

CHINA FINEBLANKING TECHNOLOGY CO., LTD.**Parent Company Only 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 parent company only 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 parent company only financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors of CHINA FINEBLANKING TECHNOLOGY CO., LTD.:

Opinion

We have audited the financial statements of CHINA FINEBLANKING TECHNOLOGY CO., LTD. ("the Company"), which comprise the balance sheet as of December 31, 2020, the statement of comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statement, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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 financial statements of the current period. These matters were addressed in the context of our audit of the non-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

For the accounting policies of Revenue recognition, please refer to Note (4)(m) "Revenue from contracts with customers"; for the explanation of revenue recognition, please refer to Note (6)(r).

Description of key audit matter:

The main business items of the Company are producing and selling parts of HDD and parts of vehicles. The Company sets up shipping warehouse at the customers' places to fulfill the demands of the customers. The performance obligations are fulfilled at the time that the customers pick up the goods. Revenue recognition is the matter which needs high attention when we conduct the audit of financial statements, because the accuracy of the timepoint of revenue recognition is material to the financial statements and is the matter the users of financial statements concern.

Our principal audit procedures included:

- Assessing the adequacy of the accounting policies of revenue recognition; testing the Company's controls surrounding the Sale and Receipt cycle and checking the accuracy of the timepoint of revenue recognition;
- Conducting analysis of variances to the top ten customers to evaluate that there is material abnormality or not; sending confirmations to the trade partners;
- Choosing a period contains date of balance sheet and checking the original certificates concerning to verify that related transactions were presented appropriately.

2. Inventory valuation

For the accounting policies of Inventory valuation, please refer to Note (4)(g) "Inventories"; for the accounting assumptions and estimation uncertainty of Inventory valuation, please refer to Note (5)(b); for the explanation of Inventory valuation, please refer to Note (6)(d).

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. The net realizable value changes arising from uncertainty of technical transformations, and may have a risk which becomes higher than the historical cost. Thus, we consider the inventory evaluation as a key audit matter.

Our principal audit procedures included:

- Obtaining aging statements of each kind of inventories and testing the changes in ages of inventories; selecting samples to check the accuracy of classification range of inventories ages;
- Obtaining the policies of inventories evaluation and evaluated the consistency of these policies; assessing the basis of the valuation net realizable value, sampling and testing the documentary evidence regarding purchases and sales to verify the accuracy of the valuation of allowance to reduce inventories to market.

Other Matter

The financial statements as of and for the year end December 31, 2019, were audited by other certified public accountant and they had issued an unqualified opinion at March 26, 2020.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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 Company'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 Company'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 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the 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 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 Chung-Che Chen and Kuo-Tsung Chen.

KPMG

Taipei, Taiwan (Republic of China)
March 25, 2021

Notes to Readers

The accompanying parent company only financial statements are intended only to present the statement of financial position, financial performance and its 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying parent company only 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 parent company only financial statements, the Chinese version shall prevail.

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)
CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Balance Sheets

December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar)

| | | December 31, 2020 | | December 31, 2019 | | | | December 31, 2020 | | December 31, 2019 | |
|----------------------------|---|---------------------|------------|-------------------|------------|-------------------------------------|--|---------------------|------------|-------------------|------------|
| | | Amount | % | Amount | % | | | Amount | % | Amount | % |
| Assets | | | | | | Liabilities and Equity | | | | | |
| Current assets: | | | | | | Current liabilities: | | | | | |
| 1100 | Cash and cash equivalents(Note (6)(a)) | \$ 194,750 | 6 | 129,894 | 5 | 2100 | Short-term borrowings(Note (6)(i)) | \$ 16,378 | 1 | 210,000 | 8 |
| 1140 | Current contract assets(Note (6)(r)) | 196 | - | 1,363 | - | 2130 | Current contract liabilities(Note (6)(r)) | 5,055 | - | 835 | - |
| 1150 | Notes receivable, net(Note (6)(c) and (r)) | 1,732 | - | 1,675 | - | 2150 | Notes payable | 596 | - | 729 | - |
| 1170 | Accounts receivable, net(Note (6)(c) and (r)) | 183,046 | 6 | 201,432 | 8 | 2170 | Accounts payable | 38,348 | 1 | 46,452 | 2 |
| 1200 | Other receivables, net(Note (8)) | 57,657 | 2 | 76,984 | 3 | 2180 | Accounts payable to related parties(Note (7)) | 120,649 | 4 | 161,146 | 6 |
| 1210 | Other receivables-related parties(Note (7)) | 142 | - | 919 | - | 2200 | Other payables(Note 6(j)) | 75,708 | 2 | 46,137 | 2 |
| 1220 | Current tax assets | 2,296 | - | 4,386 | - | 2220 | Other payables to related parties(Note (6)(j) and (7)) | 58 | - | 58 | - |
| 130X | Inventories(Note (6)(d)) | 93,741 | 3 | 78,271 | 3 | 2230 | Current tax liabilities | 7,063 | - | 2,000 | - |
| 1410 | Prepayments | 11,117 | - | 2,944 | - | 2280 | Current lease liabilities(Note (6)(m)) | 1,079 | - | 1,591 | - |
| 1470 | Other current assets | 4,689 | - | 1,209 | - | 2320 | Long-term liabilities, current portion(Note (6)(l)) | 64,537 | 2 | 125,708 | 4 |
| | | <u>549,366</u> | <u>17</u> | <u>499,077</u> | <u>19</u> | 2399 | Other current liabilities, others | <u>433</u> | <u>-</u> | <u>350</u> | <u>-</u> |
| | | | | | | | | <u>329,904</u> | <u>10</u> | <u>595,006</u> | <u>22</u> |
| Non-current assets: | | | | | | Non-Current liabilities: | | | | | |
| 1510 | Non-current financial assets at fair value through profit or loss(Note(6)(k)) | 60 | - | - | - | 2530 | Bonds payable(Note (6)(k)) | 386,166 | 12 | - | - |
| 1550 | Investments accounted for using equity method(Note (6)(e)) | 1,649,901 | 52 | 1,504,879 | 56 | 2540 | Long-term borrowings(Note (6)(l)) | 831,511 | 27 | 699,790 | 26 |
| 1600 | Property, plant and equipment(Note (6)(f) and (8)) | 846,809 | 27 | 633,102 | 23 | 2570 | Deferred tax liabilities(Note (6)(o)) | 53,176 | 2 | 25,059 | 1 |
| 1755 | Right-of-use assets(Note (6)(g)) | 2,548 | - | 2,140 | - | 2580 | Non-current lease liabilities(Note (6)(m)) | 1,507 | - | 566 | - |
| 1780 | Intangible assets | 3,244 | - | 2,081 | - | 2630 | Long-term deferred revenue | 10,130 | - | - | - |
| 1840 | Deferred tax assets(Note (6)(o)) | 23,091 | 1 | 23,631 | 1 | 2645 | Guarantee deposits received | 200 | - | 200 | - |
| 1900 | Other non-current assets(Note (6)(h) and (7)) | <u>105,506</u> | <u>3</u> | <u>27,982</u> | <u>1</u> | | | <u>1,282,690</u> | <u>41</u> | <u>725,615</u> | <u>27</u> |
| | | 2,631,159 | 83 | 2,193,815 | 81 | | | <u>1,612,594</u> | <u>51</u> | <u>1,320,621</u> | <u>49</u> |
| | | | | | | Total liabilities | | | | | |
| | | | | | | Share capital (Note (6)(p)): | | | | | |
| | | | | | | 3110 | Ordinary shares | 838,841 | 26 | 801,512 | 30 |
| | | | | | | 3200 | Capital surplus | 528,557 | 17 | 512,998 | 19 |
| | | | | | | 3300 | Retained earnings | 405,553 | 13 | 309,916 | 12 |
| | | | | | | 3400 | Other equity interest | (124,488) | (4) | (131,613) | (5) |
| | | | | | | 3500 | Treasury shares | (80,532) | (3) | (120,542) | (5) |
| | | | | | | Total equity | | <u>1,567,931</u> | <u>49</u> | <u>1,372,271</u> | <u>51</u> |
| Total assets | | <u>\$ 3,180,525</u> | <u>100</u> | <u>2,692,892</u> | <u>100</u> | Total liabilities and equity | | <u>\$ 3,180,525</u> | <u>100</u> | <u>2,692,892</u> | <u>100</u> |

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

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

| | | 2020 | | 2019 | |
|------|--|-------------------|-----------|-----------------|------------|
| | | Amount | % | Amount | % |
| 4000 | Operating revenue (Note (6)(r) and (7)) | \$ 797,210 | 100 | 639,315 | 100 |
| 5000 | Operating costs (Notes (6)(d), (n), (s), (7) and (12)) | <u>652,619</u> | <u>82</u> | <u>545,959</u> | <u>85</u> |
| 5900 | Gross profit from operations | 144,591 | 18 | 93,356 | 15 |
| 5910 | Less: Unrealized gain or loss from sale | 2,075 | - | 2,356 | - |
| 5920 | Plus: Realized gain or loss from sale | <u>2,356</u> | <u>-</u> | <u>2,726</u> | <u>-</u> |
| 5950 | Net gross profit from operations | <u>144,872</u> | <u>18</u> | <u>93,726</u> | <u>15</u> |
| 6000 | Operating expenses (Notes (6)(n), (s) and (12)): | | | | |
| 6100 | Selling expenses | 20,548 | 2 | 14,619 | 2 |
| 6200 | Administrative expenses | 58,456 | 7 | 57,380 | 9 |
| 6300 | Research and development expenses | 12,100 | 2 | 13,313 | 2 |
| 6450 | Expected credit loss (gain) (Note (6)(c)) | <u>(3)</u> | <u>-</u> | <u>(796)</u> | <u>-</u> |
| 6300 | Total operating expenses | <u>91,101</u> | <u>11</u> | <u>84,516</u> | <u>13</u> |
| 6900 | Net operating income | <u>53,771</u> | <u>7</u> | <u>9,210</u> | <u>2</u> |
| | Non-operating income and expenses: | | | | |
| 7100 | Interest income (Note (6)(t)) | 174 | - | 628 | - |
| 7010 | Other income (Note (6)(t)) | 8,809 | 1 | 7,868 | 1 |
| 7020 | Other gains and losses, net (Note (6)(t)) | (7,470) | (1) | (1,869) | - |
| 7050 | Finance costs, net (Note (6)(t)) | (16,780) | (2) | (14,119) | (2) |
| 7070 | Share of profit (loss) of associates and joint ventures accounted for using equity method, net (Note 6(e)) | <u>135,835</u> | <u>17</u> | <u>25,670</u> | <u>4</u> |
| | Total non-operating income and expenses | <u>120,568</u> | <u>15</u> | <u>18,178</u> | <u>3</u> |
| | Profit from continuing operations before tax | <u>174,339</u> | <u>22</u> | <u>27,388</u> | <u>5</u> |
| 7950 | Less: Income tax expenses (Note (6)(o)) | <u>36,707</u> | <u>5</u> | <u>7,327</u> | <u>1</u> |
| | Profit | <u>137,632</u> | <u>17</u> | <u>20,061</u> | <u>4</u> |
| 8300 | Other comprehensive income: | | | | |
| 8360 | Components of other comprehensive income (loss) that will be reclassified to profit or loss | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | 8,907 | 1 | (58,544) | (9) |
| 8399 | Income tax related to components of other comprehensive income that will be reclassified to profit or loss | <u>1,782</u> | <u>-</u> | <u>(11,709)</u> | <u>(2)</u> |
| 8300 | Other comprehensive income | <u>7,125</u> | <u>1</u> | <u>(46,835)</u> | <u>(7)</u> |
| | Total comprehensive income | <u>\$ 144,757</u> | <u>18</u> | <u>(26,774)</u> | <u>(3)</u> |
| 9750 | Basic earnings per share (Note (6)(q)) | <u>\$ 1.69</u> | | <u>0.26</u> | |
| 9810 | Diluted earnings per share (Note (6)(q)) | <u>\$ 1.53</u> | | <u>0.26</u> | |

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.**Statements of Changes in Equity****For the years ended December 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollar)**

| | Share capital | | Retained earnings | | | | Total other equity interest | | | | |
|---|---------------|---------|-------------------|---------|----------|----------|---|---|-----------------------------|-----------------|--------------|
| | | | | | | | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Total other equity interest | Treasury shares | Total equity |
| Balance at January 1, 2019 | \$ 764,888 | 512,998 | 82,791 | 60,150 | 222,390 | 365,331 | (84,778) | (2,228) | (87,006) | (120,542) | 1,435,669 |
| Profit (loss) | - | - | - | - | 20,061 | 20,061 | - | - | - | - | 20,061 |
| Other comprehensive income | - | - | - | - | - | - | (46,835) | - | (46,835) | - | (46,835) |
| Total comprehensive income | - | - | - | - | 20,061 | 20,061 | (46,835) | - | (46,835) | - | (26,774) |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 10,201 | - | (10,201) | - | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 26,856 | (26,856) | - | - | - | - | - | - |
| Cash dividends of ordinary shares | - | - | - | - | (36,624) | (36,624) | - | - | - | - | (36,624) |
| Stock dividends of ordinary shares | 36,624 | - | - | - | (36,624) | (36,624) | - | - | - | - | - |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | - | - | - | (2,228) | (2,228) | - | 2,228 | 2,228 | - | - |
| Balance at December 31, 2019 | 801,512 | 512,998 | 92,992 | 87,006 | 129,918 | 309,916 | (131,613) | - | (131,613) | (120,542) | 1,372,271 |
| Profit (loss) | - | - | - | - | 137,632 | 137,632 | - | - | - | - | 137,632 |
| Other comprehensive income | - | - | - | - | - | - | 7,125 | - | 7,125 | - | 7,125 |
| Total comprehensive income | - | - | - | - | 137,632 | 137,632 | 7,125 | - | 7,125 | - | 144,757 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 2,006 | - | (2,006) | - | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 44,607 | (44,607) | - | - | - | - | - | - |
| Cash dividends of ordinary shares | - | - | - | - | (4,666) | (4,666) | - | - | - | - | (4,666) |
| Stock dividends of ordinary shares | 37,329 | - | - | - | (37,329) | (37,329) | - | - | - | - | - |
| Due to recognition of equity component of convertible bonds | - | 9,858 | - | - | - | - | - | - | - | - | 9,858 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | - | (52,512) | (52,512) |
| Share-based payments | - | 5,701 | - | - | - | - | - | - | - | 92,522 | 98,223 |
| Balance at December 31, 2020 | \$ 838,841 | 528,557 | 94,998 | 131,613 | 178,942 | 405,553 | (124,488) | - | (124,488) | (80,532) | 1,567,931 |

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar)

| | For the years ended December 31 | |
|--|---------------------------------|----------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Profit before tax | \$ 174,339 | 27,388 |
| Adjustments: | | |
| Adjustments to reconcile profit: | | |
| Depreciation expense | 32,728 | 29,876 |
| Amortization expense | 1,141 | 714 |
| Expected credit reversal gain | (3) | (796) |
| Net gain on financial assets and liabilities at fair value through profit or loss | (20) | - |
| Interest expense | 16,780 | 14,119 |
| Interest income | (174) | (628) |
| Share of gain of associates and joint ventures accounted for using the equity method | (135,835) | (25,670) |
| Gain on disposal of property, plant and equipment | (3,551) | (184) |
| Unrealized loss on from sales | 2,075 | 2,356 |
| Realized profit on from sales | (2,356) | (2,726) |
| Amotization of deferred revenue | (931) | - |
| Profit from lease modification | - | (48) |
| Total adjustments to reconcile profit | (90,146) | 17,013 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in contract assets | 1,167 | (1,363) |
| Decrease (increase) in notes receivable | (57) | (218) |
| Decrease (increase) in accounts receivable | 18,389 | 100,737 |
| Decrease (increase) in other receivables | 20,104 | 3,564 |
| (Increase) decrease in inventories | (15,470) | 23,573 |
| (Increase) decrease in prepayments | (8,173) | 115 |
| (Increase) decrease in other current assets | (3,479) | 2,524 |
| Total changes in operating assets | 12,481 | 128,932 |
| Increase in contract liabilities | 4,220 | 236 |
| (Decrease) increase in notes payable | (133) | (2,745) |
| (Decrease) increase in accounts payable | (48,601) | 6,257 |
| Increase (decrease) in other payables | 29,238 | (54) |
| Increase in other current liabilities | 83 | 9 |
| Total changes in operating liabilities | (15,193) | 3,703 |
| Total changes in operating assets and liabilities | (2,712) | 132,635 |
| Total adjustments | (92,858) | 149,648 |
| Cash (outflow) inflow generated from operations | 81,481 | 177,036 |
| Interest received | 174 | 628 |
| Interest paid | (15,237) | (15,664) |
| Income taxes paid | (2,679) | (14,294) |
| Net cash flows (used in) from operating activities | 63,739 | 147,706 |

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statements of Cash Flows (CONT'D)

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar)

| | For the years ended December 31 | |
|---|--|------------------|
| | 2020 | 2019 |
| Cash flows from investing activities: | | |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | - | 3,947 |
| Acquisition of property, plant and equipment | (234,685) | (525,082) |
| Proceeds from disposal of property, plant and equipment | 7,808 | 2,675 |
| Increase in refundable deposits | - | (91) |
| Acquisition of intangible assets | (2,285) | (1,658) |
| Increase in other non-current assets | (93,833) | (2,253) |
| Increase in prepayments on purchase of equipment | - | (27,548) |
| Net cash flows used in investing activities | (322,995) | (550,010) |
| Cash flows from financing activities: | | |
| Increase in short-term loans | 211,136 | - |
| Decrease in short-term loans | (404,758) | (144,990) |
| Proceeds from issuing bonds | 394,110 | - |
| Proceeds from long-term loans | 703,000 | 695,000 |
| Repayments of long-term loans | (618,384) | (89,730) |
| Repayments of lease liabilities | (2,037) | (3,198) |
| Cash dividends paid | (4,666) | (36,624) |
| Payments to acquire treasury shares | (52,512) | - |
| Treasury shares sold to employees | 98,223 | - |
| Net cash flows from (used in) financing activities | 324,112 | 420,458 |
| Net increase in cash and cash equivalents | 64,856 | 18,154 |
| Cash and cash equivalents, beginning of the period | 129,894 | 111,740 |
| Cash and cash equivalents, end of the period | \$ 194,750 | 129,894 |

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollar, Unless Otherwise Specified)

(1) Company history

CHINA FINEBLANKING TECHNOLOGY CO., LTD. (the “Company”) was incorporated in November 1992. The major business activities of the Company are the manufacture and sale of hardware parts, mechanical hardware parts and molding components. The Company completed supplementary procedures for classification as a public company on August 18, 2008. The procedures were approved by the Financial Supervisory Commission R.O.C.(Taiwan) Securities and Futures Bureau. The Company’s common shares were listed on GreTai Securities Market (Formerly known as the ROC Over-the-Counter Securities Exchange) on January 9, 2012. The address of its registered office and principal place of business is No.40, Xinggong Rd., Shengang Township, Changhua County, Taiwan (R.O.C.).

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

The accompanying financial statements were authorized for issue by the Board of Directors on March 25, 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 Company has initially adopted the following new amendments, which do not have a significant impact on its 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 Company 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”

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

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

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(4) Summary of significant accounting policies:

The significant accounting policies presented in the financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

(a) Statement of compliance

These 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”).

(b) Basis of preparation

(i) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the balance sheets :

- 1) Financial instruments at fair value through profit or loss are measured at fair value ;

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Company entities at the 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 the 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:

- 1) an investment in equity securities designated as at fair value through other comprehensive income;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent that the hedges are effective.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange 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 Company 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 noncontrolling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence 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, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(d) 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 the asset, or intended to be sold or consumed, during the normal operating cycle ;
- (ii) It is held primarily for the purpose of trading ;
- (iii) It is expected to be realized within twelve months after the reporting period ; or
- (iv) The asset is cash and 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 within the Company's normal operating cycle ;
- (ii) It is held primarily for the purpose of trading ;
- (iii) The liability is due to be settled within twelve months after the reporting period ; or
- (iv) The Company does not have an unconditional right to defer settlement 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 equity instruments do not affect its classification.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are assets that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose should be recognized as cash equivalents.

(f) Financial instruments

Accounts receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is an accounts 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. An accounts 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; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. 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 :

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

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.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. Accounts receivable that the Group intends to sell immediately or in the near term are measured at FVTPL; however, they are included in the ‘accounts receivable’ line item. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

3) Impairment of financial assets

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

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

- a) debt securities that are determined to have low credit risk at the reporting date ;
and
- b) other debt securities and 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 accounts receivable 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 Company 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 Company’s historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is overdue the payment terms.

The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company in full.

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

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months 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 Company 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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are 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 :

- a) significant financial difficulty of the borrower or issuer ;
- b) a breach of contract such as a default or being overdue the payment terms ;
- c) the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- d) it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- e) the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company 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 Company 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 Company’s procedures for recovery of amount due.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

4) Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company 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) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible bonds denominated in TWD 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.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

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.

5) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities 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.

6) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company 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.

7) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(g) 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.

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

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(h) Subsidiaries

The subsidiaries in which the Company holds controlling interest are accounted for under equity method in the non-consolidated financial statements. Under equity method, the net income, other comprehensive income and equity in the non-consolidated financial statement are the same as those attributable to the owners of parent in the consolidated financial statements.

The changes in ownership of the subsidiaries are recognized as equity transaction.

(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 Company.

(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:

| | |
|----------------------------|---|
| Buildings | |
| Plant main buildings | 20~50 years |
| Other | 20 years |
| Machinery | 3~15 years |
| Molding equipment | 2~5 years |
| Transportation equipment | 5 years |
| Office and other equipment | 2~10 years |
| Lease improvement | Whichever is shorter the lease period or the useful lives |
| Miscellaneous equipment | 2~10 years |

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

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(j) Leases

(i) Identifying a lease

At inception of a contract, the Company 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 Company assesses whether:

- 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 direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - 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 Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

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

- 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.

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 Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, 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 Company 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 Company 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.

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

(iii) As a lessor

When the Company 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 Company 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

(k) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Company 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.

(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, from the date that they are available for use.

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

| | |
|-------------------|-----------|
| Computer software | 3~5 years |
|-------------------|-----------|

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

(l) Impairment – non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets 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 is 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.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

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.

(m) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

(i) Sale of goods

The Company manufactures and sells hard disk drive components and auto parts. The Company 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, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

For contracts in which the control of the commodity has been transferred and the Company has the unconditional right to collect consideration, accounts receivable is recognized, while without the unconditional right to collect consideration, the contractual assets are recognized for the contracts that the control of the commodity has been transferred.

(ii) Financial components

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

(n) Government grants and Government assistance

For low-interest loan obtained from a financial institution in accordance with the Government's project borrowing policy, the Company recognizes the difference between the fair valued of the loan, calculated at market rate, and the proceed received as deferred revenue, which is amortized as other income on a systematic basis. When the proceed of the loan is utilized to acquire assets, the difference is regarded as a deduction to the cost of acquired assets and amortized on a systematic basis as a reduction of depreciation expense.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(o) Employee benefits

(i) Defined contribution plans

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

(ii) 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 Company 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.

(p) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized in profit or loss.

Grant date of a share-based payment award is the date which the board of directors authorized the price and number of a new award.

(q) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses that are related to business combinations, expenses recognized in equity or other comprehensive income directly, and other related expenses, 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 measured using tax rates enacted or substantively enacted at the reporting date.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

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 not recognized for the following:

- (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, associates and joint arrangements to the extent that the Company 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 reverse, 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 Company 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

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Company. The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(s) Operating segments

The related information on the operating segments is disclosed in the consolidated financial statements.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

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

The preparation of the financial statements in conformity with the Regulations 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 financial statements is as follows:

(a) The loss allowance of accounts receivables

The Company has estimated the loss allowance of accounts receivables that is based on the risk of a default occurring and the rate of expected credit loss. The Company has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs. The relevant assumptions and input values, please refer to Note 6(c).

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to Note 6(d) for further description of the valuation of inventories.

The Company's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss.

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

Please refer to Note 6(u), financial instruments for assumptions used in measuring fair value.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | December 31, 2020 | December 31, 2019 |
|-----------------------------|------------------------------|------------------------------|
| Cash on hand and petty cash | \$ 63 | 58 |
| Cash in banks | 194,687 | 129,836 |
| | \$ 194,750 | 129,894 |

Please refer to Note 6(u) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

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

The Company has derecognized its equity investments at fair value through other comprehensive income as a result of its investment strategy and the information about the derecognition for the year ended December 31, 2019 is as follows:

| | For the years ended December 31 2019 |
|---|---|
| Fair value on the day of derecognition | \$ 3,947 |
| Accumulated gain (loss) on disposal of transferring from other equity interest to retained earnings | \$ (2,228) |

(c) Notes and accounts receivable

| | December 31, 2020 | December 31, 2019 |
|----------------------|------------------------------|------------------------------|
| Notes receivable | \$ 1,732 | 1,675 |
| Accounts receivable | 183,046 | 201,435 |
| Less: Loss allowance | - | (3) |
| | \$ 184,778 | 203,107 |

The Company 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 receivables have been grouped based on shared credit risk characteristics and the days past due, as well as the incorporated forward-looking information, including macroeconomic and relevant industry information. The loss allowance provisions for the Company were determined as follows:

| | December 31, 2020 | |
|---------|--|-------------------------------------|
| | Weighted- average loss rate | Loss allowance provision |
| Current | \$ 184,778 0% | - |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

| | December 31, 2019 | | |
|-----------------------------|----------------------------------|--|-------------------------------------|
| | Gross carrying amount | Weighted- average loss rate | Loss allowance provision |
| Current | \$ 201,631 | 0% | - |
| 1 to 30 days past due | 1,474 | 0.1% | 1 |
| 31 to 60 days past due | - | 5% | - |
| 61 to 120 days past due | - | 10%~20% | - |
| 121 to 180 days past due | 5 | 30%~50% | 2 |
| More than 181 days past due | - | 70%~100% | - |
| | <u><u>\$ 203,110</u></u> | | <u><u>3</u></u> |

Please refer to Note 6(u) for the Company's notes and accounts receivable exposure to credit risk and currency risk.

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

| | For the years ended December 31 | |
|--|--|-----------------|
| | 2020 | 2019 |
| Balance at January 1 | \$ 3 | 799 |
| Impairment losses recognized (losses reversed) | (3) | (796) |
| Balance at December 31 | <u><u>\$ -</u></u> | <u><u>3</u></u> |

As of December 31, 2020 and 2019, the notes and accounts receivable of the Company were not pledged as collateral.

(d) Inventories

| | December 31, 2020 | December 31, 2019 |
|------------------|------------------------------|------------------------------|
| Raw materials | \$ 7,789 | 9,346 |
| Work in progress | 21,791 | 27,116 |
| Finished goods | 64,161 | 41,809 |
| | <u><u>\$ 93,741</u></u> | <u><u>78,271</u></u> |

For the years ended December 31, 2020 and 2019, the components of the cost of sales were as follows:

| | For the years ended December 31 | |
|--|--|-----------------------|
| | 2020 | 2019 |
| Cost of goods sold | \$ 652,352 | 546,332 |
| (Gain on reversal of) inventory valuation losses | 267 | (373) |
| | <u><u>\$ 652,619</u></u> | <u><u>545,959</u></u> |

As of December 31, 2020 and 2019, the Company did not provide any inventories as collateral for its loans.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(e) Investments accounted for using equity method

The components of investments accounted for using the equity method at the reporting date were as follows:

| | December 31, 2020 | December 31, 2019 |
|--------------|----------------------|----------------------|
| Subsidiaries | <u>\$ 1,649,901</u> | <u>1,504,879</u> |

(i) Please refer to consolidated financial statement of 2020.

(ii) As of December 31, 2020 and 2019, the investments accounted for using the equity method of the Company had not been pledged as collateral.

(f) Property, plant and equipment

| | Land | Buildings and construction | Machinery and equipment | Molds | Transportation equipment | Office equipment | Leasehold improvements | Other facilities | Construction in progress and testing equip | Total |
|--|-------------------|----------------------------------|-------------------------------|---------------|-----------------------------|---------------------|---------------------------|---------------------|---|------------------|
| Cost or deemed cost: | | | | | | | | | | |
| Balance on January 1, 2020 | \$ 479,357 | 21,515 | 171,568 | 73,503 | 2,605 | 11,933 | 15,832 | 8,321 | 33,377 | 818,011 |
| Additions | - | - | 6,513 | - | - | 110 | - | - | 228,062 | 234,685 |
| Reclassification | - | - | 1,267 | 15,760 | - | - | - | - | 1,768 | 18,795 |
| Disposal | - | - | (25,563) | (13,286) | (2,605) | (150) | - | (2,624) | - | (44,228) |
| Others | - | - | - | - | - | - | - | - | (4,846) | (4,846) |
| Balance on December 31, 2020 | <u>\$ 479,357</u> | <u>21,515</u> | <u>153,785</u> | <u>75,977</u> | <u>-</u> | <u>11,893</u> | <u>15,832</u> | <u>5,697</u> | <u>258,361</u> | <u>1,022,417</u> |
| Balance on January 1, 2019 | \$ - | 21,515 | 152,786 | 53,895 | 2,605 | 11,718 | 15,832 | 8,321 | - | 266,672 |
| Additions | 478,105 | - | 13,622 | - | - | 215 | - | - | 33,140 | 525,082 |
| Disposal | - | - | - | (2,554) | - | - | - | - | - | (2,554) |
| Others | 1,252 | - | 5,160 | 22,162 | - | - | - | - | 237 | 28,811 |
| Balance on December 31, 2019 | <u>\$ 479,357</u> | <u>21,515</u> | <u>171,568</u> | <u>73,503</u> | <u>2,605</u> | <u>11,933</u> | <u>15,832</u> | <u>8,321</u> | <u>33,377</u> | <u>818,011</u> |
| Depreciation and impairment loss: | | | | | | | | | | |
| Balance on January 1, 2020 | \$ - | 19,822 | 94,055 | 37,185 | 628 | 10,579 | 14,425 | 8,215 | - | 184,909 |
| Depreciation | - | 136 | 9,632 | 18,782 | 155 | 543 | 1,405 | 17 | - | 30,670 |
| Disposal | - | - | (24,880) | (11,534) | (783) | (150) | - | (2,624) | - | (39,971) |
| Balance on December 31, 2020 | <u>\$ -</u> | <u>19,958</u> | <u>78,807</u> | <u>44,433</u> | <u>-</u> | <u>10,972</u> | <u>15,830</u> | <u>5,608</u> | <u>-</u> | <u>175,608</u> |
| Balance on January 1, 2019 | \$ - | 19,686 | 85,726 | 23,598 | 163 | 9,907 | 11,081 | 8,198 | - | 158,359 |
| Depreciation | - | 136 | 8,329 | 13,650 | 465 | 672 | 3,344 | 17 | - | 26,613 |
| Disposal | - | - | - | (63) | - | - | - | - | - | (63) |
| Balance on December 31, 2019 | <u>\$ -</u> | <u>19,822</u> | <u>94,055</u> | <u>37,185</u> | <u>628</u> | <u>10,579</u> | <u>14,425</u> | <u>8,215</u> | <u>-</u> | <u>184,909</u> |
| Carrying amounts: | | | | | | | | | | |
| Balance on December 31, 2020 | <u>\$ 479,357</u> | <u>1,557</u> | <u>74,978</u> | <u>31,544</u> | <u>-</u> | <u>921</u> | <u>2</u> | <u>89</u> | <u>258,361</u> | <u>846,809</u> |
| Balance on January 1, 2019 | <u>\$ -</u> | <u>1,829</u> | <u>67,060</u> | <u>30,297</u> | <u>2,442</u> | <u>1,811</u> | <u>4,751</u> | <u>123</u> | <u>-</u> | <u>108,313</u> |
| Balance on December 31, 2019 | <u>\$ 479,357</u> | <u>1,693</u> | <u>77,513</u> | <u>36,318</u> | <u>1,977</u> | <u>1,354</u> | <u>1,407</u> | <u>106</u> | <u>33,377</u> | <u>633,102</u> |

(i) During 2020 and 2019, the Company has capitalized borrowing costs related to the acquisition of the equipment and construction of the factory of \$1,768 and \$1,382, calculated using a capitalization rate of 1.45% and 1.57%.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(ii) The difference between the fair value and the amount received from low-interest government loans projects was regarded as the deduction of the cost of additions of assets and recognized as construction in progress of \$4,846 during 2020.

(iii) As of December 31, 2020 and 2019, the property, plant and equipment of the Company had been pledged as collateral for long and short-term borrowings; please refer to Note 8.

(g) Right-of-use assets

The Company leased many assets including land and buildings, vehicles and office equipment leases for which the Company as a lessee was presented below:

| | Buildings and construction | Transportation equipment | Office equipment | Total |
|--|----------------------------------|-----------------------------|---------------------|--------------|
| Cost: | | | | |
| Balance at January 1, 2020 | \$ 4,402 | 631 | 370 | 5,403 |
| Additions | - | 2,302 | 164 | 2,466 |
| Disposals | (4,402) | - | - | (4,402) |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>2,933</u> | <u>534</u> | <u>3,467</u> |
| Balance at January 1, 2019 | \$ 7,431 | - | - | 7,431 |
| Additions | - | 631 | 370 | 1,001 |
| Disposals | (3,029) | - | - | (3,029) |
| Balance at December 31, 2019 | <u>\$ 4,402</u> | <u>631</u> | <u>370</u> | <u>5,403</u> |
| Accumulated depreciation and impairment losses: | | | | |
| Balance at January 1, 2020 | \$ 3,092 | 140 | 31 | 3,263 |
| Depreciation | 1,310 | 658 | 90 | 2,058 |
| Disposal | (4,402) | - | - | (4,402) |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>798</u> | <u>121</u> | <u>919</u> |
| Balance at January 1, 2019 | \$ - | - | - | - |
| Depreciation | 3,092 | 140 | 31 | 3,263 |
| Balance at December 31, 2019 | <u>\$ 3,092</u> | <u>140</u> | <u>31</u> | <u>3,263</u> |
| Carrying amounts: | | | | |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>2,135</u> | <u>413</u> | <u>2,548</u> |
| Balance at January 1, 2019 | <u>\$ 7,431</u> | <u>-</u> | <u>-</u> | <u>7,431</u> |
| Balance at December 31, 2019 | <u>\$ 1,310</u> | <u>491</u> | <u>339</u> | <u>2,140</u> |

(h) Other non-current assets

| | December 31, 2020 | December 31, 2019 |
|----------------------------|----------------------|----------------------|
| Prepayments for equipments | \$ 96,020 | 15,283 |
| Guarantee deposits paid | 4,193 | 3,558 |
| Other non-current assets | 5,293 | 9,141 |
| | <u>\$ 105,506</u> | <u>27,982</u> |

During 2020, the Company has capitalized borrowing costs related to the acquisition of the equipment and construction of factory of \$507, calculated using a capitalization rate of 1.45%.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(i) Short-term borrowings

| | December 31, 2020 | December 31, 2019 |
|--------------------------------|------------------------------|------------------------------|
| Unsecured bank loans | \$ 16,378 | 150,000 |
| Secured bank loans | - | 60,000 |
| Total | \$ 16,378 | 210,000 |
| Unused short-term credit lines | \$ 310,000 | 70,000 |
| Range of interest rates | 1.27%~1.28% | 1.65%~2.10% |

For the collateral for short-term borrowing, please refer to Note 8.

(j) Other payables (including related parties)

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Payable on expendables | \$ 163 | 1,461 |
| Outsourced processing expenses payable | 7,464 | 1,576 |
| Wages and salaries payable | 9,459 | 5,703 |
| Mold-processing expenses payable | 2,343 | 20,059 |
| Employee compensation payable | 4,247 | 3,254 |
| Payable on repairing | 14,830 | 2,296 |
| Labor/health insurance payable | 1,694 | 1,658 |
| Others | 35,566 | 10,188 |
| | \$ 75,766 | 46,195 |

(k) Bonds payable

The details of bonds payable were as follows:

| | December 31, 2020 |
|-----------------------------|------------------------------|
| Secured convertible bonds | \$ 194,121 |
| Unsecured convertible bonds | 192,045 |
| | \$ 386,166 |

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

- (i) The details of convertible bonds were as follows:

| | December 31, 2020 |
|---|------------------------------|
| Total convertible corporate bonds issued | \$ 401,504 |
| Unamortized discounted corporate bonds payable | (15,338) |
| Cumulative converted amount | - |
| Corporate bonds issued balance at year end | <u>\$ 386,166</u> |
| Embedded derivative –call and put options, included in financial liabilities at fair value through profit or loss | <u>\$ 60</u> |
| Equity component – conversion options, included in capital surplus – stock options | <u>\$ 9,858</u> |

On August 31 and September 1, 2020, the Company issues the three-year secured convertible bonds with zero interest rate \$200,000 and the three-year unsecured convertible bonds with zero interest rate \$201,504, the offering information were as follows:

| Secured convertible bonds | Unsecured convertible bonds |
|---|--|
| <ul style="list-style-type: none"> · The conversion price was \$46 per share, when it comes to adjusting conversion price of the Company's common share, it should adhere to the Company's conversion's rules. The conversion price change with formula within issuance details. These secured convertible bonds do not have reset feature. · From the day after the bond has been issued for three months to 40 days before the expiry, if the closing price of the Company's common shares listed on the Taipei Exchange exceeds or equals 30% of the conversion price for 30 consecutive days, or the outstanding balance of the bond is less than 10% of the original issuance then the Company will redeem the bonds based on the bond denomination. · Unless the bond has been redeemed before maturity, repurchased and cancelled or converted, the bonds will be redeemed by the Company on the bond denomination. | <ul style="list-style-type: none"> · The conversion price was \$45 per share, when it comes to adjusting conversion price of the Company's common share, it should adhere to the Company's conversion's rules. The conversion price change with formula within issuance details. These secured convertible bonds do not have reset feature. · From the day after the bond has been issued for three months to 40 days before the expiry, if the closing price of the Company's common shares listed on the Taipei Exchange exceeds or equals 30% of the conversion price for 30 consecutive days, or the outstanding balance of the bond is less than 10% of the original issuance then the Company will redeem the bonds based on the bond denomination. · Unless the bond has been redeemed before maturity, repurchased and cancelled or converted, the bonds will be redeemed by the Company on the maturity date at 100.7519% of the principal amount of the bond (the real yield is 0.25%). |

- (ii) For the details of collateral of convertible bonds, please refer to Note 8.
- (iii) Please refer to note 6(t) for the interest expense for the year ended December 31, 2020.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(l) Long-term borrowings

The details were as follows:

| December 31, 2020 | | | | |
|-------------------------------|-----------------|---------------|-----------------------|-------------------|
| | Currency | Rate | Maturity date | Amount |
| Unsecured bank loans | TWD | 0.050%~1.800% | 2021.06.27~2025.10.08 | \$ 249,492 |
| Secured bank loans | TWD | 0.100%~1.550% | 2023.04.25~2039.10.31 | 646,556 |
| | | | | 896,048 |
| Less: current portion | | | | (64,537) |
| Total | | | | <u>\$ 831,511</u> |
| Unused long-term credit lines | | | | <u>\$ 409,000</u> |

| December 31, 2019 | | | | |
|-------------------------------|-----------------|---------------|-----------------------|-------------------|
| | Currency | Rate | Maturity date | Amount |
| Unsecured bank loans | TWD | 1.580%~2.095% | 2021.05.31~2022.12.07 | \$ 161,822 |
| Secured bank loans | TWD | 1.570%~2.250% | 2022.08.19~2039.10.31 | 663,676 |
| | | | | 825,498 |
| Less: current portion | | | | (125,708) |
| Total | | | | <u>\$ 699,790</u> |
| Unused long-term credit lines | | | | <u>\$ -</u> |

(i) For the collateral for long-term borrowings, please refer to Note 8.

(ii) The low-interest government loans projects

As of December 31, 2020, the Company had borrowed unsecured bank loans of \$100,000 and secured bank loans of \$238,828. The annual interest rates of loans were 0.05% and 0.10%, and the loans will expire in May 2025 and between August 2027 to May 2030, respectively. The loans were applied according to the "Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan".

(m) Lease liabilities

The carrying amount of lease liabilities of the Company were as follows:

| | December 31, 2020 | December 31, 2019 |
|-------------|------------------------------|------------------------------|
| Current | <u>\$ 1,079</u> | <u>1,591</u> |
| Non-current | <u>\$ 1,507</u> | <u>566</u> |

For the maturity analysis, please refer to Note 6(u).

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

The amounts recognized in profit or loss were as follows:

| | For the year ended December 31 | |
|--|---------------------------------------|-------------|
| | 2020 | 2019 |
| Interest on lease liabilities | \$ <u>61</u> | <u>121</u> |
| Expenses relating to short-term leases | \$ <u>2,205</u> | <u>334</u> |

The amounts recognized in the statement of cash flows for the Company were as follows:

| | For the year ended December 31 | |
|-------------------------------|---------------------------------------|--------------|
| | 2020 | 2019 |
| Total cash outflow for leases | \$ <u>4,303</u> | <u>3,653</u> |

The Company leases machinery equipment for a period of 3 years. Some leases include an option to renew the lease for an additional period after the end of the contract term.

(n) Employee benefits

The Company allocates 6.00% 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 these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

For the years ended December 31, 2020 and 2019, the pension costs incurred from the contributions to the Bureau of Labor Insurance as follows:

| | For the years ended December 31 | |
|------------------|--|--------------|
| | 2020 | 2019 |
| Operating costs | \$ 1,741 | 1,743 |
| Selling expenses | <u>1,549</u> | <u>1,742</u> |
| | \$ <u>3,290</u> | <u>3,485</u> |

(o) Income taxes

(i) The components of income tax in the years 2020 and 2019 were as follows:

| | For the years ended December 31 | |
|---|--|--------------|
| | 2020 | 2019 |
| Current tax expense | | |
| Current period | \$ 7,964 | 1,761 |
| Adjustment for prior periods | 1,868 | 1,844 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | <u>26,875</u> | <u>3,722</u> |
| Income tax expense | \$ <u>36,707</u> | <u>7,327</u> |

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

- (ii) Reconciliations of income tax and profit before tax for 2020 and 2019 were as follows:

| | For the years ended December 31 | |
|--|--|--------------|
| | 2020 | 2019 |
| Profit excluding income tax | \$ 174,339 | 27,388 |
| Income tax the Company's domestic tax rate | 34,868 | 5,478 |
| Non-deductible expenses | 13 | 79 |
| Tax-exempt income | (42) | (74) |
| Underestimation (overestimation) in prior period | 1,868 | 1,844 |
| | \$ 36,707 | 7,327 |

- (iii) The amount of income tax recognized in other comprehensive income (loss) for the years ended December 31, 2020 and 2019 was as follows:

| | For the years ended December 31 | |
|--|--|-------------|
| | 2020 | 2019 |
| Items that will be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of foreign financial statement | \$ 1,782 | (11,709) |

- (iv) Deferred tax assets and liabilities

- 1) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2020 and 2019 were as follows:

| | Inventory valuation losses | Other | Total |
|--|---|---------------|---------------|
| Deferred tax assets: | | | |
| Balance at January 1, 2020 | \$ 151 | 23,480 | 23,631 |
| Recognized in profit or loss | 53 | 1,189 | 1,242 |
| Recognized in other comprehensive income | - | (1,782) | (1,782) |
| Balance at December 31, 2020 | \$ 204 | 22,887 | 23,091 |
| Balance at January 1, 2019 | \$ 226 | 11,484 | 11,710 |
| Recognized in profit or loss | (75) | 287 | 212 |
| Recognized in other comprehensive income | - | 11,709 | 11,709 |
| Balance at December 31, 2019 | \$ 151 | 23,480 | 23,631 |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

| | Investment income overseas | Other | Total |
|------------------------------|---|-----------------|----------------------|
| Deferred tax liabilities: | | | |
| Balance at January 1, 2020 | \$ 25,059 | - | 25,059 |
| Recognized in profit or loss | 28,117 | - | 28,117 |
| Balance at December 31, 2020 | <u><u>\$ 53,176</u></u> | <u><u>-</u></u> | <u><u>53,176</u></u> |
| Balance at January 1, 2019 | \$ 19,507 | 1,618 | 21,125 |
| Recognized in profit or loss | 5,552 | (1,618) | 3,934 |
| Balance at December 31, 2019 | <u><u>\$ 25,059</u></u> | <u><u>-</u></u> | <u><u>25,059</u></u> |

(v) The Company's income tax returns for the years through 2018 were assessed by the tax authorities.

(p) Capital and other equity

(i) Ordinary shares

As of December 31, 2020 and 2019, the number of authorized share capital were 150,000 thousand shares and 100,000 thousand shares with par value \$10 per share. The total value of authorized share capital amounted to \$1,500,000 and \$1,000,000, respectively. Issued ordinary shares are 83,884 thousand shares and 80,151 thousand shares, respectively.

The reconciliation of shares outstanding for 2020 and 2019 was as follows:

(in thousands of shares)

| | Ordinary Shares | |
|---------------------------------------|------------------------|----------------------|
| | 2020 | 2019 |
| Balance on January 1 | 80,151 | 76,489 |
| Capital increase by retained earnings | 3,733 | 3,662 |
| Balance on December 31 | <u><u>83,884</u></u> | <u><u>80,151</u></u> |

A resolution was passed during the general meeting of shareholders held on May 24, 2019 for the issuance of 3,662 thousand new shares by retained earnings with par value of \$10 per share, amounting to \$36,624. The Board of Directors approved the record date of capital increase by August 31, 2019. The relevant statutory registration procedures have since been completed by September 19, 2019.

A resolution was passed during the general meeting of shareholders held on May 28, 2020 for the issuance of 3,733 thousand new shares by retained earnings with par value of \$10 per share, amounting to \$37,329. On August 20, 2020, the chairman of the Board of Directors authorized the increase of capital by the Board of Directors on August 5, 2020 to set the capital increase record date as September 30, 2020. The relevant statutory registration procedures have since been completed by October 15, 2020.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(ii) Capital surplus

The balances of capital surplus as of December 31, 2020 and 2019, were as follows:

| | December 31, 2020 | December 31, 2019 |
|---------------------------------|------------------------------|------------------------------|
| Premium from issuing new shares | \$ 303,851 | 303,851 |
| Premium from converting bonds | 194,185 | 194,185 |
| Share-based payment | 18,303 | 12,602 |
| Treasury share transactions | 2,360 | 2,360 |
| Issuance of convertible bonds | 9,858 | - |
| | <u>\$ 528,557</u> | <u>512,998</u> |

(iii) Retained earnings

Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

Before the distribution of dividends, the Company shall first take into consideration its operating environment, industry developments, and the long-term interests of stockholders, as well as its programs to maintain operating efficiency and meet its capital expenditure budget and financial goals in determining the stock or cash dividends to be paid. After the above appropriations, current and prior-period earnings that remain undistributed will be proposed for distribution by the Board of Directors, and a meeting of shareholders will be held to decide on this matter. The cash dividends shall not be more than 10% of total dividends.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

The Company has selected to apply the optional exemptions according to IFRS 1 "First-time Adoption of International Financial Reporting Standards".

In accordance with Rule No. 10100112865 issued by the FSC on April 6, 2012, a special reserve was appropriate from the accumulated conversion adjustment (benefits) under equity transferred to retained earnings is \$52,050. The special reserve appropriated can be reversed to the extent that the net debit balance reverses.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

In accordance with the aforesaid Rule, a special reserve is set aside from the current years' net income after tax and prior year's undistributed earnings at an amount equal to the debit balance of contra accounts in shareholders' equity. When the debit balance of any of these contra accounts in shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of contra accounts in shareholder's equity shall qualify for additional distributions. As of December 31, 2020 and 2019, the special reserve appropriated from the undistributed earnings amounted to \$131,613 and \$87,006.

3) Earnings distribution

The amounts of earnings distribution on the appropriations of earnings for 2019 and 2018 had been approved during the shareholders' meeting on May 28, 2020 and May 24, 2019, respectively.

| | 2019 | | 2018 | |
|---|---------------------|------------------|---------------------|-----------------|
| | Amount per share | Total amount | Amount per share | Total amount |
| Dividends distributed to ordinary shareholders: | | | | |
| Cash | \$ 0.06 | 4,666 | 0.5 | 36,624 |
| Share | 0.48 | <u>37,329</u> | 0.5 | <u>36,624</u> |
| Total | | <u>\$ 41,995</u> | | <u>73,248</u> |

The amounts of cash dividends on the appropriations of earnings for 2020, and the amount of shares dividends of appropriations of earnings for 2020, had been approved and proposed, respectively during the board meeting on March 25, 2021 as follows:

| | 2020 | |
|---|---------------------|------------------|
| | Amount per share | Total amount |
| Dividends distributed to ordinary shareholders: | | |
| Cash | \$ 0.8 | 65,522 |
| Share | 0.2 | <u>16,380</u> |
| Total | | <u>\$ 81,902</u> |

(iv) Treasury shares

In order to encourage employee, the Company decided to repurchase shares as treasury shares by the propose of the Board of Directors. The Company repurchased 3,000,000 shares between May 20 to July 23, 2018. The range of repurchased price is between \$21 to \$40 TWD and the actual average share price was \$38.15 TWD per share. The total amount of shares purchased is \$114,455.

At July 16, 2018, the Board of Directors proposed to transfer treasury shares to employees by 38.15 TWD per share, and the total price of the transformation is \$105,907. The differences \$689 were recognized as capital surplus on the day of delivering stocks to the employees.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

At September 18, 2020, the Board of Directors proposed to transfer treasury shares to employees by 38.15 TWD per share, and the total price of the transformation is \$10,490. The differences \$1,258 were recognized as capital surplus on the day of delivering stocks to the employees.

The Company repurchased 3,000,000 shares between October 12 to December 11, 2018. The range of repurchased price is between \$23.80 to \$57.81 TWD and the actual average share price was \$37.10 TWD per share. The total amount of shares purchased is \$111,305.

At February 20, 2020 and November 4, 2020, the Board of Directors proposed to transfer treasury shares to employees by 37.10 TWD per share, and the total price of the transformation is \$33,094 and \$54,639, respectively. The differences \$1,188 and \$3,255 were recognized as capital surplus on the day of delivering stocks to the employees.

At March 19, 2020, the Company decided to repurchase shares as treasury shares by the propose of the Board of Directors. The Company expected to repurchase 3,000,000 shares between March 20 to May 19, 2020. The expected range of repurchased price is between \$23.10 to \$56.71 TWD. As of December 31, 2020, the Company had repurchased 1,500,000 shares and the actual average share price was \$35.01 TWD per share. The total amount of shares purchased is \$52,512.

According to the Securities and Exchange Act, the proportion of the shares which the Company repurchased shall not exceed 10% of the total number of shares the Company have issued. And the total amount of shares shall not exceed the total amount of retained earnings, premium from issuing new shares and realized capital surplus.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged, and do not hold any shareholder rights before their transfer.

(v) Other equity items

| | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | Total |
|---|---|--|------------------|
| Balance at January 1, 2020 | \$ (131,613) | - | (131,613) |
| Exchange differences on foreign operations | 7,125 | - | 7,125 |
| Balance at December 31, 2020 | <u>\$ (124,488)</u> | <u>-</u> | <u>(124,488)</u> |
| Balance at January 1, 2019 | \$ (84,778) | (2,228) | (87,006) |
| Exchange differences on foreign operations | (46,835) | - | (46,835) |
| Disposal of investments in equity instruments designated at fair value through other comprehensive income | - | 2,228 | 2,228 |
| Balance at December 31, 2019 | <u>\$ (131,613)</u> | <u>-</u> | <u>(131,613)</u> |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(q) Earnings per share

The details on the calculation of basic earnings per share and diluted earnings per share were as follows:

| | For the years ended December 31 | |
|--|---------------------------------|--------------------|
| | 2020 | 2019 |
| Basic earnings per share | | |
| Profit/(loss) attributable to ordinary shareholders of the Company | \$ <u>137,632</u> | <u>20,061</u> |
| Weighted average number of ordinary (thousands shares) | <u>81,443</u> | <u>76,909</u> |
| Basic earnings per share (dollars) | \$ <u><u>1.69</u></u> | <u><u>0.26</u></u> |
| Diluted earnings per share | | |
| Profit/(loss) attributable to ordinary shareholders of the Company (diluted) | \$ <u>139,130</u> | <u>20,061</u> |
| Weighted average number of ordinary (thousands shares) | 81,443 | 76,909 |
| Effect of dilutive potential ordinary shares | | |
| Effect of employee share bonus | 84 | 21 |
| Effect of conversion of convertible bonds | <u>9,235</u> | <u>-</u> |
| Weighted average number of ordinary (Including adjustment of effect of dilutive potential ordinary shares) | <u>90,762</u> | <u>76,930</u> |
| Diluted earnings per share (dollars) | \$ <u><u>1.53</u></u> | <u><u>0.26</u></u> |

(r) Revenue from contracts with customers

(i) Details of revenue

| | For the year ended December 31, 2020 | | | |
|---|--------------------------------------|-------------------|-------------------------|----------------|
| | Parts of HDD | Parts of vehicles | Management & operations | Total |
| Major products/services lines: | | | | |
| Sales of goods | \$ 744,514 | 29,679 | 19,117 | 793,310 |
| Other sales revenue | - | - | 3,900 | 3,900 |
| Total | \$ <u>744,514</u> | <u>29,679</u> | <u>23,017</u> | <u>797,210</u> |
| Timing of revenue recognition: | | | | |
| Products transferred at a point in time | \$ <u>744,514</u> | <u>29,679</u> | <u>23,017</u> | <u>797,210</u> |
| | For the year ended December 31, 2019 | | | |
| | Parts of HDD | Parts of vehicles | Management & operations | Total |
| Major products/services lines: | | | | |
| Sales of goods | \$ 583,841 | 19,076 | 27,807 | 630,724 |
| Other sales revenue | - | - | 8,591 | 8,591 |
| Total | \$ <u>583,841</u> | <u>19,076</u> | <u>36,398</u> | <u>639,315</u> |
| Timing of revenue recognition: | | | | |
| Products transferred at a point in time | \$ <u>583,841</u> | <u>19,076</u> | <u>36,398</u> | <u>639,315</u> |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(ii) Contract balances

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|---|------------------------------|------------------------------|----------------------------|
| Notes receivables | \$ 1,732 | 1,675 | 1,457 |
| Account receivables (including related parties) | 183,046 | 201,435 | 302,172 |
| Less: allowance for impairment | - | (3) | (799) |
| Total | <u>\$ 184,778</u> | <u>203,107</u> | <u>302,830</u> |
| Contract assets—products selling | <u>\$ 196</u> | <u>1,363</u> | <u>-</u> |
| Contract liabilities—advance sales receipts | <u>\$ 5,055</u> | <u>835</u> | <u>599</u> |

For details on accounts receivable and allowance for impairment, please refer to Note 6(c).

(s) Employee compensation and directors' and supervisors' remuneration

In accordance with the articles of incorporation the Company should contribute no less than 2% of the profit as employee compensation and less than 5% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the Board of Directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

For the years ended December 31, 2020 and 2019, the Company estimated its employee remuneration amounting to \$3,595 and \$654, and directors' and supervisors' remuneration amounting to \$1,797 and \$327, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2020 and 2019. Related information would be available at the Market Observation Post System website. The amounts, as stated in the financial statements, are identical to those of the actual distributions for 2019 and 2018.

(t) Non-operating income and expenses

(i) Interest income

The details of interest income in 2020 and 2019 were as follows:

| | For the years ended December 31 | |
|-----------------|--|-------------|
| | 2020 | 2019 |
| Interest income | <u>\$ 174</u> | <u>628</u> |

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(ii) Other income

The details of other income in 2020 and 2019 were as follows:

| | For the years ended December 31 | |
|--------------|--|--------------|
| | 2020 | 2019 |
| Other income | \$ <u>8,809</u> | <u>7,868</u> |

(iii) Other gains and losses

The details of other gains and losses in 2020 and 2019 were as follows:

| | For the years ended December 31 | |
|---|--|----------------|
| | 2020 | 2019 |
| Gains (Losses) on disposals of property, plant and equipment | \$ 3,551 | 184 |
| Gain on lease modification | - | 48 |
| Gain (loss) on foreign currency exchange | (9,544) | (1,601) |
| Gain on financial assets at fair value through profit or loss | 20 | - |
| Others | (1,497) | (500) |
| | <u>\$ (7,470)</u> | <u>(1,869)</u> |

(iv) Finance costs

The details of finance costs in 2020 and 2019 were as follows:

| | For the years ended December 31 | |
|-----------------------------------|--|---------------|
| | 2020 | 2019 |
| Interest expense | \$ 17,182 | 15,501 |
| Amortization of discounts of bond | 1,873 | - |
| Less: interest capitalized | (2,275) | (1,382) |
| | <u>\$ 16,780</u> | <u>14,119</u> |

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk. The maximum amount were both \$437,460 and \$412,209 in 2020 and 2019.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

2) Concentration of credit risk

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. To lower certain issuers' or counter parties' credit risk, credit enhancing instruments (such like sales receipts and insurance) will be taken at the appropriate time.

3) Credit risk of receivables and debt securities

For credit risk exposure of notes and trade receivables, please refer to Note 6(c).

Other financial assets at amortized cost includes other receivables. All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected credit losses. The certificates of deposit owned by the Company are considered to have low risk because of the trade partners and performance partners are financial institutions above investment grade. As a result, they did not make allowance for loss.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within 1 years</u> | <u>2-3 years</u> | <u>4-5 years</u> | <u>Over 5 years</u> |
|---|----------------------------|-----------------------------------|---------------------------|-----------------------|-----------------------|-------------------------|
| December 31, 2020 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Short-term loans | \$ 16,378 | 16,586 | 16,586 | - | - | - |
| Notes and trade payable (including related parties) | 159,593 | 159,593 | 159,593 | - | - | - |
| Other payables (including related parties) | 75,766 | 75,766 | 75,766 | - | - | - |
| Bonds payable | 386,166 | 401,504 | - | 401,504 | - | - |
| Long-term loans (including the ones expired within 1 year or an operating cycle) | 896,048 | 910,113 | 64,537 | 194,889 | 183,173 | 467,514 |
| Lease liabilities | 2,586 | 2,698 | 1,137 | 1,461 | 100 | - |
| | <u>\$ 1,536,537</u> | <u>1,566,260</u> | <u>317,619</u> | <u>597,854</u> | <u>183,273</u> | <u>467,514</u> |
| December 31, 2019 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Short-term loans | \$ 210,000 | 213,706 | 213,706 | - | - | - |
| Notes and trade payable (including related parties) | 208,327 | 208,327 | 208,327 | - | - | - |
| Other payables (including related parties) | 46,195 | 46,195 | 46,195 | - | - | - |
| Long-term loans (including the ones expired within 1 year or an operating cycle) | 825,498 | 840,441 | 127,974 | 300,210 | 27,415 | 384,842 |
| Lease liabilities | 2,157 | 2,196 | 1,614 | 453 | 129 | - |
| | <u>\$ 1,292,177</u> | <u>1,310,865</u> | <u>597,816</u> | <u>300,663</u> | <u>27,544</u> | <u>384,842</u> |

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

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(iii) Currency risk

1) Exposure to foreign currency risk

The Company's significant exposure to foreign currency risk were as follows:

| | December 31, 2020 | | | December 31, 2019 | | |
|------------------------------|---------------------|------------------|-----------|---------------------|------------------|-----------|
| | Foreign Currency | Exchange Rate | TWD | Foreign Currency | Exchange Rate | TWD |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD:TWD | \$ 15,398 | 28.48 | 438,535 | 11,808 | 29.98 | 354,005 |
| <u>Non-monetary items</u> | | | | | | |
| USD:TWD | 57,557 | 28.48 | 1,639,235 | 49,957 | 29.98 | 1,497,720 |
| MYR:TWD | 1,571 | 6.7895 | 10,666 | 1,018 | 7.03 | 7,159 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD:TWD | 6,210 | 28.48 | 176,861 | 7,458 | 29.98 | 223,577 |
| JPY:TWD | 59,276 | 0.2763 | 16,378 | - | - | - |

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts and other receivables, financial assets at fair value through other comprehensive income, loans and borrowings; and accounts and other payables that are denominated in foreign currency.

A strengthening (weakening) of 1% of the TWD against the USD, EUR, and CNY in 2020 and 2019, would have increased (decreased) the net profit after tax by \$2,453 and \$16,281, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2019.

3) Foreign exchange gain and loss on monetary items

Since the Company has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2020 and 2019, foreign exchange gain (loss) (including realized and unrealized portions) amounted to loss \$9,544 and loss \$1,601, respectively.

(iv) Interest rate analysis

Please refer to the notes on interest rate exposure of the Company's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

If the interest rate had increased / decreased by 10 basis points, the Company's net income would have increased / decreased by \$912 for the year ended December 31, 2020 and \$1,035 for the year ended December 31, 2019, with all other variable factors remaining constant. This is mainly due to the Company's borrowing at variable rates.

(v) Fair value information

1) Fair value and type of financial instruments

The fair value of financial assets at fair value through profit or loss, financial instruments used for hedging, and financial assets at fair value through other comprehensive income is measured on a recurring basis. The carrying amount and fair value of the Company's financial assets, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required:

| | | December 31, 2020 | | | | |
|---|---------------------|-------------------|-----------|----------|-----------|--|
| | | Fair Value | | | | |
| | Book Value | Level 1 | Level 2 | Level 3 | Total | |
| Financial assets at fair value through profit or loss | | | | | | |
| Call options of convertible bonds | \$ 60 | - | 60 | - | 60 | |
| Financial assets measured at amortized cost | | | | | | |
| Cash and cash equivalents | \$ 194,750 | - | - | - | - | |
| Contract assets | 196 | - | - | - | - | |
| Notes and accounts receivables | 184,778 | - | - | - | - | |
| Other receivables | 57,799 | - | - | - | - | |
| Subtotal | 437,523 | - | - | - | - | |
| Total | <u>\$ 437,583</u> | <u>-</u> | <u>60</u> | <u>-</u> | <u>60</u> | |
| Financial liabilities at amortized cost | | | | | | |
| Bank loans | \$ 912,426 | - | - | - | - | |
| Notes and accounts payables | 159,593 | - | - | - | - | |
| Other payables | 75,766 | - | - | - | - | |
| Lease liabilities | 2,586 | - | - | - | - | |
| Bonds payables | 386,166 | - | - | - | - | |
| Total | <u>\$ 1,536,537</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| | | December 31, 2019 | | | | |
| | | Fair Value | | | | |
| | Book Value | Level 1 | Level 2 | Level 3 | Total | |
| Financial assets measured at amortized cost | | | | | | |
| Cash and cash equivalents | \$ 129,894 | - | - | - | - | |
| Contract assets | 1,363 | - | - | - | - | |
| Notes and accounts receivables | 203,107 | - | - | - | - | |
| Other receivables | 77,903 | - | - | - | - | |
| Total | <u>\$ 412,267</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | |

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

| | December 31, 2019 | | | | |
|---|---------------------|------------|----------|----------|----------|
| | Book Value | Fair Value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial liabilities at amortized cost | | | | | |
| Bank loans | \$ 1,035,498 | - | - | - | - |
| Notes and accounts payables | 208,327 | - | - | - | - |
| Other payables | 46,195 | - | - | - | - |
| Lease liabilities | 2,157 | - | - | - | - |
| Total | <u>\$ 1,292,177</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

2) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow or option pricing models. Fair value of forward currency is usually determined by the forward currency exchange rate.

3) There have been no transfers from each level for the years ended December 31, 2020 and 2019.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(v) Financial risk management

(i) Overview

The Company have exposures to the following risks from its financial instruments:

- 1) credit risk
- 2) liquidity risk
- 3) market risk

The following likewise discusses the Company's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to the respective notes in the consolidated financial statements.

(ii) Structure of risk management

The Company's major targets of financial risk management were to manage the market risk, credit risk, and liquidity risk regarding operation activities. The Company identifies, evaluates and manages the aforesaid risk in accordance with its policies and risk preference.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the the Board of Directors and Audit Committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts and notes receivables from customers, contract assets, cash in banks and various financial instruments.

1) Accounts and other receivables

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria, etc. To lower certain issuers' or counter parties' credit risk, credit enhancing instruments(such like sales receipts and insurance) will be taken at the appropriate time.

The Company sets a loss allowance for expected credit losses to reflect the estimated loss on accounts receivable. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. However, the Company does not centralize its sales to any single customer, therefore the credit risks of accounts receivables do not significantly concentrate.

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CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

2) Investments

The exposure to credit risk for the bank deposits and other financial instruments is measured and monitored by the Company's finance department. The Company only deals with banks, corporate organizations and financial institutions with good credit rating. There was no material doubt on contract performance so there was no material credit risk.

3) Guarantee

The Company only provide guarantee to wholly owned subsidiaries. As of December 31, 2020 and 2019, please refer to Note7(b) for the guarantees provided to the subsidiaries.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As of December 31, 2020 and 2019, the Company's unused credit line were amounted to \$719,000 and \$70,000, 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 Company'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 Company is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Company's entities, primarily the TWD, US Dollar (USD), Malaysian Ringgit (MYR) and Chinese Yuan (CNY). The currencies used in these transactions are the TWD, USD, MYR and CNY.

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, which are mainly TWD, CNY and USD. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company 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.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

2) Interest rate risk

The Company is exposed to fair value risk and cash flow risk because entities in the Company borrow funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings.

3) Other market price risk

The Company does not enter into any commodity contracts other than to meet the Company's expected usage and sales requirements; such contracts are not settled on a net basis.

(w) Capital management

The Company's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Company and other entities in the same industry use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents.

The total capital and equity include share capital, capital surplus, retained earnings, other equity, and non-controlling interest plus net debt.

As of December 31, 2020, the Company's capital management strategy is consistent with the prior year as of December 31, 2019 to ensure financing at reasonable cost. The Company's debt-to-equity ratio at the end of the reporting period as of December 31, 2020 and 2019, is as follows:

| | December 31, 2020 | December 31, 2019 |
|-------------------------------------|------------------------------|------------------------------|
| Total liabilities | \$ 1,612,594 | 1,320,621 |
| Less: cash and cash equivalents | (194,750) | (129,894) |
| Net debt | <u><u>\$ 1,417,844</u></u> | <u><u>1,190,727</u></u> |
| Total equity | <u><u>\$ 1,567,931</u></u> | <u><u>1,372,271</u></u> |
| Adjusted equity | <u><u>\$ 2,985,775</u></u> | <u><u>2,562,998</u></u> |
| Debt-to-equity ratio at 31 December | <u><u>47.49%</u></u> | <u><u>46.46%</u></u> |

As of December 31, 2020, the capital management method of the Company has no change.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(7) Related-party transactions:

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|---|---|
| China Fineblanking Group Co., Ltd. (CFTC Group) | A subsidiaries |
| CFTC Precision Sdn. Bhd. (CFTC Malaysia) | A subsidiaries |
| China Fineblanking International Co., Ltd. (CFTC International) | A subsidiaries |
| CFTC Precision (Jia-Xing) (CFTC Jia-Xing) | A subsidiaries |
| CFTC (Huai-An) Limited (CFTC Huai-An) | A subsidiaries |
| Yung-Hung Engineering Ltd. (Yung-Hung Engineering) | The entity's owner is the chairman of the Company |

(b) Significant transactions with related parties

(i) Sales

The amounts of significant sales by the Company to related parties were as follows:

| | <u>For the years ended December 31</u> | |
|------------------------------|--|--------------|
| | <u>2020</u> | <u>2019</u> |
| Subsidiaries – CFTC Jia-Xing | \$ <u>8,720</u> | <u>2,515</u> |

The sale price to the above related parties was determined through mutual agreement based on the market rates. The trade credit term for related parties was 90 days while third-party suppliers was between 60-120 days. The accounts receivables-related parties were not guaranteed.

(ii) Purchases

The amounts of significant purchases by the Company from related parties were as follows:

| | <u>For the years ended December 31</u> | |
|------------------------------|--|----------------|
| | <u>2020</u> | <u>2019</u> |
| Subsidiaries – CFTC Jia-Xing | \$ <u>235,661</u> | <u>192,779</u> |

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The trade credit terms for related parties and third-party suppliers were similar. The trade credit term of CFTC Jia-Xing was 90 days.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(iii) Receivables to related parties

The receivables to related parties were as follows:

| <u>Account</u> | <u>Relationship</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-------------------|----------------------------|------------------------------|------------------------------|
| Other receivables | Subsidiaries—CFTC Jia-Xing | \$ 142 | 914 |
| Other receivables | Subsidiaries—CFTC Huai-An | - | 5 |
| | | <u>\$ 142</u> | <u>919</u> |

(iv) Payables to related parties

The payables to related parties were as follows:

| <u>Account</u> | <u>Relationship</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|-------------------|----------------------------------|------------------------------|------------------------------|
| Accounts payables | Subsidiaries—CFTC Jia-Xing | \$ 120,649 | 161,146 |
| Other payables | Associates—Yung-Hung Engineering | 58 | 58 |
| | | <u>\$ 120,707</u> | <u>161,204</u> |

(v) Property transactions

1) Acquisitions of property, plant and equipment

Details of acquisition of property, plant and equipment to related parties were as follows:

| | <u>For the years ended December 31</u> | |
|----------------------------|--|---------------|
| | <u>2020</u> | <u>2019</u> |
| Subsidiaries—CFTC Jia-Xing | <u>\$ 944</u> | <u>17,022</u> |

For the year ended December 31, 2020 and 2019, the Company purchased machinery and molding equipment from subsidiaries amounted to \$944 and \$17,022, respectively. As of December 31, 2020 and 2019, payables for the purchase transactions were \$944 and \$0, respectively.

2) Disposals of property, plant and equipment

Details of disposal of property, plant and equipment to related parties were as follows:

| | <u>For the years ended December 31</u> | | | |
|----------------------------|--|------------------------------------|-----------------|------------------------------------|
| | <u>2020</u> | | <u>2019</u> | |
| <u>Relationship</u> | <u>Proceeds</u> | <u>Gain (loss) on disposal</u> | <u>Proceeds</u> | <u>Gain (loss) on disposal</u> |
| Subsidiaries—CFTC Jia-Xing | <u>\$ 1,814</u> | <u>85</u> | <u>2,675</u> | <u>184</u> |

For the years ended December 31, 2020 and 2019, the Company sold machinery and molding equipment to subsidiaries amounted to \$1,814 and \$2,675, respectively. As of December 31, 2020 and 2019, payables for the purchase transactions were \$0 and \$2,675, respectively.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(vi) Guarantees

The Company provided guarantees to subsidiary company. As of December 31, 2020 the guarantee ceiling was \$251,976 (2019: \$304,660) and the amount was \$76,896 (2019: \$141,243). In 2020 and 2019, the subsidiary company paid the Company \$931 and \$2,346 as handling fee for the guarantee mention above.

(vii) Other incomes and expenses

| <u>Account</u> | <u>Catagories</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|------------------------------|
| Manufacturing overhead- outsourcing cost | Subsidiaries — CFTC Jia-Xing | <u>\$ 164,862</u> | <u>92,407</u> |

The price of outsourcing cost to the above related parties was determined through mutual agreement based on the market rates. The trade credit terms for related parties and third-party suppliers were similar. The trade credit term of CFTC Jia-Xing was 90 days.

(viii) Other

- 1) Due to operational requirements, the Company appointed Yung-Hung Engineering to provide labor services. During 2020 and 2019, labor service costs were reported at \$660 and \$110, respectively.
- 2) The Board of Directors of the Company decided to contract out the sewage treatment equipment of the Chuansing plant to Yung-Hung Engineering, and signed a contract which was worth \$12,500 at June 23, 2020. As of December 31, 2020, the Company paid \$3,750 and were recognized as prepayment for equipment.

(c) Key management personnel compensation

| | <u>For the years ended December 31</u> | |
|------------------------------|--|---------------|
| | <u>2020</u> | <u>2019</u> |
| Short-term employee benefits | \$ 19,324 | 15,472 |
| Post-employment benefits | <u>108</u> | <u>257</u> |
| | <u>\$ 19,432</u> | <u>15,729</u> |

(8) Pledged assets:

| <u>Pledged assets</u> | <u>Object</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--|------------------------------|------------------------------|
| Other receivables — restricted deposit | Collateral for loans and bonds payables | \$ 54,277 | 72,524 |
| Property, plant and equipment | " | <u>539,062</u> | <u>514,331</u> |
| | | <u>\$ 593,339</u> | <u>586,855</u> |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(9) Commitments and contingencies:

(a) Unrecognized contractual commitments

The Board of Directors of the Company approved the construction project of entering Erlin Science Park of Central Taiwan Science Park at December 14, 2018, and paid \$3,000 as the deposit to the Administration of Central Taiwan Science Park, Ministry of Science and Technology. However, the Company should accelerate mass production due to the impact of U.S.-China trade war, so it planned to shift the production lines to the existing plant in Chuansing Industrial Park in Changhua, and the Board of Directors modified the decision at August 7, 2019. The Company still has a plan to enter Erlin Science Park, and has successfully communicated with Central Taiwan Science Park, Ministry of Science and Technology, to modify the land for medium-term and long-term investment plans.

(b) Contingencies

- (i) The lease contract of the previous plant requested that the Company should revert the plant to the original state, however, due to the cognitive difference in each other, the owner of the plant claimed for damages to the court. Taiwan Changhua District Court judged that the Company should compensate \$558 in the first instance at December 23, 2019. The conviction was affirmed by Taiwan High Court Taichung Branch Court in the second instance, and the Company was requested to compensate \$887. Therefore, the Company accrued \$59 of loss according to the payable difference and less the security deposit during 2020.
- (ii) The dispute that Fei-Long Engineering Ltd. requested the Company to pay the plant repairment and additional engineering expenses that amounted to \$1,107 was not solved. Because the prices of several projects were offered above market price and the projects were not checked and accepted, the Company did not pay in obedience to Fei-Long's requests. Taiwan Changhua District Court judged that the Company should compensate \$899 in the first instance at October 8, 2020, and the Company had mandated the lawyer to file an appeal within statutory period. The Company was defeated in the first instance and accrued \$830 of loss at during 2020.
- (iii) The previous chairman of the Board of Directors sued the Company for dismantling the building on the basis of ownership and illegal appropriation of land at August 4, 2020. As of December 30, 2020, the Company estimated that \$7,932 should be paid according to the complaint. However, considering that the Company has also sued the previous chairman for several suits of damages and the suits are still pending, the Company cannot reasonably estimate the results of suits above as of December 31, 2020.

(10) Losses due to major disasters:

CFTC Precision (Jia-Xing) Limited, a subsidiary of the Company, broke out of fire at January 14, 2019, and some of the electroplating plants were burned down. The management of the Company estimated that the claim will be about \$11,889(CNY) and received at October 8, 2019, according to the contract of insurance and the third-party notary institution's assessment. The net losses of the disasters above were approximately \$5,588(CNY), and were recognized as other non-operating income and expenses under non-operating income and expenses during 2019.

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(11) Subsequent events: None

(12) Other:

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

| By item | By function | For the year ended December 31 | | | | | |
|----------------------------|-------------|--------------------------------|-------------------|--------|--------------|-------------------|--------|
| | | 2020 | | | 2019 | | |
| | | Cost of Sale | Operating Expense | Total | Cost of Sale | Operating Expense | Total |
| Employee benefits | | | | | | | |
| Salary | | \$ 51,261 | 39,308 | 90,569 | 41,673 | 33,138 | 74,811 |
| Labor and health insurance | | 4,679 | 3,050 | 7,729 | 4,755 | 3,253 | 8,008 |
| Pension | | 1,741 | 1,549 | 3,290 | 1,743 | 1,742 | 3,485 |
| Remuneration of directors | | - | 2,283 | 2,283 | - | 879 | 879 |
| Others | | 2,688 | 2,241 | 4,929 | 2,407 | 2,311 | 4,718 |
| Depreciation | | 29,878 | 2,850 | 32,728 | 24,773 | 5,103 | 29,876 |
| Amortization | | 100 | 1,041 | 1,141 | 102 | 612 | 714 |

For the years ended December 31, 2020 and 2019, the information on the number of employees and employee benefit expense of the Company is as follows:

| | 2020 | 2019 |
|--|----------------|------------|
| Number of employees | <u>146</u> | <u>149</u> |
| Number of directors who were not employees | <u>9</u> | <u>10</u> |
| The average employee benefit | <u>\$ 777</u> | <u>655</u> |
| The average salaries and wages | <u>\$ 661</u> | <u>538</u> |
| Percentage of average employee salary expense adjusted | <u>22.86 %</u> | |
| Remuneration to supervisors | <u>\$ -</u> | <u>-</u> |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

| Number | 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 | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral | | Individual funding loan limits | Maximum limit of fund financing |
|--------|----------------|------------------|-------------------|---------------|---|----------------|---------------------------------------|---|---|---|----------------------------------|------------------------|------------|-------|--------------------------------|---------------------------------|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | CFTC Jia-Xing | CFTC Huai-An | Other receivables | Yes | 14,299 | 13,629 | 13,421 | 5.2% | 1 | 13,629 | | - | | - | 639,090 | 639,090 |
| 1 | CFTC Jia-Xing | CFTC Huai-An | Other receivables | Yes | 73,903 | 73,869 | 34,703 | 4.8%-5.2% | 2 | - | The operating turnover | - | | - | 639,090 | 639,090 |

Note 1: CFTC Jia-Xing has business relationship with it.

Note 2: CFTC Jia-Xing requires a short-term financing with it.

Note 3: CFTC Jia-Xing's limit on total amount and amount to single party of loans to others is 40% of net assets in latest audited or reviewed financial statements of CFTC Jia-Xing.

(ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

| No. | Name of guarantor | 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 | Maximum amount for guarantees and endorsements | 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 | | | | | | | | | | |
| 0 | The Company | CFTC Jia-Xing | 1 | 313,586 | 273,610 | 232,040 | 56,960 | - | 3.63 % | 627,172 | Y | N | Y |
| 0 | The Company | CFTC Huai-An | 1 | 313,586 | 31,050 | 19,936 | 19,936 | - | 1.27 % | 627,172 | Y | N | Y |
| 1 | CFTC Jia-Xing | CFTC Huai-An | 4 | 627,172 | 17,516 | 17,508 | 17,508 | - | 1.12 % | 627,172 | N | N | Y |

Note 1: The Company's limit on total amount of endorsements/ guarantees provided to others is 40% of net assets in latest audited or reviewed financial statements of the Company. The Company's limit on amount of endorsements/ guarantees provided to single party is 20% of net assets in latest audited or reviewed financial statements of the Company.

Note 2: CFTC Jia-Xing's limit on total amount of endorsements/ guarantees provided to others is 40% of net assets in latest audited or reviewed financial statements of the Company and CFTC Jia-Xing.

Note 3: The relationships between endorser and endorsee were as follows:

- (1) The Company owns above 50% of its shares with voting rights directly or indirectly.
- (2) The one owns above 50% of the Company's shares with voting rights directly or indirectly.
- (3) The Company or business with business relationship.
- (4) Within the companies which the Company owns above 90% of its shares with voting rights directly or indirectly.

(iii) Securities held as of December 31, 2020 (excluding investment in subsidiaries, associates and joint ventures): None

(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

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Notes to the Financial Statements

- (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 | | | | Transactions with terms different from others | | Notes/Accounts receivable (payable) | | Note |
|-----------------|---------------|---------------------------|---------------------|-----------|-------------------------------------|---------------|---|---------------|-------------------------------------|---|------|
| | | | Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) | |
| The Company | CFTC Jia-Xing | Subsidiary of the Company | Purchase | 235,661 | 57 % | 90 dias | Normal | Normal | (120,649) | (34)% | |
| CFTC Jia-Xing | The Company | Subsidiary of the Company | Sale | (235,661) | (57) % | 90 dias | Normal | Normal | 120,649 | 34% | |

- (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 | Allowance for bad debts |
|-----------------|---------------|------------------------|----------------|---------------|---------|--------------|---------------------------------------|-------------------------|
| | | | | | Amount | Action taken | | |
| CFTC Jia-Xing | The Company | Subsidiary | 120,649 | 1.67 | - | - | 26,977 | - |

- (ix) Trading in derivative instruments: None

- (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/ thousand shares)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2020 | | | Net income (losses) of investee | Share of profits/losses of investee | Note |
|------------------------------------|--|---------------|------------------------------|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---------------------------------|-------------------------------------|------|
| | | | | December 31, 2020 | December 31, 2019 | Shares (thousands) | Percentage of ownership | Carrying value | | | |
| The Company | China Fineblanking Group Co., Ltd. | Samoa Islands | Investment activities | USD 40,080 | USD 40,080 | 40,080 | 100.00 % | 1,639,235 | 132,113 | 132,113 | |
| The Company | CFTC Precision Sdn. Bhd. | Malaysia | Property management | MYR 30,288 | MYR 30,288 | 30,288 | 100.00 % | 10,666 | 3,722 | 3,722 | |
| China Fineblanking Group Co., Ltd. | China Fineblanking International Co., Ltd. | Samoa Islands | Investment activities | USD 40,080 | USD 40,080 | 40,080 | 100.00 % | USD 58,122 | USD 4,800 | - | |

Note1 : The current net income or loss included the influences of upstream and downstream transactions within the associates.

- (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 | Accumulated outflow of investment from Taiwan as of January 1, 2020 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2020 | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) | Book value | Accumulated remittance of earnings in current period |
|------------------|--|---------------------------------|----------------------|---|------------------|--------|---|-------------------------------------|-------------------------|----------------------------|-----------------------|--|
| | | | | | Outflow | Inflow | | | | | | |
| CFTC Jia-Xing | Manufacture and sale of hardware parts, mechanical hardware parts and molding components | RMB270,034 (USD39,700) | (Note 1) | 1,173,787 (USD37,500) | - | - | 1,173,787 (USD37,500) | 117,673 (USD4,127) | 100.00% | 117,673 (USD4,127) | 1,597,726 (USD56,100) | 20,249 (USD633) |
| CFTC Huai-An | Manufacture of mechanical parts and molding components | RMB 17,131 (USD2,580) | (Note 1) | 82,131 (USD2,580) | - | - | 82,131 (USD2,580) | 19,187 (USD673) | 100.00% | 19,187 (USD673) | 57,029 (USD2,002) | - |

(Continued)

CHINA FINEBLANKING TECHNOLOGY CO., LTD.
Notes to the Financial Statements

(ii) Limitation on investment in Mainland China:

| Accumulated Investment in Mainland China as of December 31, 2020 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| 1,255,918 | 1,446,214 (USD50,780) | NA (Note 2) |

Note 1: The Company invest in Mainland China companies through a company invested and established in a third region.

Note 2: In accordance with the provisions of the “Regulations Governing Permission for Investment or Technical Cooperation in the Mainland Area” passed on August 29, 2008, the Company has acquired the Business Operation Headquarter Certificate issued by the Industrial Development Bureau of the Ministry of Economic Affairs, which exempts the Company from the limitation of the amount or ratio of investment in mainland China.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.

(d) Major shareholders:

| Shareholder's Name | Shareholding | Shares | Percentage |
|-------------------------------|--------------|-----------|------------|
| LIU, CHING-I | | 7,792,714 | 9.28 % |
| HSIEH, LING | | 5,652,235 | 6.73 % |
| CHIA-CHUAN Investment Co. LTD | | 5,428,285 | 6.47 % |
| WU, CHIH-WEI | | 4,834,336 | 5.76 % |

Note: The table discloses stockholding information of stockholders whose ownership percentages are more than 5%. The Taiwan Depository & Clearing Corporation calculates the total number of common stocks and special stocks (including treasury stocks) that have completed the dematerialized registration and delivery on the last business day of the quarter. The stocks reported in the financial statements and the actual number of stocks that have completed the dematerialized registration and delivery may be different due to the basis of calculation.

(14) Segment information:

Please refer to the consolidated financial statements of 2020.

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statement of cash and cash equivalents

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

| <u>Item</u> | <u>Summary</u> | <u>Amount</u> | <u>Note</u> |
|--------------|--------------------------|--------------------------|---|
| Cash | Petty cash | \$ 58 | |
| | Cash in hand | <u>5</u> | |
| | | <u>63</u> | |
| Bank deposit | Demand deposit | 53,228 | |
| | Foreign currency deposit | 141,453 | \$66,000(USD) with foreign exchange rate at \$28.48 |
| | Check deposit | <u>6</u> | |
| | | <u>194,687</u> | |
| | | <u><u>\$ 194,750</u></u> | |

Statement of notes and accounts receivables

| <u>Customer</u> | <u>Summary</u> | <u>Accounts receivables</u> | <u>Note</u> |
|-----------------|----------------|-----------------------------|--|
| Customer A | " | \$ 173,616 | |
| Others | | <u>9,430</u> | The amount of any single customer is below 5% of the account |
| | | <u><u>\$ 183,046</u></u> | |

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statement of changes in investments accounted for using the equity method

For the year ended December 31, 2020

**(Expressed in thousands of New Taiwan Dollars, thousands of US Dollars,
thousands of MYR Dollars, in thousands shares)**

| Entity | Balance on January 1, 2020 | | Increase in current period | | Decrease in current period | | Balance on December 31, 2020 | | | Market price or total equity amount | | Valuation basis | Details of collateral |
|---------------|-------------------------------|---------------------|-------------------------------|----------------|-------------------------------|--------------|---------------------------------|----------------------------------|------------------|--|-----------------|--------------------|-----------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Percentage of voting interest | Amount | Price per share | Total amount | | |
| CFTC Group | USD 40,080 | \$ 1,497,719 | - | 146,419 | - | 4,903 | USD 40,080 | 100.00 % | 1,639,235 | USD 1.45 | 1,639,235 | Equity method | None |
| CFTC Malaysia | MYR 18,920 | 7,159 | - | 3,722 | - | 215 | MYR 18,920 | - % | 10,666 | MYR 0.05 | 10,666 | " | " |
| | | <u>\$ 1,504,878</u> | | <u>150,141</u> | | <u>5,118</u> | | | <u>1,649,901</u> | | | | |

Note: 1. Increase in current period due to investment gain recognized under equity method \$140,738, share of other comprehensive income of subsidiaries accounted for using equity method \$9,122 and deferred gross profit \$281.

2. Decrease in current period due to investment loss recognized under equity method \$4,903 and share of other comprehensive income of subsidiaries accounted for using equity method \$215.

CHINA FINEBLANKING TECHNOLOGY CO., LTD.**Statement of changes in property, plant and equipment****For the year ended December 31, 2020****(Expressed in thousands of New Taiwan Dollars)**

Please refer to Note 6(f), for the regarding information.

Statement of bonds payable**December 31, 2020**

Please refer to Note 6(k), for the regarding information.

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statement of long-term borrowings

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

| <u>Creditor</u> | <u>Summary</u> | <u>Amount</u> | <u>Contract period</u> | <u>Interest rate</u> | <u>Mortgages</u> |
|---------------------------------|-----------------|--------------------------|------------------------|----------------------|-----------------------------|
| Taiwan Cooperative Bank | Secured loans | \$ 404,000 | 2019.10.31~2039.10.31 | 1.45 % | Property, plant & equipment |
| Chang Hwa Commercial Bank, Ltd. | " | 13,467 | 2018.04.25~2023.09.25 | 1.55 % | Property, plant & equipment |
| Agricultural Bank of Taiwan | Project loans | 95,674 | 2020.06.08~2025.05.15 | 0.05 % | - |
| Taiwan Cooperative Bank | " | 139,971 | 2020.09.09~2027.08.15 | 0.10 % | Property, plant & equipment |
| Taiwan Cooperative Bank | " | 89,118 | 2020.05.22~2030.05.15 | 0.10 % | Property, plant & equipment |
| Taiwan Cooperative Bank | Unsecured loans | 28,777 | 2017.12.07~2022.12.07 | 1.80 % | - |
| Hua Nan Commercial Bank, Ltd. | " | 21,875 | 2018.09.17~2022.09.17 | 1.30 % | - |
| Agricultural Bank of Taiwan | " | 50,000 | 2020.12.29~2021.06.27 | 1.35 % | - |
| Land Bank of Taiwan | " | 44,166 | 2020.05.11~2025.05.11 | 1.50 % | - |
| Land Bank of Taiwan | " | 4,000 | 2020.10.08~2025.10.08 | 1.00 % | - |
| Land Bank of Taiwan | " | 3,000 | 2020.10.08~2025.10.08 | 1.50 % | - |
| Land Bank of Taiwan | " | <u>2,000</u> | 2020.10.08~2025.10.08 | 1.55 % | - |
| | | 896,048 | | | |
| Less: current portion | | <u>(64,537)</u> | | | |
| | | <u><u>\$ 831,511</u></u> | | | |

Statement of operating revenue

For the year ended December 31, 2020

| <u>Item</u> | <u>Quantity</u> | <u>Amount</u> | <u>Note</u> |
|-----------------------|-------------------------------|--------------------------|-------------|
| HDD Parts | About 118,745 thousand pieces | \$ 744,514 | |
| Vehicle parts | About 1,819 thousand pieces | 29,679 | |
| Others | | <u>23,017</u> | |
| Net operating revenue | | <u><u>\$ 797,210</u></u> | |

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statement of operating costs

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

| Item | Amount |
|--|------------|
| Merchandise inventories | |
| Merchandise inventories, beginning of year | \$ 33,377 |
| Add: merchandise inventories purchased, net | 215,026 |
| Less: merchandise inventories, end of year | (59,253) |
| Charge to expenses | (7) |
| Others | (5,130) |
| Merchandise inventories scrapped | (400) |
| Cost of goods sold for merchandise inventories | 183,613 |
| Raw material, beginning of year | 9,621 |
| Direct material | |
| Add: raw material purchased | 174,615 |
| Others | 61 |
| Less: raw material, end of year | (8,190) |
| Sale of material | (158) |
| Sale of scraps | (38,865) |
| Charge to expenses | (16) |
| Gain or loss on physical inventories | (1) |
| Direct material used | 137,067 |
| Direct labor | 24,811 |
| Manufacturing overhead | 274,150 |
| Manufacturing cost | 436,028 |
| Add: Work in process, beginning of year | 27,234 |
| Work in process purchased | 16,618 |
| Others | 25 |
| Less: Work in process, end of year | (22,085) |
| Work in process scrapped | (11) |
| Sale of work in process | (17,009) |
| Charge to expenses | (1,059) |
| Others | (903) |
| Cost of goods manufactured | 438,838 |
| Add: Finished goods, beginning of year | 8,793 |
| Finished goods purchase | 4,339 |
| Others | 937 |
| Less: Finished goods, end of year | (5,234) |
| Charge to expenses | (322) |
| Finished goods scrapped | (397) |
| Manufacturing cost | 446,954 |
| Sale of raw material | 158 |
| Sale of work in process | 17,009 |
| Inventory valuation losses | 267 |
| Gain or loss on physical inventories | 1 |
| Disposal | 808 |
| Others | 3,809 |
| Operating cost | \$ 652,619 |

CHINA FINEBLANKING TECHNOLOGY CO., LTD.

Statement of manufactruing overhead

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

| <u>Item</u> | <u>Amount</u> |
|-----------------------------------|--------------------------|
| Indirect labor | \$ 24,497 |
| Depreciation expense | 29,878 |
| Repair expense | 20,112 |
| Manufacturing overhead-outsourced | 164,862 |
| Other expense (note) | <u>34,801</u> |
| | <u><u>\$ 274,150</u></u> |

(Note) The amount of the accounts included did not exceed 5% of the balance of other expense.

Statement of operating expenses

| <u>Item</u> | <u>Selling expense</u> | <u>General and administrative expense</u> | <u>Research and development expense</u> | <u>Total</u> |
|---------------------------|----------------------------|---|---|----------------------|
| Salary expense | \$ 3,465 | 26,057 | 5,985 | 35,507 |
| Depreciation expense | 91 | 2,235 | 524 | 2,850 |
| Inspection fees | 11,567 | - | - | 11,567 |
| Professinoal service fees | - | 6,537 | 3 | 6,540 |
| Other expense (note) | <u>5,425</u> | <u>23,627</u> | <u>5,588</u> | <u>34,640</u> |
| Total | <u><u>\$ 20,548</u></u> | <u><u>58,456</u></u> | <u><u>12,100</u></u> | <u><u>91,104</u></u> |

(Note) The amount of the accounts included did not exceed 5% of the balance of other expense.