China | 713,573 | 107,684 | - | 821,257 |
| Taiwan | 245,113 | - | - | 245,113 |
| Canada | 48,145 | 271,452 | - | 319,597 |
| United Kingdom | 107,447 | - | - | 107,447 |
| Others | 688,153 | 157,710 | - | 845,863 |
| Total | <u>2,489,202</u> | <u>3,967,259</u> | <u>5,105,673</u> | <u>11,562,134</u> |
| Main products/services lines | | | | |
| CABLE | \$ 1,536,502 | 252,352 | 1,849,193 | 3,638,047 |
| POWER CORD | 716,153 | 3,683,679 | - | 4,399,832 |
| Consumer electronics | - | - | 3,256,480 | 3,256,480 |
| Others | 236,547 | 31,228 | - | 267,775 |
| Total | <u>2,489,202</u> | <u>3,967,259</u> | <u>5,105,673</u> | <u>11,562,134</u> |
| Timing of revenue recognition: | | | | |
| Product transferred at a point in time | <u>2,489,202</u> | <u>3,967,259</u> | <u>5,105,673</u> | <u>11,562,134</u> |
| Sales channels | | | | |
| Directly to customers | <u>2,489,202</u> | <u>3,967,259</u> | <u>5,105,673</u> | <u>11,562,134</u> |

(iii) Contract balances

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|---|--------------------------|--------------------------|------------------------|
| Contract liabilities—advance sales receipts | <u>\$ 141,558</u> | <u>93,679</u> | <u>88,480</u> |

For details on notes and accounts receivable and allowance for impairment, please refer to note (6)(b).

The amount of revenue recognized for the years ended December 31, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$87,788 and \$82,327, respectively.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(v) Remuneration to employees and directors

In accordance with the articles of incorporation, earnings shall first be offset against any deficit, then, a minimum of 6% will be distributed as employee remuneration and a maximum of 6% will be allocated as directors' remuneration. Earnings refer to pre-tax net profit for the period before deducting remunerations.

Employees who are entitled to receive the abovementioned employee remuneration, in share or cash, include the employees of the Company's affiliated companies which are at least 50% directly or indirectly owned by the Company.

For the years ended December 31, 2020, the Company accrued remuneration to employees of \$24,208 and remuneration to directors amounted to \$16,139. These amounts were calculated by using the Company's pre-tax net profit for the period before deducting the remunerations to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors based on the amended Company's articles of association. These remunerations were expensed under operating costs or expenses for the year.

For the years ended December 31, 2019, the Company accrued remuneration to employees of \$12,484 and remuneration to directors amounted to \$8,323. These amounts were calculated by using the Company's pre-tax net profit for the period before deducting the remunerations to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors based on the previous Company's articles of association. These remunerations were expensed under operating costs or expenses for the year.

The differences between the estimated amounts in the financial statements and the actual amounts approved by the Board of directors, if any, shall be accounted for as changes in accounting estimates and recognized as profit or loss in the following year.

The cash remunerations to employees and directors for the year 2019 amounting to \$12,483 and \$8,322, respectively, were based on the resolution decided during the Board meeting held on May 8, 2020, and had already been reported in the shareholders' meeting on June 18, 2020.

The cash remunerations to employees, as well as directors and supervisors, for the year 2018 amounting to \$23,813 and \$15,800, respectively, were based on the resolution decided during the Board meeting held on March 28, 2019, and had already been reported in the shareholders' meeting on June 18, 2019.

As mentioned above, the differences between the actual amounts and the estimated amounts of the remuneration to employees, directors and supervisors for the years ended 2019 and 2018 had been adjusted accordingly.

For further information, please refer to "Market Observation Post System".

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(w) Other non-operating income and expenses

(i) Interest income

The details of interest income of the Group for the years ended December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|------------------------------------|------------------------|----------------------|
| Interest income from bank deposits | <u><u>\$ 6,140</u></u> | <u><u>13,458</u></u> |

(ii) Other income

The details of other income of the Group for the years ended December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|-------------------|-------------------------|----------------------|
| Government grants | \$ 9,517 | 1,832 |
| Other income | <u><u>14,885</u></u> | <u><u>11,692</u></u> |
| Total | <u><u>\$ 24,402</u></u> | <u><u>13,524</u></u> |

(iii) Other gains and losses

The details of other gains and losses of the Group for the years ended December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---|---------------------------|------------------------|
| (Loss) gain on disposal of property, plant, and equipment | \$ (4,023) | 462 |
| Foreign exchange gain (loss) | (39,791) | (8,098) |
| Gain on repurchase of convertible bonds | 8,018 | - |
| Other non-operating expenses | <u><u>(6,564)</u></u> | <u><u>(5,886)</u></u> |
| Other gains and losses, net | <u><u>\$ (42,360)</u></u> | <u><u>(13,522)</u></u> |

(iv) Financial costs

The details of financial costs of the Group for the years ended December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|------------------------------------|--------------------------|-----------------------|
| Interest expense | | |
| Bank loans | \$ 69,184 | 87,302 |
| Interest on lease liabilities | 20,641 | 22,618 |
| Short-term notes and bills payable | 1,249 | 1,783 |
| Bonds payable | <u><u>9,421</u></u> | <u><u>14,097</u></u> |
| Total | <u><u>\$ 100,495</u></u> | <u><u>125,800</u></u> |

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(x) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

Customers of the Group are mainly concentrated in offline retail of internet cables and power code products. In order to lower the credit risk of accounts receivable, the Group continuously examines the financial situation of customers and periodically assess the recoverability of accounts receivable, recognizing allowances for bad debt when necessary. The losses on doubtful debts were within the expectations of management. As of December 31, 2020 and 2019, five clients contributed to 57% and 52%, respectively, of the accounts receivable, hence, the Group has a significant concentration on credit risk.

(ii) Liquidity risk

The following are the dates of contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

| | <u>Carrying value</u> | <u>Contractual cash flow</u> | <u>Within 1 year</u> | <u>1-2 years</u> | <u>2-5 years</u> | <u>Over 5 years</u> |
|---|----------------------------|------------------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| December 31, 2020 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Short-term borrowings | \$ 2,356,577 | 2,364,149 | 2,364,149 | - | - | - |
| Short-term notes and bills payable | 129,886 | 130,000 | 130,000 | - | - | - |
| Notes and accounts payable | 946,956 | 946,956 | 946,956 | - | - | - |
| Other payables | 636,130 | 636,130 | 636,130 | - | - | - |
| Bonds payable (includes current portion) | 138,370 | 143,400 | - | - | 143,400 | - |
| Lease liabilities - current and noncurrent | 436,229 | 490,976 | 102,206 | 101,659 | 219,494 | 67,617 |
| Long-term borrowings (includes current portion) | <u>1,350,801</u> | <u>1,487,782</u> | <u>483,209</u> | <u>257,027</u> | <u>261,847</u> | <u>485,699</u> |
| Total | <u>\$ 5,994,949</u> | <u>6,199,393</u> | <u>4,662,650</u> | <u>358,686</u> | <u>624,741</u> | <u>553,316</u> |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

| | Carrying value | Contractual cash flow | Within 1 year | 1-2 years | 2-5 years | Over 5 years |
|---|---------------------------|----------------------------------|--------------------------|------------------|------------------|-------------------------|
| December 31, 2019 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Short-term borrowings | \$ 1,881,475 | 1,890,152 | 1,890,152 | - | - | - |
| Short-term notes and bills payable | 229,823 | 230,000 | 230,000 | - | - | - |
| Notes and accounts payable | 668,982 | 668,982 | 668,982 | - | - | - |
| Other payables | 459,398 | 459,398 | 459,398 | - | - | - |
| Bonds payable (includes current portion) | 693,322 | 700,000 | 700,000 | - | - | - |
| Lease liabilities - current and noncurrent | 496,833 | 565,641 | 102,737 | 103,143 | 280,103 | 79,658 |
| Long-term borrowings (includes current portion) | <u>1,569,250</u> | <u>1,685,221</u> | <u>835,276</u> | <u>207,041</u> | <u>244,324</u> | <u>398,580</u> |
| Total | \$ 5,999,083 | 6,199,394 | 4,886,545 | 310,184 | 524,427 | 478,238 |

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amount.

(iii) Market risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follow:

| | December 31, 2020 | | | December 31, 2019 | | |
|-------------------------------|-------------------|------------------|-----------|-------------------|------------------|-----------|
| | Local currency | Exchange rate | TWD | Local currency | Exchange rate | TWD |
| Financial assets: | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | \$ 56,611 | 28.43 | 1,609,451 | 34,549 | 29.93 | 1,034,052 |
| HKD | 5,050 | 3.67 | 18,520 | 5,978 | 3.84 | 22,976 |
| CNY | 3,374 | 4.36 | 14,701 | 4,009 | 4.29 | 17,200 |
| EUR | 441 | 34.82 | 15,356 | 1,836 | 33.39 | 61,304 |
| CAD | 962 | 22.18 | 21,338 | 1,069 | 23.35 | 24,963 |
| <u>Financial liabilities:</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | 23,924 | 28.43 | 680,159 | 15,747 | 29.93 | 471,308 |

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the foreign currency exchange gain and losses on cash and cash equivalents, accounts receivable, other receivables, accounts payable, other payables, and loans and borrowings, which are denominated in foreign currency. The overall effects to the net profit before tax for the years ended December 31, 2020 and 2019, assuming the TWD appreciated by 1%, were decreases of \$9,992 and \$6,892, respectively. The analysis is performed on the same basis for the prior year.

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

3) Exchange gains and losses of monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2020 and 2019, the foreign exchange (loss) gains (including both realized and unrealized) amounted to \$(39,791) and \$(8,098), respectively.

(iv) Interest rate analysis

The exposure to interest rate risk for financial assets and liabilities were already discussed in the section on liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. For liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The liabilities with variable interest rates of the Group all have related contractual agreements, and the Group calculates interest based on the notice of interest payment provided by the bank. When reporting to management, the interest rate is expressed at a rate of change of 0.25% (increase and decrease). This rate also represents management's assessment on the reasonable interval of interest rate change.

If the interest rate had increased by 0.25% at the reporting date, all things held constant, the net profit before tax would have decreased by \$9,268 and \$8,927 for the years ended December 31, 2020 and 2019, respectively, which mainly results from bank loans with variable interest rates.

(v) Fair value of financial instruments

Types of financial instruments and fair value

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include the fair value information of the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value.

(y) Financial risk management

(i) Overview

By using financial instruments, the Group is exposed to the following:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

Detailed information on the exposure to risks, the Group's objectives, policies, and process for managing the aforementioned risks are listed below.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Risk management framework

The Board of directors is responsible for establishing and supervising the risk management framework of the Group. The Board authorizes each department to manage different controls, with the operations and finance department mainly in charge of managing risks with regards to sales and finances and controlling the overall risk management policy of the Group. The department periodically submits reports to the director and chief executive officer regarding the performance of the framework and reports to the board when necessary.

The risk management policies are built on identifying and analyzing risks that the Group faces. The Group determines and establishes certain risk limits and controls and monitors to see whether risk limits are being followed. Risk management policy and systems are periodically reviewed to reflect changes in market conditions and the consequent changes in the Group's operations. Through advocating and through the usage of management policies and operation procedures, the Group intends to develop a disciplined and constructive control environment with engaging employees who understand their own roles and responsibilities.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group when its customer fails to meet its contractual obligations. The maximum exposure to credit risk is mainly from items below:

1) Accounts receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Group's finance department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's credit limits are offered. The review of creditworthiness involves inspecting credit information provided by the customer and customers' prior years and current years payment records, or appointing institutions to perform credit checks. Credit limits are established for each customer and are reviewed periodically. The Group's receivables include various categories of customers, located in different geographical area. The Group manages its customers' credit risk exposure with based on of their financial condition, and will purchase credit and guarantee insurance when necessary.

The Group set the loss allowance account to reflect the estimated losses for accounts receivable. The loss allowance account consists of specific losses relating to individually significant exposure and the unrecognized losses arising from similar assets groups. The loss allowance account is based on historical collection record of similar financial assets.

2) Investments

The credit risk exposure in bank deposits and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore no significant credit risk.

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

3) Endorsements and guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to wholly-owned subsidiaries. For the endorsements provided to subsidiaries as of December 31, 2020, please refer to note (13)(a)(ii).

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to manage liquidity is to periodically examine whether current funds are sufficient to cover operations. In the case that funds are insufficient, the Group shall arrange for financings from banks in advance in order to have enough funds on hand to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity-based costing in the estimation of costs of its products and services in order to monitor the cash flow needs and ideal return on cash investments. In general, the Group ensures that there is sufficient funds to cover expected operating expenditures for 60 days, including fulfilments of financial obligation, but excluding the potential effects of extreme circumstances that cannot be reasonably expected, such as natural disasters. In addition, unused credit lines as of December 31, 2020 and 2019 were \$1,516,895 and \$2,268,083 and, respectively.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (TWD), the Euro, and US Dollars (USD). The currencies used in these transactions are denominated in TWD, USD, and CNY.

Interest on loans are calculated based on the principal. In general, the currency of loans are the same as the currency of the cash flow from operations, which are primarily in New Taiwan Dollars. Certain loans are denominated in US dollars, but because the Group did not use forward exchange contracts or other derivative instruments, hedge accounting is not applied.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Cash flow risk related to interest rate change

Short and long-term borrowings of the Group are considered as debts with variable rates. Thus, the interest rate change in the market will also affect the change in the weighted average interest rate of the short- and long-term borrowings, as well as the future cash flow.

(z) Capital management

The policy of the Board is aimed towards managing capital to safeguard the capacity to continue to operate and to maximize the returns to shareholders through maintaining an optimal capital structure. Capital includes the share capital of the Group, capital surplus, and retained earnings. The Board controls return on capital while simultaneously overseeing the level of dividends on common stock.

For the years 2020 and 2019, rate of return on capital were 11.61% and 7.31%, respectively. The debt-to-equity ratio as of the reporting date were as follows:

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Total liabilities | \$ 6,403,386 | 6,265,582 |
| Less : cash and cash equivalents | (838,816) | (1,432,714) |
| Net liabilities | \$ 5,564,570 | 4,832,868 |
| Total equity (not including non-controlling interests) | \$ 2,624,951 | 2,378,239 |
| Less : cumulative equity related to cash flow hedge | - | - |
| Adjust capital | \$ 2,624,951 | 2,378,239 |
| Debt-to-equity ratio | 211.99 % | 203.21 % |

In order to meet customer's demand and to seek the most effective solution in dealing with the current trading situation between China and the United States, the Group purchased a piece of land to set up a new office and factory in Philippines and Taiwan in 2020 and 2019. As a result, the Group's debt-to-equity ratio had also on the high side as of December 31, 2020. The Group will continue to focus on decreasing its debt-to-equity ratio with its future operating profit and cash inflow.

(aa) Investing and financing activities not affecting current cash flow

- (i) Please refer to note (6)(f) and (n) sets out information about the right-of-use asset had got from lease.
- (ii) Please refer to note (6)(l) and (s) for information on the conversion of convertible bonds to ordinary shares.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Reconciliation of liabilities arising from financing activities were as follows:

| | January 1, 2020 | Cash inflow | Cash Outflow | Non-cash changes | | | | December 31, 2020 |
|---|---------------------|------------------|--------------------|---------------------------------|--|--|---|----------------------|
| | | | | Foreign exchange movement | Gain on repurchase of convertible bonds | Increase in Right-of-use assets | Conversion of convertible bonds and Others | |
| Short-term borrowings | \$ 1,881,475 | 3,328,999 | (2,836,474) | (17,423) | - | - | - | 2,356,577 |
| Short-term notes and bills payable | 229,823 | - | (99,937) | - | - | - | - | 129,886 |
| Bonds payable (includes current portion) | 693,322 | 401,501 | (765,776) | - | (8,018) | - | (182,659) | 138,370 |
| Lease liabilities | 496,833 | - | (81,769) | (15,595) | - | 36,760 | - | 436,229 |
| Long-term borrowings (includes current portion) | 1,569,250 | 1,819,844 | (2,004,045) | (34,248) | - | - | - | 1,350,801 |
| Total liabilities from financing activities | <u>\$ 4,870,703</u> | <u>5,550,344</u> | <u>(5,788,001)</u> | <u>(67,266)</u> | <u>(8,018)</u> | <u>36,760</u> | <u>(182,659)</u> | <u>4,411,863</u> |
| | January 1, 2019 | Cash inflow | Cash Outflow | Non-cash changes | | | | December 31, 2019 |
| | | | | Foreign exchange movement | Increase in Right-of-use assets | Amortization of interest expense | - | |
| Short-term borrowings | \$ 1,708,979 | 2,645,022 | (2,439,617) | (32,909) | - | - | - | 1,881,475 |
| Short-term notes and bills payable | 249,765 | - | (19,942) | - | - | - | - | 229,823 |
| Bonds payable (includes current portion) | 679,225 | - | - | - | - | - | 14,097 | 693,322 |
| Lease liabilities | 438,298 | - | (79,185) | (13,726) | 151,446 | - | - | 496,833 |
| Long-term borrowings (includes current portion) | 1,445,673 | 1,677,157 | (1,537,046) | (16,534) | - | - | - | 1,569,250 |
| Total liabilities from financing activities | <u>\$ 4,521,940</u> | <u>4,322,179</u> | <u>(4,075,790)</u> | <u>(63,169)</u> | <u>151,446</u> | <u>14,097</u> | <u>-</u> | <u>4,870,703</u> |

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Names and relationship with related parties

| Name of related party | Relationship with the Group |
|---|------------------------------------|
| All directors, supervisors, directors, general managers, etc. | Key management personnel |

(c) Key management personnel compensation

Key management personnel compensation comprised:

| | 2020 | 2019 |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 31,622 | 31,513 |
| Post-employment benefits | 380 | 353 |
| Total | <u>\$ 32,002</u> | <u>31,866</u> |

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YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2020, the Group rented 4 vehicles for its management use. The amount of right-of-use depreciation and interest recognized was \$1,140 and the amount of rent expense recognized was \$17.

For the years ended December 31, 2019, the Group rented 4 vehicles for its management use. The amount of right-of-use depreciation and interest recognized was \$1,741 and the amount of rent expense recognized was \$107.

(8) Pledged assets:

The carrying values of pledged assets were as follows:

| Pledged assets | Pledged to secure | December 31, 2020 | December 31, 2019 |
|--|---------------------------|------------------------------|------------------------------|
| Accounts receivable | Long-term borrowings | \$ - | 134,685 |
| Property, plant, and equipment | Long-term borrowings | 687,663 | 579,748 |
| Other financial asset — non-current | Long-term borrowings | 5,533 | 5,709 |
| Guarantee deposits paid | Customs security deposits | 328 | 1,365 |
| Total | | <u>\$ 693,524</u> | <u>721,507</u> |

(9) Commitments and contingencies:

(a) Unrecognized contractual commitments

(i) The Group entered into separate agreements with its suppliers for the purchase of copper. If the Group makes payments in advance, the Group may claim a discount based on the agreements, starting from the payment date until the shipment date. In the event the Group did not comply with provisions and terms in the contract, the Group shall pay interest on the amount overdue. Details of contracts are summarized as follows:

| Supplier | Contract Period | Pricing Terms | Product | Breach Clause |
|-----------------|------------------------|---|-------------------------------|--|
| A | 2020.01~2020.12 | Average price (in USD) listed in LME of the previous month, plus, US\$113, multiplied by the spot exchange rate released by Bank of Taiwan, plus, an additional amount of \$6,300 per ton of conversion cost | 960~2,160 tons of copper wire | Late payment surcharge at 10% annual rate |
| B | 2020.01~2020.12 | Average price listed in Shanghai Futures Exchange (aka SHFE) agreed by both parties, considering any premiums or discounts, plus, an additional amount of CNY\$100 per ton of conversion cost, depending on the product specification | 240~2,160 tons of copper wire | 5% of the total amount |
| D | 2020.04~2021.03 | Spot price listed in LME agreed by both parties, considering any premiums or discounts, plus, an additional amount of US\$230 per ton of conversion cost | 240~1,800 tons of copper rods | 1. 30% of the amount overdue 2. Late payment surcharge at 1% rate per day |

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YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

| Supplier | Contract Period | Pricing Terms | Product | Breach Clause |
|-----------------|------------------------|--|-------------------------------|---|
| F | 2020.01~2020.12 | Average price (in USD) listed in LME of the previous month, plus, US\$113, multiplied by the spot exchange rate released by Bank of Taiwan, plus, an additional amount of \$6,300 per ton of conversion cost | 600~1,200 tons of copper wire | Supplier can demand back parts of the unpaid purchased wires upon overdue |
| L | 2020.04~2021.03 | Spot price listed in LME agreed by both parties, considering any premiums or discounts, plus, an additional amount of US\$228 per ton of conversion cost | 720~1,920 tons of copper rods | 30% of the amount overdue |

(ii) The Group's unrecognized contractual commitments are as follows:

| | December 31, 2020 | December 31, 2019 |
|---------------------------|------------------------------|------------------------------|
| Acquisition of equipments | \$ 8,174 | 42,551 |
| Total | <u>\$ 8,174</u> | <u>42,551</u> |

(iii) Unused letters of credit: None.

(iv) For endorsement and guarantees between related parties, please refer to note (13)(a)(ii).

(b) Significant contingencies: None.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

(a) A summary of employee benefits, depreciation, and amortization, by function, is as follows:

| by Nature | 2020 | | | 2019 | | |
|--|-----------------|--------------------|-----------|-----------------|--------------------|-----------|
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefit | | | | | | |
| Salaries (including employee remuneration) | 286,077 | 792,235 | 1,078,312 | 263,232 | 766,618 | 1,029,850 |
| Labor and health insurance (Note 1) | 6,940 | 96,527 | 103,467 | 8,304 | 97,788 | 106,092 |
| Pension (Note 2) | 3,785 | 20,013 | 23,798 | 12,952 | 24,288 | 37,240 |
| Remuneration of directors | - | 17,738 | 17,738 | - | 8,311 | 8,311 |
| Other employee benefits | 6,994 | 15,436 | 22,430 | 5,206 | 16,500 | 21,706 |
| Depreciation | 54,808 | 136,793 | 191,601 | 53,827 | 148,903 | 202,730 |
| Amortization | 1,895 | 42,855 | 44,750 | 821 | 49,956 | 50,777 |

Note 1: Includes local social insurance of China subsidiaries, such as employment injury insurance, maternity insurance, medical insurance, unemployment insurance, and housing provident fund.

Note 2: Includes local endowment insurance of China subsidiaries.

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YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions for the years ended December 31, 2020 required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

| No. (Note 1) | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower (Note 2) | Transaction amount for business between two parties | Reasons for short-term financing | Collateral | | Individual funding loan limits (Note 3) | Maximum limit of fund financing (Note 3) | |
|-----------------|---------------------------------|----------------------------------|-------------------|---------------|---|-----------------------|---------------------------------------|---|--|---|----------------------------------|------------|-------|---|--|-----------|
| | | | | | | | | | | | | Item | Value | | | |
| 0 | The Company | WUXI UNIVERSAL | Other receivables | Yes | 162,450 (RMB38,000) | 78,336 (RMB18,000) | 78,336 | 1~1.15% | 1 | 2,076,759 | Business operation | - | - | - | 2,076,759 | 2,076,759 |
| 0 | The Company | YFC-BONEAGLE INTERNATIONAL, INC. | Other receivables | Yes | 43,786 (USD1,488) | 32,543 (USD1,145) | 32,543 | - | 2 | - | Business operation | - | - | - | 656,238 | 1,049,980 |
| 0 | The Company | PREMIUM-LINE KSI GMBH | Other receivables | Yes | 40,068 (EUR1,200) | - | - | - | 2 | - | Business operation | - | - | - | 656,238 | 1,049,980 |
| 0 | The Company | YFC DEVELOPMENT CORPORATION | Other receivables | Yes | 86,362 (USD2,860) | - | - | - | 2 | - | Business operation | - | - | - | 656,238 | 1,049,980 |
| 1 | PRIME WIRE & CABLES INC. | BESTLINK NETWARE INC. | Other receivables | Yes | 15,100 (USD500) | 14,215 (USD500) | 5,686 | 4.25% | 2 | - | Business operation | - | - | - | 901,058 | 901,058 |
| 2 | EUROPOWER INTERNATIONAL LIMITED | MONOPRICE, INC. | Other receivables | Yes | 302,000 (USD1,000) | - | - | 3% | 2 | - | Business operation | - | - | - | 1,395,861 | 1,395,861 |
| 2 | EUROPOWER INTERNATIONAL LIMITED | PREMIUM-LINE KSI GMBH | Other receivables | Yes | 52,719 (EUR1,511) | 52,629 (EUR1,859) | 52,629 | - | 2 | - | Business operation | - | - | - | 1,395,861 | 1,395,861 |
| 2 | EUROPOWER INTERNATIONAL LIMITED | YFC BONEAGLE INTERNATIONAL, INC. | Other receivables | Yes | 121,052 (USD4,258) | 121,052 (USD4,258) | 121,052 | 0~1.15% | 2 | - | Business operation | - | - | - | 1,395,861 | 1,395,861 |
| 2 | EUROPOWER INTERNATIONAL LIMITED | The Company | Other receivables | Yes | 1,211,280 (USD35,500) | 1,009,265 (USD35,500) | 1,009,265 | - | 2 | - | Business operation | - | - | - | 1,395,861 | 1,395,861 |
| 2 | EUROPOWER INTERNATIONAL LIMITED | YFC DEVELOPMENT CORPORATION | Other receivables | Yes | 84,189 (USD2,860) | 81,301 (USD2,860) | 81,301 | - | 2 | - | Business operation | - | - | - | 1,395,861 | 1,395,861 |

Note 1: The numbers are filled in as follows:

1. 0 represents the Company

2. Investees are sorted in numerical order starting from 1.

Note 2: Purposes of financing are labelled as follows:

1.1 represents fundings for parties who has business relationship with the Company .

2.2 represents fundings for parties with short-term financing needs.

Note 3: The allowable aggregate amount of financing provided to others may not exceed 40% of the net worth of the Company, and the maximum financing provided to an individual company may not exceed 25% of the net worth of the Company. The allowable aggregate amount of financing provided by subsidiaries to others may not exceed the net worth of the subsidiary, and maximum financing provided to an individual company may not exceed the net worth of the subsidiary. For fundings to companies with business relationships with the Company, the total amount of such fundings shall not exceed the total transaction between the parties during the past year, wherein total transactions refer to the higher of amounts purchased or sold.

Note 4: In preparing the consolidated financial report, the transactions listed above have been eliminated.

(ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

| No. | Name of guarantor (Note 1) | Counter-party of guarantee and endorsement | | Limitation on amount of guarantees and endorsements for a specific enterprise | Highest balance for guarantees and endorsements during the period | Balance of guarantees and endorsements as of reporting date | Actual usage amount during the period | Property pledged for guarantees and endorsements (Amount) | Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements (Note 3) | Maximum amount for guarantees and endorsements (Note 4) | Parent company endorsements/guarantees to third parties on behalf of subsidiary | Subsidiary endorsements/guarantees to third parties on behalf of parent company | Endorsements/guarantees to third parties on behalf of companies in Mainland China |
|-----|---------------------------------|--|--|---|---|---|---------------------------------------|---|--|---|---|---|---|
| | | Name | Relationship with the Company (Note 2) | | | | | | | | | | |
| 0 | The Company | EUROPOWER INTERNATIONAL LIMITED | 1, 2 | 2,624,951 | 120,800 | - | - | - | - % | 5,249,902 | Y | N | N |
| 0 | The Company | WUXI UNIVERSAL | 1, 2 | 2,624,951 | 1,176,963 | 984,264 | 485,675 | - | 37.50 % | 5,249,902 | Y | N | Y |
| 1 | EUROPOWER INTERNATIONAL LIMITED | MONOPRICE, INC. | 1, 3 | 1,395,861 | 604,000 | 568,600 | 156,365 | - | 21.66 % | 2,791,722 | N | N | N |
| 2 | PRIME WIRE & CABLE, INC. | UNC INVESTMENT & DEVELOPMENT, INC | 1, 3 | 901,058 | 462,475 | 435,370 | 405,546 | - | 16.59 % | 1,802,116 | N | N | N |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: The numbers are filled in as follows:

1. 0 represents the Company.
2. Investees are sorted in numerical order starting from 1.

Note 2: According to the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" issued by the R.O.C. Securities and Futures Bureau, receiving parties should be disclosed as one of the followings:

1. A company with which it does business.
2. A company in which the public company directly and indirectly holds more than 50% of the voting shares.
3. A company that directly and indirectly holds more than 50% of the voting shares in the public company.
4. A company in which the public company holds, directly or indirectly, 90% or more of the voting shares.
5. A company that fulfills its contractual obligations by providing mutual endorsements/ guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project.
6. A company that all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages.
7. Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: The amount of endorsements or guarantees to an individual company may not exceed 20% of the Company's net worth based on the most current financial statements, and the amount for overseas affiliated companies may not exceed the Company's net worth. The total amount of endorsements or guarantees provided by the Company and its subsidiaries may not exceed 200% of the Company's current net worth, and the amount of endorsements or guarantees to an individual company may not exceed 20% of the Company's current net worth. In the event the total amount exceeds more than 50% of the Company's net worth, an explanation shall be made in the shareholders' meeting. The amount of endorsements or guarantees provided by subsidiaries to overseas affiliates may not exceed the net worth of the subsidiary. Where endorsements or guarantees are provided to a company due to its business relationship with the Company, the amount may not exceed total transactions in the past year, wherein the transaction amount is the higher of the amount of purchase or sales. Current net worth is based on the most recent audited financial statements.

Note 4: The maximum amount of endorsements for investees have been approved in the Board of directors' meeting.

Note 5: In preparing the consolidated financial report, the transactions listed above have been eliminated.

(iii) Securities held as of December 31, 2020 (excluding investment in subsidiaries, associates and joint ventures):

| Name of holder | Category and name of security | Relationship with company | Account title | Ending balance | | | | Highest Percentage of ownership (%) | Note |
|--|---|---|--|--------------------------|----------------|-----------------------------|------------|-------------------------------------|------|
| | | | | Shares/Units (thousands) | Carrying value | Percentage of ownership (%) | Fair value | | |
| YFC-BONEAGLE ELECTRIC (B.V.I.) CO., LTD. | Stock TAIPIN CIRCULATING ENTERPRISE CO., LTD. | The Company holds around 15.81% shares in the investee. | Non-current financial assets at fair value through other comprehensive | - | - | 15.81 % | - | 15.81 % | 1 |

Note 1: In 2015, the Group determined that the investee was showing indications of impairments and recognized the full amount of impairment loss. In 2016, the investee ceased its business operation, and have yet to be liquidated as of December 31, 2020.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Name of company | Related party | Nature of relationship | Transaction details (Note 4) | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) (Note 4) | Percentage of total notes/accounts receivable (payable) | Note |
|--------------------------|----------------|------------------------------|------------------------------|-----------------------|---------------------------------------|---------------|---|---------------|--|---|------|
| | | | Purchase/Sale | Amount (Note 1) | Percentage of total purchases (sales) | Payment terms | Unit price | Payment terms | | | |
| The Company | DONGGUAN YFC | Parent company to subsidiary | Purchases | 698,017 (USD23,711) | 16.34 % | OA 90 days | - | - | (107,918) (USD3,796) | (16.82)% | |
| The Company | WUXI UNIVERSAL | Parent company to subsidiary | Purchases | 2,076,759 (USD70,720) | 48.60 % | OA 90 days | - | - | (413,367) (USD14,540) | (64.40)% | |
| PRIME WIRE & CABLE, INC. | The Company | Subsidiary to parent company | Purchase | 579,329 (USD19,664) | 36.69 % | OA 90 days | - | - | (177,507) (USD6,244) | (98.92)% | |
| BESTLINK NETWARE INC. | The Company | Subsidiary to parent company | Purchase | 187,887 (USD6,332) | 76.75 % | OA 90 days | - | - | (97,536) (USD3,431) | (100.00)% | |
| MONOPRICE, INC. | The Company | Subsidiary to parent company | Purchase | 327,182 (USD11,200) | 14.16 % | OA 60 days | - | - | (174,215) (USD6,128) | (23.78)% | |

Note 1: For transactions in CNY, the amount shown above is the amount (in NTD) recorded on the Company's books. In addition, transactions in USD are translated into NTD using the average exchange rate of 29.4754.

Note 2: Assets denominated in USD are translated into NTD at the exchange rate of 28.43.

Note 3: In preparing the consolidated financial report, the transactions listed above have been eliminated.

Note 4: Related-party transactions on sales and receivables are disclosed in note (13)(a)(x).

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue | | Amounts received in subsequent period (Note 1) | Allowance for bad debts |
|------------------------------------|--------------------------|------------------------------|------------------------------|---------------|---------|--------------|--|-------------------------|
| | | | | | Amount | Action taken | | |
| The Company | PRIME WIRE & CABLE, INC. | Parent company to subsidiary | Accounts receivable: 177,507 | 4.14 | - | - | 122,281 | - |
| The Company | MONOPRICE INC. | Parent company to subsidiary | Accounts receivable: 174,215 | 2.47 | - | - | 10,525 | - |
| The Company | BESTLINK NETWARE INC. | Parent company to subsidiary | Accounts receivable: 97,536 | 2.01 | - | - | 34,465 | - |
| DONGGUAN YFC | The Company | Subsidiary to parent company | Accounts receivable: 107,927 | 7.41 | - | - | 107,927 | - |
| WUXI UNIVERSAL NETWORK CORPORATION | The Company | Subsidiary to parent company | Accounts receivable: 413,367 | 5.51 | - | - | 413,367 | - |

Note 1: The information above shows subsequent collection of accounts receivable – related party as of March 12, 2021.

Note 2: For transactions in CNY, the amount shown above is the amount (in NTD) recorded on the Company's books. In addition, transactions in USD are translated into NTD using the average exchange rate of 29.4754.

Note 3: Assets denominated in USD are translated into NTD at the exchange rate of 28.43.

Note 4: In preparing the consolidated financial report, the transactions listed above have been eliminated.

(ix) Trading in derivative instruments:None.

(x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

| No. (Note 1) | Name of company | Name of counter-party | Nature of relationship (Note 2) | Intercompany transactions for the years ended December 31, 2020 (Note 3) | | | |
|--------------|-----------------|----------------------------------|---------------------------------|--|---------|---|--|
| | | | | Account name | Amount | Trading terms | Percentage of the consolidated net revenue or total assets |
| 0 | The Company | PRIME WIRE & CABLE, INC. | 1 | Sales | 579,329 | A percentage of gross profit | 5% |
| 0 | The Company | PRIME WIRE & CABLE, INC. | 1 | Accounts Receivable | 177,507 | OA 90 days | 2% |
| 0 | The Company | MONOPRICE INC. | 1 | Sales | 327,182 | A percentage of gross profit | 3% |
| 0 | The Company | MONOPRICE INC. | 1 | Accounts Receivable | 174,215 | OA 60 days | 2% |
| 0 | The Company | YFC-BONEAGLE INTERNATIONAL INC. | 1 | Sales | 41,450 | A percentage of gross profit | -% |
| 0 | The Company | YFC-BONEAGLE INTERNATIONAL INC. | 1 | Accounts Receivable | 24,387 | OA 90 days | -% |
| 0 | The Company | BESTLINK NETWARE INC. | 1 | Sales | 187,887 | A percentage of gross profit | 2% |
| 0 | The Company | BESTLINK NETWARE INC. | 1 | Accounts Receivable | 97,536 | OA 120 days | 1% |
| 0 | The Company | DONGGUAN YFC | 1 | Sales | 12,365 | A percentage of gross profit | -% |
| 0 | The Company | WUXI UNIVERSAL | 1 | Other Receivables | 78,336 | Based on collection status | 1% |
| 0 | The Company | YFC-BONEAGLE INTERNATIONAL, INC. | 1 | Other Receivables | 32,543 | Based on collection status | -% |
| 0 | The Company | PREMIUM LINE ASIA LTD. | 1 | Other Receivables | 11,088 | Collecting sales of goods on behalf of the parent | -% |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

| No. (Note 1) | Name of company | Name of counter-party | Nature of relationship (Note 2) | Intercompany transactions for the years ended December 31, 2020 (Note 3) | | | |
|-----------------|---|-------------------------------------|---------------------------------------|--|-----------|--|---|
| | | | | Account name | Amount | Trading terms | Percentage of the consolidated net revenue or total assets |
| 1 | EUROPOWER INTERNATIONAL LIMITED | The Company | 2 | Other Receivables | 1,009,265 | Based on collection status | 11% |
| 1 | EUROPOWER INTERNATIONAL LIMITED | The Company | 2 | Other Receivables | 22,622 | The Company collecting sales of goods on behalf of the subsidiary | -% |
| 1 | EUROPOWER INTERNATIONAL LIMITED | PREMIUM-LINE KSI GMBH | 3 | Other Receivables | 52,629 | Based on collection status | 1% |
| 1 | EUROPOWER INTERNATIONAL LIMITED | YFC-BONEAGLE INTERNATIONAL, INC. | 3 | Other Receivable | 121,052 | Based on collection status | 1% |
| 1 | EUROPOWER INTERNATIONAL LIMITED | YFC DEVELOPMENT CORPORATION | 3 | Other Receivable | 81,301 | Based on collection status | 1% |
| 2 | DONGGUAN YFC | The Company | 2 | Sales | 698,017 | A percentage of gross profit | 6% |
| 2 | DONGGUAN YFC | The Company | 2 | Accounts Receivable | 107,927 | OA 90 days | 1% |
| 2 | DONGGUAN YFC | WUXI UNIVERSAL | 3 | Sales | 26,762 | A percentage of gross profit | -% |
| 3 | WUXI UNIVERSAL | The Company | 2 | Sales | 2,076,759 | A percentage of gross profit | 18% |
| 3 | WUXI UNIVERSAL | The Company | 2 | Accounts Receivable | 413,367 | OA 90 days | 5% |
| 3 | WUXI UNIVERSAL | DONGGUAN YFC | 3 | Sales | 35,654 | A percentage of gross profit | -% |
| 3 | WUXI UNIVERSAL | DONGGUAN YFC | 3 | Accounts Receivable | 15,085 | OA 90 days | -% |
| 4 | PRIME WIRE & CABLE, INC. | MONOPRICE INC. | 3 | Sales | 61,752 | A percentage of gross profit | 1% |
| 5 | UNC INVESTMENT & DEVELOPMENT INC. | BESTLINK NETWARE INC. | 3 | Rental income | 11,065 | Monthly payment | -% |
| 5 | UNC INVESTMENT & DEVELOPMENT INC. | PRIME WIRE & CABLE, INC. | 3 | Rental income | 25,060 | Monthly payment | -% |
| 6 | CHENZHOU YFC | DONGGUAN YFC | 3 | Sales | 13,746 | A percentage of gross profit | -% |

Note 1: The numbers are filled in as follows:

1. 0 represents the Company.
2. Investees are sorted in numerical order starting from 1.

Note 2: The nature of the relationship is labelled as follows:

1. represents transactions from the Company to subsidiaries.
2. represents transactions from subsidiaries to the Company.
3. represents transactions between subsidiaries.

Note 3: For business transactions between the Company and its subsidiaries, only the information on sales and accounts receivable are disclosed; the corresponding purchase and accounts payable are not listed.

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2020 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2020 | | | Highest Percentage of ownership | Net income (losses) of investee | Investment income (loss) | Note |
|---|---|----------------|--|----------------------------|-----------------------|---------------------------------|-------------------------|----------------|---------------------------------|---------------------------------|--------------------------|--|
| | | | | December 31, 2020 | December 31, 2019 | Shares (thousands) | Percentage of Ownership | Carrying value | | | | |
| The Company | YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD. | B.V.I. | Holding company set up for investments in Philippines, China and USA | 1,781,915 (USD54,423) | 1,781,915 (USD54,423) | 53,906 | 100.00 % | 3,188,758 | 100.00 % | (15,370) | (26,672) | The difference between the subsidiary's profit and loss, and the Company's recognized profit and loss was due to the increasing in downstream unrealized gain amounting to \$15,724 from subsidiaries in the US and the Philippines and the decreasing in sidestream unrealized gain of \$4,422. |
| " | BESTLINK NETWARE INC. | USA | Trading business | 31,393 (USD1,000) | 31,393 (USD1,000) | 1,000 | 100.00 % | 19,447 | 100.00 % | 13,033 | 13,033 | |
| " | UNC INVESTMENT & DEVELOPMENT, INC. | USA | Real estate investment business | 1,496 (USD50) | 1,496 (USD50) | 50 | 100.00 % | 42,905 | 100.00 % | 13,908 | 13,908 | |
| " | PREMIUM-LINE KSI GMBH | Austria | Trading business | 28,193 (EUR600) | 28,193 (EUR600) | - | 100.00 % | (44,043) | 100.00 % | (8,582) | (8,582) | |
| " | MONOPRICE HOLDINGS, INC | USA | Holding company set up for investments in USA | 1,031,853 (USD32,507) | 1,031,853 (USD32,507) | 100 | 100.00 % | 1,200,451 | 100.00 % | 94,168 | 94,168 | |
| " | PREMIUM-LINE SYSTEMS GMBH | Germany | Trading business | 1,077 (EUR30) | 1,077 (EUR30) | - | 100.00 % | - | 100.00 % | (336) | (336) | |
| " | YUE FONG COMPANY LIMITED | Vietnam | Trading business | 5,989 (USD200) | - | - | 100.00 % | 2,114 | 100.00 % | (1,888) | (1,888) | Note 2 |
| YFC-BONEAGLE ELECTRIC (B.V.I.) CO., LTD. | YFC-BONEAGLE HOLDINGS (CAYMANS) CO., LTD. | Cayman Islands | Holding company set up for investments in China and USA | 752,008 (USD22,807) | 752,008 (USD22,807) | 22,807 | 100.00 % | 1,242,697 | 100.00 % | 61,188 | 61,188 | |
| " | EUROPOWER INTERNATIONAL LIMITED | B.V.I | Trading business | 161,778 (USD4,890) | 161,778 (USD4,890) | 4,890 | 100.00 % | 1,395,861 | 100.00 % | (57,826) | (57,826) | |
| " | UNIVERSAL NETWORK CORPORATION | Samoa | Holding company set up for investments in China | 646,459 (USD20,000) | 646,459 (USD20,000) | 20,000 | 100.00 % | 578,018 | 100.00 % | 7,870 | 7,870 | |
| " | MAX SYNERGY LIMITED | Samoa | Holding company set up for investments in China | 23,392 (USD720) | 23,392 (USD720) | 720 | 80.00 % | 20,976 | 80.00 % | (512) | (410) | |
| " | PREMIUM LINE ASIA LTD. | Samoa | Trading business | 1,472 (USD50) | 1,472 (USD50) | 50 | 100.00 % | 531 | 100.00 % | (29) | (29) | |
| " | YFC-BONEAGLE INTERNATIONAL, INC | Philippines | Trading business | 5,840 (USD200) | 5,840 (USD200) | 220 | 100.00 % | (29,271) | 100.00 % | (22,113) | (22,113) | |
| " | YFC DEVELOPMENT CORPORATION | Philippines | Real estate investment business | 608 (USD20) | 608 (USD20) | 75 | 100.00 % | (3,511) | 100.00 % | (4,061) | (4,061) | Note 1 |
| " | YFC BONEAGLE ELECTRONIC TECHNOLOGY PHILS. CORPORATION | Philippines | Manufacturing and sales of power cable, wires, network equipment and cable | 6,170 (USD200) | 6,170 (USD200) | 200 | 100.00 % | 5,591 | 100.00 % | - | - | Note 1 |
| " | BESZIN COPORATION INC. | Samoa | Trading business | 3,085 (USD100) | 3,085 (USD100) | 1,000 | 100.00 % | 13,117 | 100.00 % | 17 | 17 | |
| YFC-BONEAGLE HOLDINGS (CAYMANS) CO., LTD. | PRIME WIRE & CABLE, INC. | USA | Sale of electronic calculator software and hardware, network equipment and electronic appliances | 511,700 (USD15,500) | 511,700 (USD15,500) | 15,500 | 100.00 % | 901,058 | 100.00 % | 92,435 | 92,435 | |
| MONOPRICE HOLDINGS, INC | MONOPRICE, INC. | USA | Trading business | 1,031,853 (USD32,507) | 1,031,853 (USD32,507) | 500 | 100.00 % | 1,200,451 | 100.00 % | 94,168 | 94,168 | |

Note 1: BVI received the full investment amount from Company in October 2019 and established its new subsidiary. (YFC DEVELOPMENT CORPORATION, YFC BONEAGLE ELECTRONIC THCHNOLOGY PHILS. CORPORATION)

Note 2: The Company directly established its new subsidiary, YUE FONG COMPANY LIMITED, in February 2020, with the investment amount having been paid in full.

Note 3: In preparing the consolidated financial report, the transactions listed above have been eliminated.

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment (Note1) | Accumulated outflow of investment from Taiwan as of January 1, 2020 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2020 (Note 3) | Net income (losses) of the investee | Percentage of ownership | Highest Percentage of ownership | Investment income (losses) (Note 2) | Carrying amount as of December 31, 2020 | Accumulated remittance of earnings in current period |
|------------------------------|--|---------------------------------|------------------------------|---|------------------|--------|--|-------------------------------------|-------------------------|---------------------------------|-------------------------------------|---|--|
| | | | | | Outflow | Inflow | | | | | | | |
| DONGGUAN YFC | Manufacturing and sale of power cables, wires, and outlets | 241,998 (USD7,387) | (2) | 240,494 (USD7,007) | - | - | 240,494 (USD7,007) | (27,338) | 100.00% | 100.00 % | (27,338) (1) | 312,796 | - |
| WUXI UNIVERSAL | Manufacturing and sale of high-speed high-frequency LAN cables | 646,459 (USD20,000) | (2) | 646,459 (USD20,000) | - | - | 646,459 (USD20,000) | 5,358 | 100.00% | 100.00 % | 5,358 (1) | 572,276 | - |
| CHENZHOU YFC | Processing and sale of communication products and internet cables | 9,593 (USD300) | (2) | 9,593 (USD300) | - | - | 9,593 (USD300) | (2,399) | 100.00% | 100.00 % | (2,399) (1) | (755) | - |
| INTERNATIONAL TRADING (WUXI) | Sale of electronic calculator software and hardware, network equipment and electronic appliances | 31,032 (USD1,000) | (2) | 23,381 (USD753) | - | - | 23,381 (USD753) | (542) | 75.60% | 80.00 % | (410) (1) | 26,219 | - |
| T-MARK | Wholesaling business | 900,877 (HKD234,228) | (2) | 167,022 (HKD42,000) | - | - | 167,022 (HKD42,000) | - | 15.81% | 15.81 % | - (2) | (Note 6) | - |

(ii) Limitation on investment in Mainland China:

| Accumulated Investment in Mainland China as of December 31, 2020 (Note 3) | Investment Amounts Authorized by Investment Commission, MOEA (Note 3 and 4) | Upper Limit on Investment (Note 5) |
|---|---|------------------------------------|
| 1,084,829 (USD33,643) | 1,101,189 (USD34,022) | - |

Note 1: The method of investments are as follows:

- (1) Direct investment in subsidiaries in Mainland China.
- (2) Indirect investment through investment holdings companies
- (3) Others

Note 2: The investment gains and losses for the period are:

- (1) recognized based on the Company's financial statements, as audited by the CPA
- (2) not recognized as profit or loss, and is instead recognized as financial asset at the fair value of the investment

Note 3: The amount shown is the actual accumulated investment in Mainland China as of December 31, 2020.

Note 4: The amount authorized does not include the reinvestment of earnings of the subsidiary DONGGUAN YFC, which amounted to USD379 thousand.

Note 5: Limitation on investment in Mainland China is calculated as 60% of the net worth of the Company. The Group has acquired the relevant investment approval documents issued by Industrial Development Bureau, Ministry of Economic Affairs on May 8, 2020, and it is applicable from May 7, 2020 to May 6, 2023. Therefore, there is no restriction on the Company's investment in Mainland China.

Note 6: Please refer to note (13)(a)(iii) for details.

Note 7: In preparing the consolidated financial report, the transactions listed above have been eliminated.

(iii) Significant transactions:

Please refer to "Information on significant transaction" for the information on significant direct or indirect transactions, which were eliminated in the preparation of consolidated financial statements, between the Group and the investee companies in Mainland China during the years ended December 31, 2020.

(d) Major shareholders:

| Shareholder's Name | Shareholding | Shares | Percentage |
|------------------------------|--------------|-----------|------------|
| GOOD WIN INVESTMENT CO., LTD | | 6,635,361 | 5.04 % |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(14) Segment information:

(a) General information

The major operating segments of the Group are the manufacturing, wholesaling and online retailing segment. The manufacturing segment manufactures different types of cables, power cords, power outlets, and high-speed high-frequency LAN cables. The wholesaling segment engages in the sale products such as cord, cord sets, and network cabling system. The online retailing segment engages in the sale of products through the usage of information and communications technology and the internet.

(b) Profit or loss of reporting segments, assets, liabilities, basis of measurement and reconciliation

No tax expenses or non-operating income and expenses are allocated to the reporting segment. In addition, the reporting segment does not include depreciation and amortization of significant noncash items. The reportable amount is similar to that in the report used by the chief operating decision maker. The accounting policies of the operating segments are the same as those described in note 4. The Group treats intersegment sales and transfers as third-party transactions, which are measured at market price.

The operating segment information and reconciliation were as follows:

| | For the year ended December 31, 2020 | | | | |
|---|--------------------------------------|--------------------|-------------------------|------------------------------------|-------------------|
| | <u>Manufacturing</u> | <u>Wholesaling</u> | <u>Online retailing</u> | <u>Adjustments and elimination</u> | <u>Total</u> |
| Revenue: | | | | | |
| Revenue from external customers | \$ 4,062,176 | 2,336,929 | 5,036,890 | - | 11,435,995 |
| Inter-segment revenue | 4,011,342 | 63,369 | 7,226 | (4,081,937) | - |
| Interest income | 2,298 | 4,677 | 57 | (892) | 6,140 |
| Total revenues | \$ 8,075,816 | 2,404,975 | 5,044,173 | (4,082,829) | 11,442,135 |
| Interest expense | \$ 55,959 | 23,064 | 22,364 | (892) | 100,495 |
| Depreciations and amortization | 78,771 | 24,939 | 132,641 | - | 236,351 |
| Reportable segment profit or loss | \$ 277,076 | 105,914 | 135,844 | (93,938) | 424,896 |
| Capital expenditures on non-current asset | 64,356 | 10,053 | 11,217 | - | 85,626 |
| Reportable segment assets | \$ 9,239,870 | 3,498,290 | 3,078,374 | (6,781,427) | 9,035,107 |
| Reportable segment liabilities | \$ 5,728,522 | 1,188,803 | 1,858,479 | (2,372,418) | 6,403,386 |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

| | For the year ended December 31, 2019 | | | |
|---|--------------------------------------|--------------------|-------------------------|------------------------------------|
| | <u>Manufacturing</u> | <u>Wholesaling</u> | <u>Online retailing</u> | <u>Adjustments and elimination</u> |
| | | | | <u>Total</u> |
| Revenue: | | | | |
| Revenue from external customers | \$ 2,489,202 | 3,977,707 | 5,105,673 | - |
| Inter-segment revenue | 3,161,930 | 571,828 | 5,202 | (3,738,960) |
| Interest income | 3,335 | 11,011 | 112 | (1,000) |
| Total revenues | <u>\$ 5,654,467</u> | <u>4,560,546</u> | <u>5,110,987</u> | <u>(3,739,960)</u> |
| Interest expense | \$ 59,840 | 29,485 | 37,475 | (1,000) |
| Depreciations and amortization | 87,714 | 23,031 | 142,762 | - |
| Reportable segment profit or loss | <u>\$ 229,395</u> | <u>91,601</u> | <u>87,834</u> | <u>(172,183)</u> |
| Capital expenditures on non-current asset | 167,883 | 5,139 | 20,869 | - |
| Reportable segment assets | <u>\$ 8,391,566</u> | <u>3,683,108</u> | <u>2,942,391</u> | <u>(6,366,445)</u> |
| Reportable segment liabilities | <u>\$ 5,118,124</u> | <u>1,265,221</u> | <u>1,766,983</u> | <u>(1,884,746)</u> |
| | | | | <u>6,265,582</u> |

(c) Product and service information

Information on the Group's revenue from external customers was as follows:

| Products | 2020 | 2019 |
|---------------------|----------------------|-------------------|
| CABLE | \$ 2,994,144 | 3,638,047 |
| POWER CORD | 4,855,932 | 4,399,832 |
| Consumer electronic | 3,183,407 | 3,256,480 |
| Others | 402,512 | 278,223 |
| Total | <u>\$ 11,435,995</u> | <u>11,572,582</u> |

(d) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets that are based on the geographical location of the assets.

| Geographical Information | 2020 | 2019 |
|----------------------------------|----------------------|-------------------|
| Revenue from external customers: | | |
| United States | \$ 9,854,519 | 9,233,305 |
| Mainland China | 486,096 | 821,257 |
| Taiwan | 264,617 | 245,113 |
| Canada | 264,417 | 319,597 |
| United Kingdom | 72,279 | 107,447 |
| Other countries | 494,067 | 845,863 |
| Total | <u>\$ 11,435,995</u> | <u>11,572,582</u> |

(Continued)

YFC-BONEAGLE ELECTRIC CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

| Geographical Information | December 31, 2020 | December 31, 2019 |
|---------------------------------|------------------------------|------------------------------|
| Non-current assets: | | |
| Taiwan | \$ 344,079 | 433,864 |
| Mainland China | 505,805 | 492,174 |
| United States | 1,276,932 | 1,425,483 |
| Other countries | 114,699 | 43,339 |
| Total | <u><u>\$ 2,241,515</u></u> | <u><u>2,394,860</u></u> |

Non-current assets include property, plant, and equipment, intangible assets, right-of-use assets, prepayments for business facilities, and prepaid for land, but does not include financial instrument, deferred tax assets, corporate bonds, and time deposits or other assets pledged as collateral.

(e) Information on revenue from major customers

For the years ended December 31, 2020 and 2019, the amounts of sales to customers representing greater than 10% of net revenue were as follows:

| | 2020 | 2019 |
|-----------|----------------------------|-------------------------|
| Company G | <u><u>\$ 2,349,586</u></u> | <u><u>2,076,984</u></u> |