# Luhai Holding Corp. and Subsidiaries

Consolidated Financial Statements for the Years Ended
December 31, 2020 and 2019 and Independent Auditors' Report

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# Independent Auditors' Report

The Board of Directors and Shareholders
LUHAI HOLDING CORPORATION

## Opinion

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

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

## Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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## Key Audit Matters

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

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2020 are stated as follows:

1. Transactions relating to relocation

   Refer to Note 6(14) ,Luhai Rubber Metal Industrial (Kunshan) Co., Ltd., a subsidiary of Luhai Holding Corp., signed a relocation agreement with the local government for the need of local railway construction. Per the agreement, Luhai Rubber Metal Industrial (Kunshan) Co., Ltd. shall deliver the immovable items including the land use right, buildings, and other immovable equipment by specified deadlines and will receive compensation income paid in installments. Luhai Rubber Metal Industrial (Kunshan) Co., Ltd. has delivered the immovable items and has received all the compensation income, the compensation of the second stage of relocation recognized in deferred income, the other compensation income less relocation expense recognized in profit or loss. Because the impact of the transactions on the Group's consolidated financial statements is significant and the terms and conditions of the agreement are complicated, subject to judgements, the transactions have been identified as a key audit matter.

   Our key audit procedures included obtaining the relocation agreement signed with the local government and reviewing the content of the agreement to gain an understanding of the rights and obligations that Luhai Rubber Metal Industrial (Kunshan) Co., Ltd. has obtained from the relocation compensation, examining relevant meeting minutes of the Board of Directors and checking the consistency with the information provided by the Group's management, sampling the documents and records of compensation revenue and relocation expenses to check the consistency with the terms and conditions of the agreement, reviewing the immovable items derecognized with delivered documents, checking the calculation of relocation income recognized and examining the accounting treatments for the transactions and evaluating the appropriateness of those treatments.

2. Credit risk for notes receivable and accounts receivable

As of December 31, 2020, notes and accounts receivable of the Group accounted for 17% of the total assets. Since expected credit loss of notes and accounts receivable is estimated based on receivables that are past due and the relating loss ratio plus forward-looking adjustments, which are subject to the management's judgement. Therefore, the credit risk for notes and accounts receivable has been identified as a key audit matter.

Our key audit procedures included assessing the policies and execution relating to expected credit loss of notes and accounts receivable; asking the management whether there are any debtors with financial difficulties; obtaining aging analysis schedules of notes and accounts receivable and selecting samples for confirmation and assessing the accuracy of the aging interval of each receivable; checking whether provision of loss allowance is based on the provision matrix and forward-looking adjustments, and confirming the notes and accounts receivable by issuing notifications, as well as subsequent collections to verify the reasonableness of expected credit loss recognized, and assessing whether the disclosures regarding impairment of notes and accounts receivable are appropriate.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 the consolidated financial statements.

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

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

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the

consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 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 Ming Shou, Lin and Chao Pin, Shao.

Crowe TW CPAs

Crowe (TW) CPAs
The Republic of China

March 12, 2021

***Notice to Readers***

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

*For the convenience of readers, the independent auditor's report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditor's report and consolidated financial statements shall prevail.*

## LUHAI HOLDING CORP. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars)**

| | NOTES | December 31,2020 Amount | % | December 31,2019 Amount | % |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 5,6(1) | $ 789,600 | 17 | $ 1,122,302 | 27 |
| Financial assets at fair value through profit or loss - current | 5,6(2) | 418,388 | 9 | 202,684 | 5 |
| Financial assets at fair value through other comprehensive income - current | 5,6(3) | 16,554 | - | - | - |
| Financial assets at amortized cost-current | 5,6(4) | - | - | 86,105 | 2 |
| Notes receivable, net | 5,6(5) | 76,973 | 2 | 46,999 | 1 |
| Accounts receivable, net | 5,6(6) | 720,552 | 15 | 587,682 | 14 |
| Other receivables | | 13,597 | - | 10,750 | - |
| Income tax assets | | - | - | 4,643 | - |
| Inventories, net | 5,6(7) | 674,065 | 14 | 615,928 | 15 |
| Prepaid expenses | | 55,501 | 1 | 54,909 | 1 |
| Other current assets | | 598 | - | 530 | - |
| Total current assets | | 2,765,828 | 58 | 2,732,532 | 65 |
| NONCURRENT ASSETS | | | | | |
| Financial assets at fair value through other comprehensive income - noncurrent | 6(3) | 1,267 | - | 1,558 | - |
| Property, plant and equipment | 5,6(8) | 1,631,999 | 35 | 1,148,538 | 28 |
| Right-of-use assets | 5,6(9) | 198,398 | 4 | 197,862 | 5 |
| Intangible assets | 5,6(10) | 13,737 | - | 6,956 | - |
| Deferred income tax assets | 5,6(28) | 22,212 | 1 | 26,262 | 1 |
| Other noncurrent assets | 6(11) | 91,694 | 2 | 32,948 | 1 |
| Total noncurrent assets | | 1,959,307 | 42 | 1,414,124 | 35 |
| TOTAL ASSETS | | $ 4,725,135 | 100 | $ 4,146,656 | 100 |
| LIABILITIES AND EQUITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Short-term loans | 6(12) | $ 85,440 | 2 | $ - | - |
| Contract liabilities - current | 6(22) | 3,500 | - | 477 | - |
| Accounts payable | | 325,376 | 7 | 264,374 | 6 |
| Other payables | 6(13) | 296,568 | 6 | 219,317 | 5 |
| Income tax liabilities | | 49,811 | 1 | 22,942 | 1 |
| Current lease liabilities | 5,6(9) | 18,448 | - | 4,376 | - |
| Advanced receipts | | 154 | - | 2,626 | - |
| Deferred income | 5,6(14) | - | - | 619,044 | 15 |
| Long-term loan due within a year | 6(15) | 130,755 | 3 | 207,419 | 5 |
| Other current liabilities | 6(17) | 5,059 | - | 5,392 | - |
| Total current liabilities | | 915,111 | 19 | 1,345,967 | 32 |
| NONCURRENT LIABILITIES | | | | | |
| Long-term loans | 6(15) | 794,664 | 17 | 471,313 | 11 |
| Deferred income tax liabilities | 6(28) | 133,646 | 3 | 19,336 | 1 |
| Noncurrent lease liabilities | 5,6(9) | 18,899 | - | 9,345 | - |
| Deferred income - noncurrent | 5,6(14) | 143,392 | 3 | - | - |
| Total noncurrent liabilities | | 1,090,601 | 23 | 499,994 | 12 |
| Total liabilities | | 2,005,712 | 42 | 1,845,961 | 44 |
| EQUITY ATTRIBUTABLE TO OWNERS OF PARENT | | | | | |
| Capital stocks | 6(18) | 903,664 | 19 | 860,632 | 21 |
| Capital surplus | 6(19) | 443,701 | 9 | 443,701 | 11 |
| Retained earnings | 6(20) | | | | |
| Legal reserve | | 184,773 | 4 | 160,582 | 4 |
| Special reserve | | 369,530 | 8 | 282,676 | 7 |
| Unappropriated retained earnings | | 1,173,977 | 25 | 922,634 | 22 |
| Other equities | 6(21) | (356,222) | (7) | (369,530) | (9) |
| Equity attributable to owners of parent | | 2,719,423 | 58 | 2,300,695 | 56 |
| Total equity | | 2,719,423 | 58 | 2,300,695 | 56 |
| TOTAL LIABILITIES AND EQUITIES | | $ 4,725,135 | 100 | $ 4,146,656 | 100 |

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

## LUHAI HOLDING CORP. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | NOTES | 2020 Amount | | 2020 % | 2019 Amount | | 2019 % |
|---|---|---|---|---|---|---|---|
| NET REVENUE | 6(22) | $ | 2,602,257 | 100 | $ | 2,716,889 | 100 |
| COST OF REVENUE | 6(7,23) | | (1,975,622) | (76) | | (2,101,831) | (77) |
| GROSS PROFIT | | | 626,635 | 24 | | 615,058 | 23 |
| OPERATING EXPENSES | 6(23),7 | | | | | | |
| Marketing expenses | | | (87,341) | (3) | | (101,729) | (4) |
| General and administrative expenses | | | (184,245) | (7) | | (182,235) | (6) |
| Research and development expenses | | | (26,063) | (1) | | (29,410) | (1) |
| Expected credit (loss) reversal | | | (951) | - | | 10,951 | - |
| Total operating expenses | | | (298,600) | (11) | | (302,423) | (11) |
| OPERATING INCOME | | | 328,035 | 13 | | 312,635 | 12 |
| NONOPERATING INCOME AND EXPENSES | | | | | | | |
| Interest income | 6(24) | | 8,859 | - | | 14,906 | 1 |
| Other income | 6(25) | | 31,250 | 1 | | 13,462 | - |
| Other gains and losses | 6(14,26) | | 470,390 | 18 | | 17,829 | 1 |
| Financial costs | 6(27) | | (8,745) | - | | (12,994) | (1) |
| Total nonoperating income and expenses | | | 501,754 | 19 | | 33,203 | 1 |
| INCOME BEFORE INCOME TAX | | | 829,789 | 32 | | 345,838 | 13 |
| INCOME TAX EXPENSE | 6(28) | | (235,030) | (9) | | (103,928) | (4) |
| NET INCOME (LOSS) | | | 594,759 | 23 | | 241,910 | 9 |
| OTHER COMPREHENSIVE INCOME (LOSS) | 6(29) | | | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | | | | |
| Unrealized profit (loss) from equity instrument at fair value through other comprehensive income | | | (304) | - | | 688 | - |
| Income tax benefit (expense) related to items that will not be reclassified subsequently | 6(28) | | - | - | | - | - |
| Items that may be reclassified subsequently to profit or loss: | | | | | | | |
| Exchange differences arising on translation of foreign operations | | | 13,794 | 1 | | (87,542) | (3) |
| Unrealized profit (loss) from in debt instruments at fair value through other comprehensive income | | | (228) | - | | - | - |
| Income tax benefit (expense) related to items that may be reclassified subsequently | 6(28) | | 46 | - | | - | - |
| Other comprehensive income (loss) for the year, net of income tax | | | 13,308 | 1 | | (86,854) | (3) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | $ | 608,067 | 24 | $ | 155,056 | 6 |
| NET INCOME ATTRIBUTTABLE TO: | | | | | | | |
| Shareholders of the parnet | | $ | 594,759 | 23 | $ | 241,910 | 9 |
| TOTAL COMPREHENSIVE INCOME ATTIRBUTABLE TO: | | | | | | | |
| Shareholders of the parnet | | $ | 608,067 | 24 | $ | 155,056 | 6 |
| EARNINGS PER SHARE(NT$): | 6(30) | | | | | | |
| Basic earnings per share | | $ | 6.58 | | $ | 2.68 | |
| Diluted earnings per share | | $ | 6.56 | | $ | 2.67 | |

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

**LUHAI HOLDING CORP. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars, Except Dividends Per Share)**

| | Equity Attributable to Shareholders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Retained Earnings | | | Other Equities | | |
| | Capital Stocks | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Retained Earnings | Exchange Differences Arising on Translation of Foreign Operations | Unrealized Profit (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income | Total |
| BALANCE, JANUARY 1, 2019 | $ 819,650 | $ 443,701 | $ 139,736 | $ 228,579 | $ 878,614 | $ (282,714) | $ 38 | $ 2,227,604 |
| Appropriations of earnings | | | | | | | | |
| Legal reserve | - | - | 20,846 | - | (20,846) | - | - | - |
| Special reserve | - | - | - | 54,097 | (54,097) | - | - | - |
| Cash dividends to shareholders - NT$1.00 per share | - | - | - | - | (81,965) | - | - | (81,965) |
| Stock dividends to shareholders - NT$0.50 per share | 40,982 | - | - | - | (40,982) | - | - | - |
| Net income in 2019 | - | - | - | - | 241,910 | - | - | 241,910 |
| Other comprehensive income (loss) in 2019, net of tax | - | - | - | - | - | (87,542) | 688 | (86,854) |
| BALANCE, DECEMBER 31, 2019 | 860,632 | 443,701 | 160,582 | 282,676 | 922,634 | (370,256) | 726 | 2,300,695 |
| Appropriations of earnings | | | | | | | | |
| Legal reserve | - | - | 24,191 | - | (24,191) | - | - | - |
| Special reserve | - | - | - | 86,854 | (86,854) | - | - | - |
| Cash dividends to shareholders - NT$2.20 per share | - | - | - | - | (189,339) | - | - | (189,339) |
| Stock dividends to shareholders - NT$0.50 per share | 43,032 | - | - | - | (43,032) | - | - | - |
| Net income in 2020 | - | - | - | - | 594,759 | - | - | 594,759 |
| Other comprehensive income (loss) in 2020, net of tax | - | - | - | - | - | 13,794 | (486) | 13,308 |
| BALANCE, DECEMBER 31, 2020 | $ 903,664 | $ 443,701 | $ 184,773 | $ 369,530 | $ 1,173,977 | $ (356,462) | $ 240 | $ 2,719,423 |

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

(Concluded)

**LUHAI HOLDING CORP. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR YEARS ENDED DECEMBER 31, 2020 AND 2019**
**(In Thousands of New Taiwan Dollars)**

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 829,789 | $ 345,838 |
| Adjustments for: | | |
| Adjustments to reconcile profit (loss) | | |
| Depreciation | 121,465 | 111,077 |
| Amortization | 2,664 | 2,027 |
| Expected credit loss (reversal) | 951 | (10,951) |
| Gains on financial assets at fair value through profit or loss | (14,094) | (1,906) |
| Interest expense | 8,745 | 12,994 |
| Interest income | (8,859) | (14,906) |
| Dividend income | (122) | (85) |
| Losses from disposal of subsidiaries | 1,273 | - |
| Losses (Gains) on disposal of property, plant and equipment | 2,783 | 2,617 |
| Impairment loss of property, plant and equipment | 5,803 | 5,288 |
| Net profit on relocaion compensation | (475,587) | - |
| Net changes in operating assets and liabilities | | |
| Notes receivable | (29,901) | 18,551 |
| Accounts receivable | (131,768) | 6,032 |
| Other receivables | (3,028) | (3,425) |
| Inventories | (61,078) | (67,015) |
| Prepaid expenses | (6,008) | (15,907) |
| Other current assets | (94) | (8) |
| Conrtract liabilities | 3,020 | (3,236) |
| Accounts payable | 57,722 | (19,970) |
| Other payables | 45,105 | 16,707 |
| Other current liabilities | 190 | (368) |
| Net defined benefit liability | - | (5,134) |
| Cash generated from operations | 348,971 | 378,220 |
| Interest received | 9,185 | 16,913 |
| Dividend received | 122 | 85 |
| Interest paid | (8,391) | (12,623) |
| Income taxes paid | (86,357) | (99,154) |
| Net cash provided by operating activities | 263,530 | 283,441 |

(Continued)

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets at fair value through profit or loss | $ (1,192,080) | $ (312,976) |
| Proceeds from disposal of financial assets at fair value through profit or loss | 996,495 | 149,302 |
| Acquisition of financial assets at fair value through other comprehensive income | (16,782) | - |
| Acquisition of financial assets at amortized cost | - | (849,507) |
| Proceeds from disposal of financial assets at amortized cost | 85,607 | 974,697 |
| Acquisition of property, plant and equipment | (547,301) | (449,819) |
| Proceeds from disposal of Property, plant and equipment | 890 | 10,713 |
| Increase in advanced receipts | - | 2,727 |
| Acquisition of intangible assets | (4,691) | (1,779) |
| Increase in prepaid equipment | (115,527) | (71,851) |
| Prepaid of land use right | (5,008) | - |
| Refundable deposits (paid) refunded | (10,063) | 24,455 |
| Increase in other noncurrent assets | (238) | (4,353) |
| Proceeds from relocation compensation | 158,483 | 662,180 |
| Payments of relocation expenses | (80,495) | (12,540) |
| Net cash provided by (used in) investing activities | (730,710) | 121,249 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | 83,970 | (30,226) |
| Increase in guarantee deposits received | (428) | 5,365 |
| Proceeds from long-term debt | 589,109 | 306,715 |
| Repayment of long-term debt | (348,208) | (257,109) |
| Cash dividends paid | (189,339) | (81,965) |
| Repayments of the principal portion of lease liabilities | (10,064) | (4,558) |
| Net cash used in financing activities | 125,040 | (61,778) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 9,438 | (44,831) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (332,702) | 298,081 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,122,302 | 824,221 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 789,600 | $ 1,122,302 |

The accompanying notes are an integral part of the consolidated financial statement (Concluded)

**(Expressed in Thousands of New Taiwan Dollars, Except Stated Otherwise)**

## 1. GENERAL INFORMATION

Luhai Holding Corp. (the "Company") was incorporated in the Cayman Islands in October 19, 2009. The main purpose of establishment, which resulted from organizational restructuring, was to apply for emerging stock registration on the Taiwan Stock Exchange ("TWSE"). The Company had established a Taiwan branch in consideration of the Group's business operation and development. The Company and its subsidiaries (collectively referred herein as the "Group") mainly engage in the production and sale of tire valves and accessories. The Company's shares have been listed on the TWSE since December 25, 2013. The principal operating activities of the subsidiaries are described in Note 4(3) B.

## 2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on March 12, 2021.

## 3. APPLICATION OF NEW, AMENDED STANDARDS AND INTERPRETATIONS

1. **Effect of the adoption of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)：**

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

| New Standards, Interpretations and Amendments | Effective Date Issued by IASB |
|---|---|
| Amendments to IFRS 3 "Definition of a business" | January 1,2020 |
| Amendments to IAS 1 and IAS 8 "Definition of Material" | January 1,2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform" | January 1, 2020 |
| Amendment to IFRS 16 "Covid-19-related rent concessions" | June 1,2020 (Note) |

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

Except for the following, whenever applied, the initial application of the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

1.Amendments to IAS 1 and IAS 8 "Definition of Material"

The main amendment is to clarify new definition of material. It states that "'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The Group adopted the amendments starting from January 1, 2020. The threshold of materiality that could influence users has been changed to "could reasonably be expected to influence". Accordingly, disclosures in the consolidated financial statements do not include immaterial information that may obscure material information.

2.Amendment to IFRS 16 "Covid-19-related rent concessions"

The Group applied the amendment from January 1, 2020. The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4(10). Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020. Before the application of the amendment, the Group shall determine whether the abovementioned rent concessions shall be accounted for as lease modifications.

**2. Effect of the new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group:**

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

| New Standards, Interpretations and Amendments | Effective Date Issued by IASB |
|---|---|
| Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9" | June 25, 2020（Effective immediately upon promulgation by the IASB） |
| Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform—Phase 2" | January 1, 2021 (Note) |

Note:The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2021.

Except for the following, whenever applied, the initial application of the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

1.Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform—Phase 2"

Interest Rate Benchmark Reform—Phase 2 amends several standards. Among which, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 provide a practical expedient for contract modifications resulting from interest rate benchmark reform. If a change in the basis for determining the contractual cash flows of a financial asset, financial liability, or lease modification is required by and is a direct consequence of interest rate benchmark reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis, then the Group shall account for such contract modifications as a change in the effective interest rate. The amendments to IFRS 9 and IAS 39 also provide additional temporary exceptions for hedging relationship affected by interest rate benchmark reform.

3. **The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC:**

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

| New Standards, Interpretations and Amendments | Effective Date Issued by IASB (Note 1) |
|---|---|
| Amendments to IFRS 10 and IAS 28 "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture" | To be determined by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendments to IFRS 17 | January 1, 2023 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2023 |
| Amendments to IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use" | January 1, 2022 (Note 2) |
| Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" | January 1, 2022 (Note 3) |
| Amendments to IFRS 3 "Reference to the conceptual framework" | January 1, 2022 (Note 4) |
| Annual improvements to IFRS Standards 2018-2020 | January 1, 2022 (Note 5) |
| Amendments to IAS 1 "Disclosure of Accounting Policies" | January 1, 2023 |
| Amendments to IAS 8 "Definition of Accounting Estimates" | January 1, 2023 |

Note 1: Unless stated otherwise, the above new, amended and revised standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

Note 2: An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented, January 1, 2021, in the financial statements in which the entity first applies the amendments.

Note 3: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 4: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 5: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

1.Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. If the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date. For the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group's own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group's own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

2.Amendments to IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use"

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of those items is measured in accordance with IAS 2 "Inventories". Any proceeds from selling those items and the cost of those items are recognized in profit or loss in accordance with applicable standards.

Those amendments apply only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented, January 1, 2021. in the financial statements in which the entity first applies the amendments. At the initial application of those amendments, the Group shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented and restate the comparative information for the earlier period presented.

3.Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract"

The amendments specify that when assessing whether a contract is onerous, the "cost of fulfilling a contract" includes both the incremental costs of fulfilling that contract (for example, direct labor and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of depreciation for an item of property, plant and equipment used in fulfilling the contract).

The Group will recognize the cumulative effect of the initial application of the aforementioned amendments in the retained earnings at the date of the initial application.

4.Amendments to IFRS 3 "Reference to the conceptual framework"

The amendments replace the references to the Conceptual Framework of IFRS 3 and specify that the acquirer shall apply IFRIC 21 “Levies” to determine whether the event that gives rise to a liability for a levy has occurred at the acquisition date.

5.Annual improvements to IFRS Standards 2018-2020

Several standards, including IFRS 9 “Financial Instruments”, were amended in the annual improvements to IFRS Standards 2018-2020. IFRS 9 requires to compare the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, with that of the cash flows under the original financial liability when there is an exchange or modification of debt instruments. The new terms and the original terms are substantially different if the difference between those discounted present values is at least 10 per cent. The amendments to IFRS 9 clarify that the only fees that should be included in the above assessment are those fees paid or received between the borrower and the lender.

6.Amendments to IAS 1 “Disclosure of Accounting Policies”

The amendments improve accounting policy disclosures that to provide more useful information to primary users of the financial statements.

7.Amendments to IAS 8 “Definition of Accounting Estimates”

These Amendments define accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty and provide further explanations and examples to help entities distinguish changes in accounting policies from changes in accounting estimates.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of above standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (1) Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the Regulation Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs as endorsed by the FSC.

### (2) Basis of Preparation

**A.** The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

**B.** The preparation of consolidated financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

**(3) Basis of consolidation**

**A.** Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings as appropriate, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

**B.** Subsidiaries included in the consolidated financial statements:

| | | | Percentage of ownership | |
|---|---|---|---|---|
| Name of investor | Name of subsidiary | Main business activities | December 31, 2020 | December 31, 2019 |
| The Company | LU HAI（BVI） | Investing activities | 100.00% | 100.00% |

| Name of investor | Name of subsidiary | Main business activities | Percentage of ownership December 31, 2020 | Percentage of ownership December 31, 2019 |
|---|---|---|---|---|
| | INDUSTRIAL CORP. (LU HAI BVI) | | | |
| The Company | YUANHUI INTERNATIONAL CO., LTD. (YUANHUI) | Investing activities | 100.00% | 100.00% |
| The Company | ALLPRO INTERNATIONAL CORP. (ALLPRO) | Investing activities | 100.00% | 100.00% |
| The Company | LU HAI INDUSTRIAL CORP. (LU HAI IND.) | Leasing and selling various kinds of valves and accessories | 100.00% | 100.00% |
| The Company | MEGA POWER CO., LTD. (MEGA) | Selling activities | Note 1 | 100.00% |
| The Company | PT.LUHAI INDUSTRIAL (PT.LUHAI) | Manufacturing and selling various kinds of valves and accessories | 85.00% | 85.00% |
| YUANHUI | LUHAI RUBBER METAL INDUSTRIAL (KUNSHAN) CO., LTD. (LUHAI KUNSHAN) | Manufacturing and selling various kinds of valves and accessories | 100.00% | 100.00% |
| LU HAI BVI | XIAMEN XIAHUI RUBBER METAL IND. CO., LTD. (XIAHUI) | Manufacturing and selling various kinds of valves and accessories | 57.14% | 57.14% |
| ALLPRO | XIAHUI | Manufacturing and selling various kinds of valves and accessories | 42.86% | 42.86% |
| LU HAI IND. | PT.LUHAI | Manufacturing and selling various kinds of valves and accessories | 15.00% | 15.00% |

Note 1:MEGA will has no operating activities under the group's business plan. On August 7,2020, the Group board of Directors resolved to close MEGA's operations, and completed the procedures in October 28,2020.

The financial statements of the subsidiaries included in the consolidated financial statements for the years ended December 31, 2020 and 2019 are audited by certified public accountants.

**C.** The subsidiaries that were not included in the consolidated financial statements: None.

**(4) Foreign Currencies**

**A.** Items included in the financial statements of each of the Group's entities were expressed in the currency which reflected its primary economic environment (functional currency). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional currency.

**B.** In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences are recognized in profit or loss for the period. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income is retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are measured using the historical exchange rates at the dates of the initial transactions.

**C.** For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into NTD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

**(5) Classification of Current and Noncurrent Items**

**A.** Assets that meet one of the following criteria are classified as current assets:

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the end of reporting period.

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the end of reporting period.

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

**B.** Liabilities that meet one of the following criteria are classified as current liabilities:

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the end of reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

**(6) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(7) Financial instruments**

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**A.** Financial assets

A regular way purchase or sale of financial assets shall be recognized and derecognized using trade date accounting.

(a) Measurement category

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, financial assets at amortized cost, debt investments measured at fair value through other comprehensive income and equity instruments at fair value through other comprehensive income.

i. Financial assets at fair value through profit or loss

Financial assets at FVTPL includes financial assets mandatorily classified as at FVTPL and financial assets designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments that are not designated as at fair value through other comprehensive income (FVOCI) and debt instruments that do not meet the amortized cost criteria or the FVOCI criteria.

Financial assets of the Group were designated as at fair value through profit or loss on initial recognition when they meet either of the following criteria:

(a)being a hybrid contract; or

(b)eliminating or significantly reducing a measurement or recognition inconsistency;

(c)being managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 12.

ii. Financial assets at amortized cost

Financial assets that meet the following 2 conditions are subsequently measured at amortized cost:

(i.) The financial asset is held within a business model whose objective is collecting contractual cash flows; and

(ii.) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost which equals gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

iii. Debt investments measured at fair value through other comprehensive income

Debt instruments that meet both of the following conditions are measured at FVTOCI:

(i.) The debt instrument is held within a business model whose objective is achieved by both collecting of contractual cash flows and selling of such financial assets; and

(ii.) The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt investments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt investments relating to interest income calculated using the effective interest method, changes in foreign currency exchange rates, and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt investments are recognized in other comprehensive income and will be reclassified to profit or loss when such investment is disposed of.

iv. Investments in equity instruments at fair value through other comprehensive income

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments, which are not held for trading or not contingent consideration recognized by an acquirer in a business combination, as at FVTOCI.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

(b) Impairment of financial assets

At the end of each reporting period, an impairment of expected credit loss is recognized for financial assets at amortized cost (including accounts receivable), investment of debt instruments at fair value through other comprehensive income, lease receivable and contract assets.

The Group always recognizes lifetime expected credit loss for trade receivables, contract receivables and lease receivables. For all other financial instruments, the Group recognizes lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk of the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit loss.

Expected credit losses reflect the weighted average credit losses with the respective risks of a default occurring as the weights. Lifetime expected credit loss represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month expected credit loss represents the portion of lifetime expected credit loss that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such financial asset.

(c) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

i. The contractual rights to receive cash flows from the financial asset expire.

ii. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

iii. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset.

On derecognition of a financial asset at amortized cost in its entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in debt instrument at fair value through other comprehensive income, the difference between the asset's carrying amount and the sum of the consideration received and receivable as well as the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at fair value through other comprehensive income, the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without reclassifying to profit or loss.

**B.** Financial liabilities and equity instruments

(a) Classification of financial liabilities and equity instruments

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

(b) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

(c) Financial liabilities

Except for the following circumstances, all financial liabilities are measure at amortized cost under effective interest method:

i. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or designated as financial liabilities at fair value through profit or loss on initial recognition. Financial liabilities are classified as held for trading if the principal purpose of acquisition is repurchasing in the short term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.

ii. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(d) Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

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

**(8) Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

**(9) Property, plant and equipment**

**A.** Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

**B.** Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

**C.** Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each end of reporting year. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 5~35 years |
| Machinery | 3~20 years |
| Other equipment | 2~20 years |

**D.** An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**(10) Leases**

The Group assesses whether the contract is (or includes) a lease at the date of the contract.

The Group as lessee

Except for payments for low-value asset leases and short-term leases which are recognized as expenses on a straight-line basis, the Group recognized right-of-use assets and lease liabilities for all leases at the commencement date of lease.

Right-of-use assets are measured at cost. The cost of right-of-use assets comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus an estimate of costs needed to restore the underlying assets. Subsequent measurement is calculated as cost less accumulated depreciation and accumulated impairment loss and adjusted for changes in lease liabilities as a result of lease term modification or other related factors. Right-of-use assets are presented separately in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are measured at the present value of the lease payments. If the implied interest rate on the lease is easy to determine, the lease payment is discounted using that interest rate. If the interest rate is not easy to determine, the lessee's increase borrowing rate is used.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use assets. If the carrying amount has been reduced to zero, the remaining amount will recognize in the profit and loss. Lease liabilities are presented separately in consolidated balance sheets.

The Group negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the reduction in lease payment. There is no substantive change to other terms and conditions. The Group elects to apply the practical expedient to rent concessions for the abovementioned lease contracts, and therefore, does not assess whether the rent concessions are lease modifications. Instead, the Group recognizes the reduction in lease payment in profit or loss presented in other income in the period in which the events or conditions that trigger the concession occurs, and makes a corresponding adjustment to the lease liability.

**(11) Intangible Assets**

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis over the following estimated lives: 3 to 10 years for computer software; trademarks and patents based on the economic benefit or contract period. The estimated useful life and amortization method are reviewed at each end of reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

An item of intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

**(12) Impairment of non-financial assets**

The Group assesses at the end of reporting period the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

**(13) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date. The discount rate shall be a pre-tax rate that reflect(s) current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as interest expense. Provisions are not recognised for future operating losses.

**(14) Employee benefits**

**A.** Short-term employee benefits

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

**B.** Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior period. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the end of the reporting period) instead.

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

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

**C.** Employees’ compensation and directors’ and supervisors’ remuneration

Employees’ compensation and directors’ and supervisors’ remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees’ compensation and directors’ and supervisors’ remuneration are different from the actual distributed amounts as resolved by board of directors meeting subsequently, the differences should be recognized based on the accounting for changes in estimates.

**D.** Termination benefits

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

**(15) Capital stock**

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of stock or options are deducted from the capital issued.

**(16) Income tax**

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

**B.** The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the financial reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense when the actual appropriation of earnings is resolved by the shareholders meeting held in the next year.

**C.** Deferred income tax is recognized, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

**D.** Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences, deductible loss, and unused tax credit can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

**E.** Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

**(17) Revenue recognition**

When applying IFRS 15, the Group shall recognize revenue by applying the following steps:

**A.** Identify the contract with the customer;

**B.** Identify the performance obligations in the contract;

**C.** Determine the transaction price;

**D.** Allocate the transaction price to the performance obligations in the contract; and

**E.** Recognize revenue when the entity satisfies a performance obligation.

The Group identifies performance obligations in a contract with the customer, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

For contracts where the period between the date the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is within one year, the Group does not adjust the consideration for the effects of a significant financing component.

**A.** Sale of goods

The Group sells various valve and accessory products. Sales are recognized when control of the products has been transferred to the customers since the customers obtain the rights to list price, use the products and assure the obligation to resale them as well as to bear the risk of obsolescence. The Group recognizes revenue and accounts receivable on transferring the control of the products. Revenue is presented net of sales return, quantity discounts and sales allowance.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control of materials.

**B.** Service income

Service income is recognized when services are provided.

**(18) Government grants**

Government grants are recognized at fair value when the Group will comply with the conditions attached to them and will receive the grants. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using to straight-line method.

**(19) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The Group considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

The preparation of the Group's consolidated financial statements is adopting accounting policies based on the following significant judgements, significant accounting estimates and assumptions:

**(1) Key judgments for accounting policy application**

**A.** Business model assessment for financial assets

The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance, and how the managers are compensated. The Group continuously assesses whether the business model for the remaining financial assets held continues to be appropriate and monitors financial assets at amortized cost or at fair value through other comprehensive income. When assets are derecognized prior to their maturity, the Group analyzes the reasons for their disposal and assesses whether the reasons are consistent with the objective of the business model. If there has been a change in the business model, the Group adjusts the classifications of financial assets obtained afterwards.

**B.** Lease terms

In determining the lease term, the Group considers all the facts and circumstances that create an economic incentive to exercise (or not exercise) the option, including all expected change in facts and circumstances from the commencement date until the exercise date of the option. Factors considered include the contractual terms and conditions for the optional period, the significant leasehold improvements made (or expected) during the contract period, and the importance of the underlying assets to the Group's operations, etc. The lease term is reassessed if a significant change in circumstance that are within the control of the Group occurs.

**(2) Key accounting estimates and assumptions**

**A.** Estimated impairment of financial assets

The provision for impairment of trade receivables and investments in debt instruments is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment assessment based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash flows are less than expected, a material impairment loss may arise.

**B.** Impairment of Tangible and Intangible Assets

In the process of evaluating the potential impairment of tangible and intangible assets, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the way assets are used and nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future years.

**C.** Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Group's subjective judgment and estimate, including the future revenue growth and profitability, tax holidays, the amount of tax credits can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

**D.** Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date based on judgments and estimates. The Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. The net realizable value of inventory is mainly determined based on assumptions of future demand within a specific period, the assumptions might change in the future and may result in significant differences in its realizable value.

**E.** Lessee's incremental borrowing rates

In determining a lessee's incremental borrowing rate used in discounting lease payment, the risk-free interest rate of the same currency and period is used as the reference rate, and the estimated lessee's credit risk spread and lease specific adjustment (such as asset status and secured factors) are taken into account.

**F.** Deferred income

The compensation from relocation received according to the agreement and the expense spend related to the relocation is recognized as deferred income. Since identificating of the immovable items including land use right, buildings and some equipment, the related relocation expenses, and determining the time of the compensation recognized in profit or loss or deffered income from relocation involve estimates and judgement, any changes in economic environment and relevant laws and regulations may lead to significant adjustments in deferred income.

## 6. CONTENTS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

| | December 31 | |
|---|---|---|
| Item | 2020 | 2019 |
| Cash on hand | $ 308 | $ 657 |
| Checking accounts and demand deposits | 582,015 | 352,425 |
| Time deposits | 207,277 | 769,220 |
| Total | $ 789,600 | $ 1,122,302 |

**A.** The Group has no cash and cash equivalents pledged to others.

**B.** Please refer to Note 12 for relating credit risk management and assessment.

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

| | December 31 | |
|---|---|---|
| Item | 2020 | 2019 |
| Mandatorily measured at FVTPL | | |
| Nonderivative financial assets | | |
| Financial instruments with guaranteed principle and floating yield | $ 418,388 | $ 202,684 |

The Group has no financial assets at fair value through profit or loss pledged to others.

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

| Item | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| Current | | | | |
| Debt instruments | | | | |
| Foreign corporate bonds | $ | 16,554 | $ | - |
| Noncurrent | | | | |
| Equity instruments | | | | |
| Foreign unlisted stocks | $ | 1,267 | $ | 1,558 |

A. The foreign corporate bond of The Group held for collecting principal and interests and for selling of such financial assets are measure at fair value through other comprehensive income.

B. These investments in equity instruments are held for medium-to-long term strategic purposes and were thus classified as financial assets at fair value through other comprehensive income.

C. The Group has no financial assets at fair value through other comprehensive income pledged to others.

**(4) Financial assets at amortized cost - current**

| Item | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| Financial instruments with guaranteed principle and defined yield | $ | - | $ | 86,105 |

**A.** The Group has no financial assets at amortized cost pledged to others.

**B.** Please refer to Note 12 for relating credit risk management and assessment.

**(5) Notes receivable, net**

| Item | December 31 2019 | | December 31 2019 | |
|---|---|---|---|---|
| **At amortized cost** | | | | |
| Notes receivable | $ | 79,363 | $ | 48,383 |
| Less: Loss allowance | | (2,390) | | (1,384) |
| Notes receivable, net | $ | 76,973 | $ | 46,999 |

**A.** The Group has no notes receivable pledged to others.

**B.** As of December 31, 2020 and 2019, notes receivable being accepted by banks were $55,707 thousand and $31,384 thousand, respectively.

**C.** Please refer to Note 6(6) for the information on loss allowance for notes receivable.

**(6) Accounts receivable, net**

| Item | December 31 | |
|---|---|---|
| | 2019 | 2019 |
| **At amortized cost** | | |
| Accounts receivable | $ 724,302 | $ 593,001 |
| Less: Loss allowance | (3,750) | (5,319) |
| Accounts receivable, net | $ 720,552 | $ 587,682 |

**A.** The Group has no accounts receivable pledged to others.

**B.** The average credit period of sales of goods ranges from 14 to 120 days, which is determined by reference to the credit granting policy based on the counterparties' industrial characteristics, operation scales and profitability. Where appropriate ask customers to pay in advance, as a means of mitigatingthe risk of financial loss from defaults.

**C.** The Group applies the simplified approach to providing expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base. The Group takes into account the future prospect of market and assess the loss allowance for notes and accounts receivable using loss ratio established based on historical and timely information plus forwarding-looking adjustments.

**D.** The loss allowance for the Group's notes and accounts receivables based on the provision matrix is as follows:

December 31, 2020

| Aging interval | Rate of expected credit loss | Gross carrying amount | Loss allowance (lifetime expected credit loss) | Amortized cost |
|---|---|---|---|---|
| Not past due | 0.18% | $ 769,840 | $ (3,701) | $ 766,139 |
| Past due within 30 days | 3.38% | 31,546 | (1,066) | 30,480 |
| Past due 31-60 days | 6.21% | 824 | (51) | 773 |
| Past due 61-90 days | 11.03% | 6 | (1) | 5 |
| Past due 91-180 days | 24.07% | 168 | (40) | 128 |
| Past due over 181 days | 100% | 1,281 | (1,281) | - |
| Total | | $ 803,665 | $ (6,140) | $ 797,525 |

December 31, 2019

| Aging interval | Rate of expected credit loss | Gross carrying amount | Loss allowance (lifetime expected credit loss) | Amortized cost |
|---|---|---|---|---|
| Not past due | 0.18% | $ 598,961 | $ (2,430) | $ 596,531 |
| Past due within 30 days | 3.38% | 28,373 | (959) | 27,414 |
| Past due 31-60 days | 6.21% | 4,163 | (259) | 3,904 |
| Past due 61-90 days | 11.03% | 5,842 | (644) | 5,198 |
| Past due 91-180 days | 24.07% | 2,152 | (518) | 1,634 |
| Past due over 181 days | 100% | 1,893 | (1,893) | - |
| Total | | $ 641,384 | $ (6,703) | $ 634,681 |

The Group has not held any collateral or other credit enhancement for these notes and accounts receivable.

**E.** Movements of loss allowance for notes and accounts receivable are as follows:

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Balance, January 1 | $ 6,703 | $ 18,347 |
| Provision for impairment | 1,022 | 1,200 |
| Reversal of impairment | (71) | (12,151) |
| Write-offs | (1,419) | (511) |
| Effect of exchange rate changes | (95) | (182) |
| Balance, December 31 | $ 6,140 | $ 6,703 |

The Group has recognized an appropriate amount of loss allowance complying with the Group's policies as of December 31, 2020 and December 31, 2019.

**F.** Please refer to Note 12 for relating credit risk management and assessment.

**(7) Inventories and cost of goods sold**

| Item | December 31 2020 | 2019 |
|---|---|---|
| Merchandise | $ 89,339 | $ 74,335 |
| Finished goods | 81,777 | 84,115 |
| Work in process | 220,620 | 218,908 |
| Raw materials | 155,637 | 136,660 |
| Supplies | 33,233 | 32,118 |
| Inventory in transit | 93,459 | 69,792 |
| Total | $ 674,065 | $ 615,928 |

**A.** The cost of inventories recognized as expense for the period:

| Item | Years Ended December 31 2020 | 2019 |
|---|---|---|
| Unallocated overhead | $ 13,331 | $ 21,158 |
| Loss on decline (gain on reversal) in market value of inventories | 1,641 | (370) |

| Item | Years Ended December 31 2020 | Years Ended December 31 2019 |
|---|---|---|
| Gain on inventory taking | $ (411) | $ (704) |
| Loss on inventory disposed | 610 | 200 |
| Total | $ 15,171 | $ 20,284 |

The reversal in market value of the Group's inventories as for 2019 is mainly due to decline in the amount of slow-moving inventory and increase in the copper price.

**B.** The Group has no inventory pledged to others.

## (8) Property, plant and equipment

| Item | December 31 2020 | December 31 2019 |
|---|---|---|
| Land | $ 7,567 | $ 7,567 |
| Buildings | 265,110 | 327,983 |
| Machinery | 1,019,779 | 1,043,913 |
| Other equipment | 124,751 | 134,657 |
| Equipment to be inspected and construction in progress | 954,596 | 476,727 |
| Total cost | 2,371,803 | 1,990,847 |
| Less: Accumulated depreciation and impairment | (739,804) | (842,309) |
| Property, plant and equipment, net | $ 1,631,999 | $ 1,148,538 |

| | Land | Buildings | Machinery | Other equipment | Equipment to be inspected and construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance, January 1, 2020 | $ 7,567 | $ 327,983 | $ 1,043,913 | $ 134,657 | $ 476,727 | $ 1,990,847 |
| Additions | - | 1,081 | 50,279 | 4,212 | 497,393 | 552,965 |
| Disposals | - | (68,120) | (121,135) | (17,684) | - | (206,939) |
| Reclassification | - | 8,965 | 42,258 | 4,009 | (32,699) | 22,533 |
| Effect of exchange rate difference | - | (4,799) | 4,464 | (443) | 13,175 | 12,397 |
| Balance, December 31, 2020 | $ 7,567 | $ 265,110 | $ 1,019,779 | $ 124,751 | $ 954,596 | $ 2,371,803 |
| Accumulated depreciation and impairment | | | | | | |
| Balance, January 1, 2020 | $ - | $ (180,417) | $ (571,583) | $ (90,309) | $ - | $ (842,309) |
| Depreciation expense | - | (15,217) | (76,130) | (10,287) | - | (101,634) |
| Impairment loss | - | - | (5,803) | - | - | (5,803) |
| Disposal | - | 47,597 | 112,232 | 12,761 | - | 172,590 |
| Reclassification | - | - | 36,504 | 2,383 | - | 38,887 |
| Effect of exchange rate difference | - | 938 | (2,594) | 121 | - | (1,535) |
| Balance, December 31, 2020 | $ - | $ (147,099) | $ (507,374) | $ (85,331) | $ - | $ (739,804) |
| Cost | | | | | | |
| Balance, January 1, 2019 | $ 7,567 | $ 323,247 | $ 978,565 | $ 125,773 | $ 85,538 | $ 1,520,690 |
| Additions | - | 2,642 | 39,448 | 13,830 | 446,165 | 502,085 |
| Disposals | - | - | (38,539) | (9,693) | - | (48,232) |

| | Land | | Buildings | | Machinery | | Other equipment | | Equipment to be inspected and construction in progress | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Reclassification | $ | - | $ | 9,427 | $ | 100,104 | $ | 8,723 | $ | (36,858) | $ | 81,396 |
| Effect of exchange rate difference | | - | | (7,333) | | (35,665) | | (3,976) | | (18,118) | | (65,092) |
| Balance, December 31, 2019 | $ | 7,567 | $ | 327,983 | $ | 1,043,913 | $ | 134,657 | $ | 476,727 | $ | 1,990,847 |
| Accumulated depreciation and impairment | | | | | | | | | | | | |
| Balance, January 1, 2019 | $ | - | $ | (168,539) | $ | (540,298) | $ | (88,580) | $ | - | $ | (797,417) |
| Depreciation expense | | - | | (16,838) | | (74,108) | | (11,757) | | - | | (102,703) |
| Impairment loss | | - | | - | | (5,288) | | - | | - | | (5,288) |
| Disposal | | - | | - | | 27,635 | | 7,267 | | - | | 34,902 |
| Effect of exchange rate difference | | - | | 4,960 | | 20,476 | | 2,761 | | - | | 28,197 |
| Balance, December 31, 2019 | $ | - | $ | (180,417) | $ | (571,583) | $ | (90,309) | $ | - | $ | (842,309) |

**A.** In response to the growth of sales and the planning to expand the plant, the Group engaged China City Investment Construction Group to build plants and an administration building on the land of Jeimei District, Xiamen. The price of the contract and supplementary agreements is RMB 160,231 thousand. The construction began in December, 2018 and is expected to complete in the first half of year 2021.

**B.** The Group has no property, plant and equipment pledged to others.

**C.** Please refer to Note 6(27) for the information on interest capitalization.

**D.** Please refer to Note 6(14) for the relocation of LUHAI KUNSHAN.

## (9) Lease agreement

**A.** Right-of-use assets

| Item | December 31 2020 | | 2019 | |
|---|---|---|---|---|
| Land | $ | 166,088 | $ | 187,307 |
| Buildings | | 59,592 | | 18,618 |
| Total cost | | 225,680 | | 205,925 |
| Less: Accumulated depreciation and impairment | | (27,282) | | (8,063) |
| Right-of-use assets, net | $ | 198,398 | $ | 197,862 |

| | Land | | Buildings | | Total | |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| Balance, January 1, 2020 | $ | 187,307 | $ | 18,618 | $ | 205,925 |
| Additions | | - | | 40,057 | | 40,057 |
| Disposals | | (21,320) | | - | | (21,320) |
| Effect of exchange rate difference | | 101 | | 917 | | 1,018 |
| Balance, December 31, 2020 | $ | 166,088 | $ | 59,592 | $ | 225,680 |
| Accumulated depreciation and impairment | | | | | | |

| | Land | Buildings | Total |
|---|---|---|---|
| Balance, January 1, 2020 | $ (3,926) | $ (4,137) | $ (8,063) |
| Depreciation expense | (3,478) | (16,353) | (19,831) |
| Disposals | 1,035 | - | 1,035 |
| Effect of exchange rate difference | (89) | (334) | (423) |
| Balance, December 31, 2020 | $ (6,458) | $ (20,824) | $ (27,282) |
| Cost | | | |
| Balance, January 1, 2019 | $ - | $ - | $ - |
| Adjustments arising from initial application of IFRS 16 | 193,407 | 19,332 | 212,739 |
| Balance, January 1, 2019 (Adjusted) | 193,407 | 19,332 | 212,739 |
| Effect of exchange rate difference | (6,100) | (714) | (6,814) |
| Balance, December 31, 2019 | $ 187,307 | $ 18,618 | $ 205,925 |
| Accumulated depreciation and impairment | | | |
| Balance, January 1, 2019 | $ - | $ - | $ - |
| Adjustments arising from initial application of IFRS 16 | - | - | - |
| Balance, January 1,2019 (Adjusted) | - | - | - |
| Depreciation expense | (4,077) | (4,297) | (8,374) |
| Effect of exchange rate difference | 151 | 160 | 311 |
| Balance, December 31, 2019 | $ (3,926) | $ (4,137) | $ (8,063) |

The Group has no right-of-use assets pledged to others.

**B.** Lease liabilities

| Item | December 31 2020 | December 31 2019 |
|---|---|---|
| Current lease liabilities | $ 18,448 | $ 4,376 |
| Noncurrent lease liabilities | $ 18,899 | $ 9,345 |

Ranges of discount rates for lease liabilities are as follows:

| Item | December 31 2020 | December 31 2019 |
|---|---|---|
| Buildings | 3.20%~3.65% | 3.65% |

Please refer to Note 6(27) for interest on lease liabilities.

**C.** Material lease-in activities and terms

Right-of-use assets include building leased by XIAHUI, LUHAI KUNSHAN and the land use rights in China and Indonesia owned by XIAHUI, LUHAI KUNSHAN and PT. LUHAI.

XIAHUI leased some buildings with the lease terms from 2018 to 2023. ；LUHAI KUNSHAN leased some buildings with the lease terms from 2020 to 2023. XIAHUI and LUHAI KUNSHAN is not allowed to sublease the buildings to others without the permission of the lessor.

In 2020, because the market economy was seriously affected by the Covid-19 pandemic, XIAHUI and the lessor negotiated the plant lease in August, 2020, and the lessor agreed to unconditionally reduce the rent in February 2020 and provided 50% off for rents for March and April 2020. The rent is deducted when the rent is paid from July to September, 2020. The Group recognizes the aforementioned rent concessions in profit or loss. Please refer to Note 6 (25) for details.

LUHAI KUNSHAN and XIAHUI signed land use right contract with Jiangsu government and Xiamen government with the lease terms of 40 to 50 years. PT. LUHAI obtained the land use right of Serang, Indonesia. The aforementioned land is used to build plants, office buildings and employees’ dormitories.

Please refer to Note 6(14) for the relocation of LUHAI KUNSHAN.

**D.** Other lease information

| Item | Year Ended December 31 2020 | 2019 |
|---|---|---|
| Short-term lease expense | $ 3,751 | $ 1,777 |
| Total cash outflow for leases | $ 13,815 | $ 6,335 |

The Group applied the recognition exemption to short-term leases and low-value asset leases and did not recognized right-of-use assets and lease liabilities for these leases.

## (10) Intangible assets

| Item | December 31 2020 | 2019 |
|---|---|---|
| Software | $ 26,309 | $ 16,754 |
| Trademark | 413 | 408 |
| Patent | 176 | 175 |
| Total cost | 26,898 | 17,337 |
| Less: Accumulated amortization | (13,161) | (10,381) |
| Intangible assets, net | $ 13,737 | $ 6,956 |

| | Year Ended December 2020 | | | |
|---|---|---|---|---|
| | Software | Trademark | Patent | Total |
| Cost | | | | |
| Balance, January 1, 2020 | $ 16,754 | $ 408 | $ 175 | $ 17,337 |
| Additions | 4,691 | - | - | 4,691 |
| Reclassification | 4,561 | - | - | 4,561 |
| Effect of exchange rate difference | 303 | 5 | 1 | 309 |
| Balance, December 31, 2020 | $ 26,309 | $ 413 | $ 176 | $ 26,898 |

| | Year Ended December 2020 | | | |
|---|---|---|---|---|
| | Software | Trademark | Patent | Total |
| Accumulated amortization | | | | |
| Balance, January 1, 2020 | $ (9,886) | $ (342) | $ (153) | $ (10,381) |
| Amortization expense | (2,610) | (41) | (13) | (2,664) |
| Effect of exchange rate difference | (109) | (5) | (2) | (116) |
| Balance, December 31, 2020 | $ (12,605) | $ (388) | $ (168) | $ (13,161) |

| | Year Ended December 2019 | | | |
|---|---|---|---|---|
| | Software | Trademark | Patent | Total |
| Cost | | | | |
| Balance, January 1, 2019 | $ 16,315 | $ 424 | $ 181 | $ 16,920 |
| Additions | 1,779 | - | - | 1,779 |
| Disposals | (876) | - | - | (876) |
| Effect of exchange rate difference | (464) | (16) | (6) | (486) |
| Balance, December 31, 2019 | $ 16,754 | $ 408 | $ 175 | $ 17,337 |
| Accumulated amortization | | | | |
| Balance, January 1, 2019 | $ (9,017) | $ (313) | $ (141) | $ (9,471) |
| Amortization expense | (1,967) | (42) | (18) | (2,027) |
| Disposals | 876 | - | - | 876 |
| Effect of exchange rate difference | 222 | 13 | 6 | 241 |
| Balance, December 31, 2019 | $ (9,886) | $ (342) | $ (153) | $ (10,381) |

The Group has no intangible assets pledged to others.

## (11) Other noncurrent assets

| | December 31 | |
|---|---|---|
| Item | 2020 | 2019 |
| Prepaid of equipment | $ 67,196 | $ 19,528 |
| Refundable deposits | 15,154 | 4,864 |
| Prepaid of land use right | 5,096 | - |
| Other noncurrent assets | 4,248 | 8,556 |
| Total | $ 91,694 | $ 32,948 |

LUHAI KUNSHAN obtained the land use right of 36 acres located in Kunshan City in a public bidding initiated by the Resources and Planning Bureau in December 2020. The consideration given was RMB 5,836 thousand. LUHAI KUNSHAN has paid 20% of the consideration, i.e. RMB 1,170 thousand, as a guarantee for the right to participate in the bidding and the amount was transferred to non-current assets-prepayments for the land use right as of December 31, 2020.

Additionally, LUHAI KUNSHAN has paid a guarantee for the commencement and completion of the performance and a guarantee for reaching production, totaling RMB 10,191 thousand that are recognized as refundable deposits.

**(12) Short-term loans**

| The nature of borrowings | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| Unsecured borrowings | $ | 85,440 | $ | - |
| Interest rates | 1.03%~1.04% | | - | |

The Group does not provide any asset as a collateral for short-term borrowings.

**(13) Other payables**

| Item | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| Salaries and bonus payable | $ | 107,533 | $ | 73,289 |
| Consumption expense payable | | 29,863 | | 30,146 |
| Construction and equipment payable | | 62,327 | | 56,663 |
| Insurance payable | | 13,700 | | 14,173 |
| Sales tax payable | | 4,575 | | 2,380 |
| Outsourced expense payable | | 29,007 | | 11,215 |
| Compensation payable of employees, directors and supervisors | | 26,638 | | 7,713 |
| Other | | 22,925 | | 23,738 |
| Total | $ | 296,568 | $ | 219,317 |

**(14) Deferred Income**

| Item | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| Current | | | | |
| Compensation income for relocation | $ | - | $ | 637,618 |
| Relocation cost | | | | |
| Economic compensation to employees | | - | | (9,091) |
| Expenses of moving and installing assets | | - | | (8,012) |
| Others | | - | | (1,471) |
| Subtotal | | - | | (18,574) |
| Deferred income, net | $ | - | $ | 619,044 |
| Noncurrent | | | | |
| Compensation income for relocation | $ | 143,392 | $ | - |

At the request of the local government for the need of constructing S1 rails, the Board of Directors authorized the chairman to sign the relocation agreement per applicable laws and regulations. The relocation agreement had been signed by Kunshan Huaqiao Weimin House Demolition Limited Company (Weimin Company) and LUHAI KUNSHAN in

November, 2019. The content includes compensation for the expropriation of the land use right, plant, buildings and equipment (collectively referred to as “the immovable items”), cessation of production and business, termination of labor contracts and expenses related to relocation. Main clauses are as follows:

**A.** The total compensation amounts to RMB 185,128 thousand.

**B.** Loss from disposal of the immovable items, termination of labor contracts and related relocation expenses are recognized as a deduction of deferred income on occurrence. Deferred income begins to be recognized in profit or loss upon the transfer of the immovable items and the completion of the second stage of relocation.

**C.** The agreement also states that Weimin Company shall assist LUHAI KUNSHAN with obtaining 36 mu (approximated to 5.93 acres) of land use right within 2 years once the agreement is signed, or the aforementioned compensation would be increased. The increase in compensation includes defined amount including financial incentive for signing the contract, relocation bonus and compensation for not providing land amounting to RMB 86,661 thousand, plus a compensation of 30% of evaluated price for movable equipment, and an extra compensation based on the actual expenditure or loss from the termination of labor contracts and rent expenses for plants and factories during the transition period.

**D.** According to the relocation agreement, if Weimin Company finishes settling the land, yet LUHAI KUNSHAN has not completed the construction of new factories, LUHAI KUNSHAN will have to pay RMB 60,000 thousand as damages.

LUHAI KUNSHAN had completed the delivery of the immovable items and had received the full compensation by December 31, 2020. After deducting the second stage relocation expenses from the full compensation, 143,392 thousand (RMB 32,924 thousand) was recognized as deferred income-noncurrent. The rest of the compensation was recognized as the net relocation compensation profit after deducting the relocation expenses. Please refer to note 6 (26) for details. LUHAI KUNSHAN obtained the land use right of 36 mu in a public bidding in December 2020. Please refer to Note 6 (11) for details.

**(15) Long-term loans and long-term loans due within a year**

| | December 31 | |
|---|---|---|
| The nature of borrowings | 2020 | 2019 |
| Secured borrowings | $ 925,419 | $ 678,732 |
| Less: Current portion | (130,755) | (207,419) |
| Total | $ 794,664 | $ 471,313 |
| Interest rates | 0.90%-1.48% | 0.9%-3.30% |
| Maturity date | 2021 to 2025 | 2020 to 2023 |

**A.** The Group does not provide any asset as a collateral for long-term borrowings.

**B.** According to loan agreements with banks, the Company and XIAHUI should maintain certain agreed financial ratios. The Company and XIAHUI have not breached the agreements as of December 31, 2020 and 2019.

**(16) Retirement benefit plans**

**A.** Defined contribution plans

(a)The Company and LU HAI IND. adopted a pension plan under the Labor Pension Act, which is a state-managed defined contribution plan. The Group make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

(b)The foreign subsidiaries also make contribution in accordance with the rate specified in the plans in the local regulations, which is a defined contribution plan.

(c)A total expense of $4,185 thousand and $19,136 thousand were recognized in accordance with rate specified in defined contribution plans in consolidated comprehensive income statement as of December 31, 2020 and 2019.

**B.** Defined benefit plans

(a)The Company and LU HAI IND. adopted the pension plan under the Labor Standards Law, which is a government managed defined benefit plan, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and LU HAI IND. make contributions, equal to 2% of total monthly salaries, to a pension fund which are administered by Labor Pension Fund Supervisory Committee (the Committee) and deposited in the name of the Company's and LU HAI IND.'s Committee in the Bank of Taiwan. Before the end of each year, the Company and LU HAI IND. assess the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who qualified to retirement requirements in the next year, the Company and LU HAI IND. are required to fund the difference in one deposit by the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company and LU HAI IND. have no right to influence the investment policy and strategy

(b)The Company and LU HAI IND. set March 31st, 2019 as record date to pay off the retirement payment with the employees and the labor pension account had been cancelled with the consent of the authority. The appropriated pension amounts to 285 thousand had been refunded.

(c)The pension costs of the defined benefit plans were recognized in profit or loss by the following items:

| Item | Years ended December 31 |
|---|---|
| | 2019 |
| Marketing expenses | $ 49 |
| General and administrative | 281 |
| Other income | (770) |

| Item | Years ended December 31 |
| --- | --- |
| | 2019 |
| Total | $ (440) |

**(17) Other current liabilities**

| Item | December 31 | |
| --- | --- | --- |
| | 2020 | 2019 |
| Guarantee deposits received | $ 4,791 | $ 5,166 |
| Other | 268 | 226 |
| Total | $ 5,059 | $ 5,392 |

The deposit received by XIAHUI is the performance guarantee for the new plant project and will be returned after the completion of the project and the acceptance.

**(18) Capital stocks**

**A.** The Company's movement of outstanding shares and capital were as follows:

| Item | Years ended December 31 | | | |
| --- | --- | --- | --- | --- |
| | 2020 | | 2019 | |
| | Shares (in thousands) | Amount | Shares (in thousands) | Amount |
| Balance at January 1 | 86,063 | $ 860,632 | 81,965 | $ 819,650 |
| Capitalization of retained earnings | 4,303 | 43,032 | 4,098 | 40,982 |
| Balance at December 31 | 90,366 | $ 903,664 | 86,063 | $ 860,632 |

The par value of capital stock is $10 per share; every share has one voting right and the right to receive dividends.

Pursuant to a shareholders' resolution on May 29, 2019, the Company increase its common capital with stock dividends by 40,982 thousand shares, at a par value of $10, the total paid-in capital was $860,632 thousand after capital increment. The capital increment by stock dividends had obtained approval in the BOD's meeting and the effective date of the capital increment was August 9, 2019.

Pursuant to a shareholders' resolution on May 29, 2020, the Company increase its common capital with stock dividends by 43,032 thousand shares, at a par value of $10, the total paid-in capital was $903,664 thousand after capital increment. The capital increment by stock dividends had obtained approval in the BOD's meeting and the effective date of the capital increment was August 31, 2020.

**B.** The Company's authorized capital was $1,200,000 thousand, consisting of 120,000 thousand shares as of December 31, 2020.

**(19) Capital surplus**

| Item | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| From merger | $ | 44,012 | $ | 44,012 |
| Additional paid-in capital | | 349,674 | | 349,674 |
| From convertible bonds | | 1,033 | | 1,033 |
| From difference between acquisition of interests in subsidiaries and its | | 28,451 | | 28,451 |
| Share-based payments | | 2,028 | | 2,028 |
| Other | | 18,503 | | 18,503 |
| Total | $ | 443,701 | $ | 443,701 |

Under the Company Act, the capital surplus generated from the excess of the issuance price over the par value of capital stock（including mergers, convertible bonds and difference between acquisition of interests in subsidiaries and its carrying value of equity） and from donations can be used to offset deficit or may be distributed as stock dividends or cash dividends. Under the regulations of the Security Exchange Law, the maximum amount transferred from the foregoing capital surplus to the Company's capital per year shall not be over 10% of the Company's capital surplus. Capital surplus can't be used to offset deficit unless legal reserve is insufficient. The capital surplus from long-term investments may not be used for any purpose.

**(20) Retained earnings and earnings appropriation**

**A.** Under the regulation of the earning distribution policy in amended article of incorporation, The Company may distribute profits in accordance with a proposal for distribution of profits prepared by the Directors and approved by the Members by Ordinary Resolution. The Directors shall prepare such proposal as follows: the proposal shall begin with the Company’s Annual Net Income and offset its losses in previous years that have not been previously offset; then set aside a Legal Capital Reserve at 10% of the profits left over, until the accumulated Legal Capital Reserve has equaled the total paid-up capital of the Company; then set aside a Special Capital Reserve if one is required in accordance with the Applicable Public Company Rules or as requested by the authorities in charge. If there is net remainder, the Directors may prepare the proposal for distribution of Dividends, bonus or other benefits accounted together with undistributed profits accrued in previous years and submit to the general meeting for review and approval by a resolution.

The Company is currently positioned in a growth and development phase. Due to the need for capital expenditure, operation expansion and an integrated financial planned in order to maintain sustainable growth, any balance left over under the proposal mentioned above may be distributed as Dividends (including cash dividends or stock dividends) or bonuses, among which the Dividends to be distributed shall not be less than 10% of the total amount of Dividends distributed to the shareholders.

**B.** Legal reserve may be used to offset a deficit or to distribute as dividend in cash or in stock for the portion in excess of 25% of the Company's paid-in capital.

**C.** Special reserve

| Item | December 31 2020 | December 31 2019 |
|---|---|---|
| Special reserve | $ 369,530 | $ 282,676 |

(a)In accordance with the regulation, the Company shall set aside special reserve from the debit balance on other equity item at the end of the year before distributing earnings. When debit balance on other equity is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b)The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with rule NO.1010012865 issued by the FSC, dated April 6, 2012, shall be reversed proportionately to retained earnings when the relevant assets are used, disposed of or reclassified subsequently.

**D.** The appropriations of 2019 and 2018 earnings have been approved by shareholders' meetings held on May 29, 2020 and May 29, 2019, respectively. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT$) | |
|---|---|---|---|---|
| Item | For Year 2019 | For Year 2018 | For Year 2019 | For Year 2018 |
| Legal reserve | $ 24,191 | $ 20,846 | $ - | $ - |
| Special reserve | 86,854 | 54,097 | - | - |
| Cash dividends | 189,339 | 81,965 | 2.20 | 1.00 |
| Stock dividends | 43,032 | 40,982 | 0.50 | 0.50 |
| Total | $ 343,416 | $ 197,890 | | |

**E.** The Company's appropriations of earnings for 2020 had been approved in the meeting of the Board of Directors held on March 12, 2021. The appropriations and dividends per share were as follows:

| Item | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 59,476 | $ - |
| Cash dividends | 135,550 | 1.50 |
| Stock dividends | 90,366 | 1.00 |
| Total | $ 285,392 | |

The appropriations of earnings for 2020 are to be presented for approval in the Company's annual shareholders' meeting to be held on June 24, 2021.

**F.** Information on proposal and resolution regarding earnings appropriation of the Board of Directors' and shareholders' meetings is available from the "Market Observation Post System" on the website of the TWSE.

**(21) Other equity items**

| Item | Exchange differences on translation of foreign financial statements | Profit (loss) on financial assets at fair value through other comprehensive income | Total |
|---|---|---|---|
| Balance, January 1, 2020 | $ (370,256) | $ 726 | $ (369,530) |
| Exchange differences on translation of foreign financial statements | 13,794 | - | 13,794 |
| Valuation adjustments on equity instrument at fair value through other comprehensive income | - | (304) | (304) |
| Valuation adjustments on debt instrument at fair value through other comprehensive income | - | (182) | (182) |
| Balance, December 31, 2020 | $ (356,462) | $ 240 | $ (356,222) |
| Balance, January 1, 2019 | $ (282,714) | $ 38 | $ (282,676) |
| Exchange differences on translation of foreign financial statements | (87,542) | - | (87,542) |
| Valuation adjustments on equity instrument at fair value through other comprehensive income | - | 688 | 688 |
| Balance, December 31, 2019 | $ (370,256) | $ 726 | $ (369,530) |

## (22) Net revenue

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Revenue from contract with customers | | |
| Revenue from sale of goods | $ 2,600,456 | $ 2,716,823 |
| Service revenue | 1,801 | 66 |
| Total | $ 2,602,257 | $ 2,716,889 |

**A.** Description of contract with customers

Revenue from contract with customers mainly derives from sales of valves and accessories and processing fees income from customers. The consideration, fixed and agreed on the contracts, is classified as short-term receivables, and is therefore measured at invoice price.

**B.** Disaggregation of revenue from contracts with customers

The Group classifies revenue from the following categories of main products:

| Item | Year ended December 31, 2020 The Company | XIAHUI | LUHAI KUNSHAN | PT.LUHAI | Others | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Main products | | | | | | | |
| Bicycle valves | $ 50,196 | $ 450,077 | $ 1,968 | $ 126,655 | $ - | $ - | $ 628,896 |
| Motorcycle and electric bike valves | 74,931 | 428,373 | 8,794 | 338,681 | - | - | 850,779 |
| Passenger car, truck and other valves | 105,391 | 259,680 | 230,314 | 36,436 | - | - | 631,821 |
| Accessories and others | 46,517 | 237,998 | 50,237 | 176,600 | - | (20,591) | 490,761 |
| Total | $ 277,035 | $ 1,376,128 | $ 291,313 | $ 678,372 | $ - | $ (20,591) | $ 2,602,257 |

| Item | Year ended December 31, 2020 The Company | XIAHUI | LUHAI KUNSHAN | PT.LUHAI | Others | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Timing of revenue recognition | | | | | | | |
| Performance obligation satisfied at a point in time | $ 277,035 | $ 1,376,108 | $ 291,313 | $ 676,591 | $ - | $ (20,591) | $ 2,600,456 |
| Performance obligation satisfied over time | - | 20 | - | 1,781 | - | - | 1,801 |
| Total | $ 277,035 | $ 1,376,128 | $ 291,313 | $ 678,372 | $ - | $ (20,591) | $ 2,602,257 |

| Item | Year ended December 31, 2019 The Company | XIAHUI | LUHAI KUNSHAN | PT.LUHAI | Others | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| Main products | | | | | | | |
| Bicycle valves | $ 30,703 | $ 433,427 | $ 17,448 | $ 71,254 | $ 12,870 | $ - | $ 565,702 |
| Motorcycle and electric bike valves | 17,453 | 462,122 | 20,010 | 358,546 | 109,471 | - | 967,602 |
| Passenger car, truck and other valves | 48,182 | 227,563 | 321,911 | 33,611 | 67,343 | - | 698,610 |
| Accessories and others | 12,618 | 207,050 | 56,067 | 178,851 | 58,711 | (28,322) | 484,975 |
| Total | $ 108,956 | $ 1,330,162 | $ 415,436 | $ 642,262 | $ 248,395 | $ (28,322) | $ 2,716,889 |
| Timing of revenue recognition | | | | | | | |
| Performance obligation satisfied at a point in time | $ 108,956 | $ 1,330,107 | $ 415,436 | $ 642,251 | $ 248,395 | $ (28,322) | $ 2,716,823 |
| Performance obligation satisfied over time | - | 55 | - | 11 | - | - | 66 |
| Total | $ 108,956 | $ 1,330,162 | $ 415,436 | $ 642,262 | $ 248,395 | $ (28,322) | $ 2,716,889 |

**C.** Contract balances

The Group has recognized the following revenue-related contract liabilities:

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Contract liabilities - current | $ 3,500 | $ 477 |

## (23) Employee benefits, depreciation and amortization expense

| By nature | Years ended December 31 2020 Operating costs | Operating expenses | Total | 2019 Operating costs | Operating expenses | Total |
|---|---|---|---|---|---|---|
| Employee benefits | | | | | | |
| Salary | $ 315,307 | $ 132,269 | $ 447,576 | $ 331,444 | $ 122,406 | $ 453,850 |
| Remuneration to directors | - | 13,747 | 13,747 | - | 4,590 | 4,590 |
| Insurance | 7,731 | 5,286 | 13,017 | 9,629 | 5,159 | 14,788 |
| Pension | 2,067 | 2,118 | 4,185 | 14,219 | 4,477 | 18,696 |
| Other labor cost | 24,747 | 8,535 | 33,282 | 28,004 | 9,432 | 37,436 |
| Termination benefits | - | - | - | - | 12,212 | 12,212 |
| Depreciation | 102,965 | 18,500 | 121,465 | 97,774 | 13,303 | 111,077 |

| By nature | 2020 Operating costs | 2020 Operating expenses | 2020 Total | 2019 Operating costs | 2019 Operating expenses | 2019 Total |
|---|---|---|---|---|---|---|
| | Years ended December 31 | | | | | |
| Amortization | $ - | $ 2,664 | $ 2,664 | $ - | $ 2,027 | $ 2,027 |
| Total | $ 452,817 | $ 183,119 | $ 635,936 | $ 481,070 | $ 173,606 | $ 654,676 |

**A.** According to the Company's Article of Incorporation, if the Company has pre-tax profits in the current year, the Company shall aside not less than 1.5% of the profits as employees' compensation and not more than 3% of the profits as Directors' remuneration. The company asided 1.5%-3% of pre-tax profit of 2020 and 2019 as employees' and Directors' compensation respectly. If there is a change in amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

**B.** The appropriations of employees' compensation and remuneration of directors of 2020 and 2019 have been approved by directors' meeting held on March 12, 2021 and March 12, 2020, respectively. The amounts approved and recognized in financial statements are shown as follows:

| | 2020 Employees' compensation | 2020 Remuneration to directors | 2019 Employees' compensation | 2019 Remuneration t o directors |
|---|---|---|---|---|
| | Years ended December 31 | | | |
| Amount resolved to be distributed | $ 13,237 | $ 13,237 | $ 3,770 | $ 3,770 |
| Amount recognized in financial statements | 13,237 | 13,237 | 3,770 | 3,770 |
| Difference | $ - | $ - | $ - | $ - |

The employees' compensation and remuneration to directors of 2020 and 2019 will be paid by cash.

**C.** Information on employees' compensation and remuneration to directors of the Company as resolved by the meeting of Board of Directors is available from the "Market Observation Post System" at the website of the TWSE.

**D.** For the years ended December 31, 2020 and 2019, the numbers of employees of the Group were 1,445 and 1,315, respectively. Among them, the numbers of Directors who were not employees were both 6, respectively.

**E.** Please refer to Note 6(26) for the economic compensation to employees of LUHAI KUNSHAN relocation.

**(24) Interest income**

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Interest income | | |

| Item | Years ended December 31 2020 | | Years ended December 31 2019 | |
|---|---|---|---|---|
| Bank deposit | $ | 8,547 | $ | 10,213 |
| Financial assets at amortized cost | | 228 | | 4,693 |
| Financial assets at fair value through other comprehensive income | | 84 | | - |
| Total | $ | 8,859 | $ | 14,906 |

**(25) Other income**

| Item | Years ended December 31 2020 | | Years ended December 31 2019 | |
|---|---|---|---|---|
| Subsidies | $ | 26,806 | $ | 8,560 |
| Rent concessions | | 727 | | - |
| Others | | 3,717 | | 4,902 |
| Total | $ | 31,250 | $ | 13,462 |

The Group applied for salaries and working capital subsidies from the Bureau of Industry of the Ministry of Economic Affairs affected by severe and special infectious pneumonia. In July 2020, it was reviewed and approved to subsidize the salary and one-off working capital for May and June 2020. As of December 31, 2020, The Group recognized the subsidy income of 1,807 thousand under other income.

**(26) Other gains and losses**

| Item | Years ended December 31 2020 | | Years ended December 31 2019 | |
|---|---|---|---|---|
| Net profit on relocation compensation | $ | 475,587 | $ | - |
| Net currency exchange gains | | (5,318) | | 26,263 |
| Gains of financial assets at fair value through profit or loss | | 14,094 | | 1,906 |
| Losses from disposal of subsidiaries | | (1,273) | | - |
| Impairment loss of property, Plant and equipment | | (5,803) | | (5,288) |
| Gains (losses) on disposal of property, Plant and equipment | | (2,783) | | (2,617) |
| Other losses | | (4,114) | | (2,435) |
| Total | $ | 470,390 | $ | 17,829 |

Please refer to Note 6(14) for the transaction detail of LUHAI KUSHAN relocation. LUHAI KUSHAN has delivered the immovable items and recognized the net profit on relocation compensation stated as follow:

| Item | Years ended December 31 2020 | |
|---|---|---|
| Compensation income for relocation (RMB 152,204 thousand) | $ | 651,489 |

| Item | Years ended December 31 | |
|---|---|---|
| | 2020 | |
| Less: Relocation cost | | |
| Losses on disposal of property, plant and equipment | $ | (33,714) |
| Losses on disposal of right-of-use assets | | (20,285) |
| Econmic compensation to employees | | (47,466) |
| Expenses of moving and installing assets | | (72,974) |
| Others | | (1,463) |
| Subtotal | | (175,902) |
| Net profit on relocation compensation | $ | 475,587 |

**(27) Financial costs**

| Item | Years ended December 31 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| Interest expense | | | | |
| Bank borrowings | $ | 10,387 | $ | 15,772 |
| Interest of lease liabilities | | 1,317 | | 612 |
| Less: capitalized amount for qualified assets | | (2,959) | | (3,390) |
| Financial cost | $ | 8,745 | $ | 12,994 |
| Interest capitalization rates | 1.03%-3.30% | | 1.15%-3.99% | |

**(28) Income tax**

**A.** Components of income tax expense:

| Item | Years ended December 31 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| Current income tax expense | | | | |
| Current tax expense recognized in the current year | $ | 117,827 | $ | 97,171 |
| Income tax adjustments on prior years | | (800) | | 67 |
| Additional income tax on unappropriated earnings | | 507 | | 521 |
| Current income tax expense | | 117,534 | | 97,759 |
| Deferred income tax expense | | | | |
| Deferred income tax expense (benefit) related to temporary differences | | 115,792 | | 7,677 |
| Unused loss carryforwards | | 1,486 | | (1,508) |
| Effect of tax rate changes | | 218 | | - |
| Deferred income tax expense (benefit) | | 117,496 | | 6,169 |
| Income tax expense | $ | 235,030 | $ | 103,928 |

**B.** Income tax expense recognized in other comprehensive income

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Unrealized profit (loss) from debt instrumens at fair value through other comprehensive income | $ (46) | $ - |

**C.** Reconciliation between income tax expense and accounting profit:

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Income before tax | $ 829,789 | $ 345,838 |
| Income tax expense at the statutory rate | $ 232,462 | $ 93,655 |
| Tax effect of adjusting items: | | |
| Deductible items in determining taxable income | (114,635) | 3,516 |
| Additional tax on unappropriated earnings | 507 | 521 |
| Income tax adjustments on prior years | (800) | 67 |
| Net changes on deferred income tax | | |
| Temporary differences | 115,792 | 7,677 |
| Unused loss carryforwards | 1,486 | (1,508) |
| Effect of tax rate changes | 218 | - |
| Income tax expense recognized in profit or loss | $ 235,030 | $ 103,928 |

Based on the Income Tax Act in the ROC, LU HAI IND. and the Company's Taiwan branch income tax rate is 20%, the tax rate applicable to unappropriated earnings is 5%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

**D.** Deferred tax assets or liabilities resulting from temporary differences:

| | Year ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| Item | Beginning balance | Recognized in (losses) gains | Recognized in other comprehensive income | Effect of exchange rate changes | Ending Balance |
| Deferred tax assets (liabilities) | | | | | |
| Temporary differences | | | | | |
| Timing of revenue recognition | $ 1,640 | $ 1,289 | $ - | $ (11) | $ 2,918 |
| Loss allowance | 1,632 | 32 | - | (23) | 1,641 |
| Loss on decline (gain on reversal) in market value of inventory | 4,990 | 68 | - | (3) | 5,055 |
| Gain (loss) on foreign Investments accounted For using equity method | (17,049) | (3,220) | - | 967 | (19,302) |
| Deferred depreciation expense | 5,471 | 5,895 | - | 160 | 11,526 |
| Impairment loss | 4,970 | (1,652) | - | 29 | 3,347 |

| Item | Year ended December 31, 2020 Beginning balance | Recognized in (losses) gains | Recognized in other comprehensive income | Effect of exchange rate changes | Ending Balance |
|---|---|---|---|---|---|
| Deferred insurance expense and housing provident fund | $ 2,670 | $ - | $ - | $ 30 | $ 2,700 |
| Unrealized profit (loss) on Financial Assets at Fair Value Through other comprehensive income | - | - | 46 | - | 46 |
| Net profit on relocation compensation | - | (118,897) | - | (2,081) | (120,978) |
| Other | 1,094 | 475 | - | 22 | 1,591 |
| Unused loss carryforwards | 1,508 | (1,486) | - | - | 22 |
| Total | $ 6,926 | $ (117,496) | $ 46 | $ (910) | $ (111,434) |

| Item | Year ended December 31, 2019 Beginning balance | Recognized in (losses) gains | Recognized in other comprehensive income | Effect of exchange rate changes | Ending Balance |
|---|---|---|---|---|---|
| Deferred tax assets (liabilities) | | | | | |
| Temporary differences | | | | | |
| Timing of revenue recognition | $ 1,935 | $ (255) | $ - | $ (40) | $ 1,640 |
| Loss allowance | 4,556 | (2,878) | - | (46) | 1,632 |
| Loss on decline (gain on reversal) in market value of inventory | 5,210 | (74) | - | (146) | 4,990 |
| Gain (loss) on foreign Investments accounted For using equity method | (10,715) | (6,784) | - | 450 | (17,049) |
| Deferred depreciation expense | 5,915 | (238) | - | (206) | 5,471 |
| Impairment loss | 3,951 | 1,210 | - | (191) | 4,970 |
| Deferred insurance expense and housing provident fund | 2,772 | - | - | (102) | 2,670 |
| Remeasurement of defined benefit obligation | (558) | 558 | - | - | - |
| Other | 358 | 784 | - | (48) | 1,094 |
| Unused loss carryforwards | - | 1,508 | - | - | 1,508 |
| Total | $ 13,424 | $ (6,169) | $ - | $ (329) | $ 6,926 |

The tax for the net relocation compensation recognized by the Group may be paid in the year the relocation is completed within five years from the beginning of the relocation, or in the fifth year in which the relocation is completed.

**E.** As of December 31, 2020, the tax authorities have examined LU HAI IND.'s income tax returns through 2018. The Company's Taiwan branch income tax returns through 2019 have been assessed.

**(29) Other comprehensive income**

| Item | Year ended December 31, 2019 Before tax | Income tax (expense) benefit | After tax |
|---|---|---|---|
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Unrealized profit (losses) from equity instrument at fair value through other comprehensive income | $ (304) | $ - | $ (304) |
| Subtotal | (304) | - | (304) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | 15,044 | - | 15,044 |
| Other comprehensive income transferred to profit (loss) due to disposal of foreign operations | (1,250) | - | (1,250) |
| Unrealized profit (loss) from debt instrument at fair value through other comprehensive income | (228) | 46 | (182) |
| Subtotal | 13,566 | 46 | 13,612 |
| Total | $ 13,262 | $ 46 | $ 13,308 |

| Item | Year ended December 31, 2019 Before tax | Income tax (expense) benefit | After tax |
|---|---|---|---|
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Unrealized profit (losses) from equity instrument at fair value through other comprehensive income | $ 688 | $ - | $ 688 |
| Subtotal | 688 | - | 688 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | (87,542) | - | (87,542) |
| Subtotal | (87,542) | - | (87,542) |
| Total | $ (86,854) | $ - | $ (86,854) |

## (30) Earnings per share

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Basic earnings per share | | |
| Net income attributable to shareholders of the parent | $ 594,759 | $ 241,910 |
| Net income for calculating basic earnings per share | $ 594,759 | $ 241,910 |
| Weighted average number of shares outstanding for the period (in thousands) | 90,366 | 90,366 |
| Basic earnings per share, after tax (in dollar) | $ 6.58 | $ 2.68 |
| Diluted earnings per share | | |
| Net income attributable to shareholders of the parent | $ 594,759 | $ 241,910 |
| Net income for calculating diluted earnings per share | $ 594,759 | $ 241,910 |

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Weighted average number of shares outstanding for the period (in thousands) | 90,366 | 90,366 |
| Effect of dilutive potential common shares | | |
| Employees' compensation | 318 | 110 |
| Weighted average shares outstanding for dilutive earnings per share | 90,684 | 90,476 |
| Diluted earnings per share, after tax (in dollar) | $ 6.56 | $ 2.67 |

When calculating earnings per share, the effect of issuance of bonus share has been considered and adjusted retrospectively. Due to the retrospective adjustment, the basic earnings per share attributable to shareholders of the basic and diluted earnings per share has been decreased from $2.81 and $2.81 to $2.68 and $2.67 respectively.

If the Company is able to settle the employee compensation by cash or stocks, the employee compensation should be assumed to be settled in stocks and the resulting potential shares increased should be included in the weighted average shares outstanding in calculation of diluted earnings per share, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the employee compensation by the fair value of the stocks at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted earnings per share until employee compensation are approved in the following year.

## 7. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation; therefore, those items are not disclosed in this note. The following is a summary of transactions between the Company and other related parties.

**(1)** Compensation of key management personnel

| Item | Years ended December 31 2020 | 2019 |
|---|---|---|
| Salary and short-term employee benefits | $ 29,104 | $ 17,197 |
| Post- employment benefits | 227 | 189 |
| Total | $ 29,331 | $ 17,386 |

## 8. PLEDGED ASSETS: NONE

## 9. SIGNIFICANT CONTINGENCIES LIABILITIES AND UNRECOGNIZED COMMITMENTS

**(1) Capital expenditures contracted but not yet incurred are as follows：**

| Item | December 31 | |
| --- | --- | --- |
| | 2020 | 2019 |
| Property, plant and equipment | $ 253,438 | $ 352,237 |
| Right-of-use assets | 20,321 | - |
| Deduction of deferred income (relocation cost) | - | 9,291 |
| Total | $ 273,759 | $ 361,528 |

**(2) Lease commitments with lease terms begin after the end of the reporting period:**

| Item | December 31 | |
| --- | --- | --- |
| | 2020 | 2019 |
| Lease commitment | $ - | $ 43,914 |

**(3) Product liability insurance**

The Group has entered into a product liability insurance for the product of tubeless valves manufactured by the Group and sold globally. The period of insurance agreement is from March 15, 2020 to March 15, 2021. The insurance policy covers from March 15, 2007 to March 15, 2021. The maximum indemnification amount during the policy covering period is USD $1,000 thousand.

## 10. SIGNIFICANT DISASTERS

**(1)** Additional disclosures on the impact of the Covid-19 pandemic

The Group was affected by the global pandemic of Covid-19. As a result, the operating income decreased in the first half of the year 2020. The rest has no significant impact. With the ease of the pandemic in countries and the loose of policies, the operation of The Group in the second half of the year 2020 has gradually returned to normal.

## 11. SIGNIFICANT SUBSEQUENT EVENTS

**(1)** On January 27, 2021 and March 12, 2021, The Group decided that LUHAI KUSHAN lend RMB 22,000 thousand indirectly to XIAHUI through entrusted loans respectly.

**(2)** LUHAI KUSHAN plans to undertake the construction of a new plant on the new land obtained in the public bidding in December 2020. On March 12, 2021,The board of directors authorized the chairman to be in charge of the matter within an amount not exceeding RMB 76,230 thousand.

## 12. OTHERS

**(1) Capital risk management**

The Group requires an adequate capital structure to enable the expansion and enhancement of equipment. The Group manages its capital in a manner to ensure that it has sufficient and necessary financial resources and operating plan to fund its working capital needs, capital asset purchases, operation expenses, development expenditure and debt payment requirements associated with its existing operations over the next 12 months.

**(2) Financial instruments**

**A.** Financial risks on financial instruments

Financial risk management policies

The Group's daily operation activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. For reducing the financial risk, the Group focus on identifying, assessing, and avoiding the unpredictability of market with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by the Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, the Group's Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

The Group's sales, purchase and borrowing activities denominated in foreign currencies are exposed to foreign currency risk. The Group's mainly functional currency are New Taiwan dollars, RMB and IDR. The foreign currency of those transactions are US dollars, RMB, Euro and so on. To prevent the reduction in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Group uses foreign currency loans and derivative financial instruments (include forward exchange agreement) to avoid foreign exchange risks. The usage of derivative financial instruments can assist the Group to reduce but not completely eliminate the influence of changes in foreign exchange rates.

Foreign currency risk and sensitivity analysis

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Foreign currency | Exchange rate | New Taiwan Dollars | Foreign currency | Exchange rate | New Taiwan Dollars |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 19,970 | 28.48 | $ 568,748 | $ 19,014 | 29.98 | $ 570,032 |
| RMB | 5 | 4.36 | 20 | 2,173 | 4.31 | 9,355 |
| EUR | 606 | 35.02 | 21,220 | 607 | 33.59 | 20,391 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | 38,019 | 28.48 | 1,082,792 | 17,816 | 29.98 | 534,137 |
| EUR | 5,181 | 35.02 | 181,446 | 10,064 | 33.59 | 338,034 |

The Group is mainly exposed to US dollars, RMB and Euro. The sensitivity analysis rate for the Group is 1% increase and decrease in NTD against the relevant foreign currencies, and the 1% is used when reporting foreign currenct risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1% change in foreign currency rates. An increase/decrease in profit before tax would be resulted where the NTD strengthens/weakens 1% against the relevant currencies with all other variables held constant in the amount of $6,742 and $2,724 for the years ended December 31, 2020 and 2019, respectively.

The Group's foreign exchange gains and losses, including realized and unrealized, for the years ended December 31, 2020 and 2019 were net exchange gain (loss) of $(5,318) thousand and $26,263 thousand, respectively. Due to the variety of functional currencies, the Group did not disclose the foreign exchange gains (losses) for each foreign currency with significant influence.

ii. Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified as financial assets at fair value through other comprehensive income.

The Group mainly invests in equity instrument of foreign unlisted stocks. The prices of equity securities would change due to the uncertainty of the future value of investee companies.

If the prices of equity securities had increased/decreased by 1% with all other variables held constant, other comprehensive income would have increased/decreased by $13 and $16 thousand since the fair value of financial assets at fair value through other comprehensive income increased/decreased for the years ended December 31, 2020and 2019.

iii. Interest rate risk

The interest rate risk of financial instruments as of reporting date was as follow:

| Item | December 31 2020 | | December 31 2019 | |
|---|---|---|---|---|
| Fair value interest rate risk | | | | |
| Financial assets | $ | 145,436 | $ | 647,812 |
| Financial liabilities | | - | | - |
| Net value | $ | 145,436 | $ | 647,812 |
| Cash flow interest rate risk | | | | |
| Financial assets | $ | 660,290 | $ | 559,818 |
| Financial liabilities | | (1,010,859) | | (678,732) |
| Net value | $ | (350,569) | $ | (118,914) |

Sensitivity analysis for instruments with fair value interest rate risk

The Group classifies certain fixed-rate financial assets as financial instruments that are measured at fair value through other comprehensive income. Therefore, changes in interest rates at the end of the reporting period will affect the changes in fair value of the instruments.

Sensitivity analysis for instruments with cash flow interest rate risk

The Group's financial instruments with variable interest rate are those with floating-rate. If interest rate increases (decreases) 1%, the profit before tax will increase (decrease) $3,506 thousand and $1,189 thousand for the years ended December 31, 2020 and 2019, respectively。

The Group does not utilize derivative financial instruments of interest rate risk as of December 31, 2020.

(b) Credit risk

Credit risk is the risk that counterparty will default on its contractual obligations under a contract leading to a financial loss to the Group. The Group is exposed to credit risk from operation activities, primarily trade receivable, and from investing activities, primarily deposit and other financial instruments with bank. Credit risk is managed separately for business related and financial related exposures.

Business related credit risk

In order to maintain the quality of the trade receivables, the Group established credit risk management procedures related to operations and continues to evaluate. The risk evaluation of individual customers takes into consideration the customers' financial position, internal and external credit ratings and historical transaction records and current economic situation and other factors that may affect the customers' payment ability.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

Financial credit risk

The Group's exposure to financial credit risk which pertained to bank deposits and other financial instruments was evaluated and monitored by Group Treasury function. The Group only deals with creditworthy counterparties and banks, so that no significant financial credit risk was identified.

i. Concentration of credit risk

The Group's concentration of credit risk was related to the customers whose balances of accounts receivable are top 4 of the Group, which accounted for 43% and 46% of the total accounts receivable as of December 31, 2020 and 2019.

ii. Evaluation of expected credit loss

(i.) Accounts receivable: The simplified approach is applied. Please refer to Note 6(6) for relating details.

(ii.) Judgment on whether the credit risk has increased significantly: The Group takes into account the credit rating information provided by external rating agencies and examines the material information of debtors in order to evaluate whether the credit risk of debt instruments has increased significantly.

iii. Holding collaterals and other credit enhancements to hedge the credit risk of its financial assets: None.

iv. Credit risk of financial assets at amortized cost and debt instruments at fair value through other comprehensive income

Please refer to Note 6(6) for information on credit risk exposure of notes and accounts receivable. Other financial assets at amortized cost, including cash and cash equivalents, other receivables, financial instruments with guaranteed principal and defined yield, refundable deposits and debt instruments at fair value through other comprehensive income, are low in credit risk. The loss allowance is assessed based on the 12-month expected credit loss. The Group believes that there is no impairment to financial assets at amortized cost and debt instruments at fair value through other comprehensive income.

(c) Liquidity risk

i. Liquidity risk management

The objective of liquidity risk management is to ensure the Group has sufficient liquidity to fund its business requirements of cash and cash equivalents and the unused of financing facilities associated with existing operations

ii. Maturity profile of financial liabilities

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | Within 1 year | 1-5 years | Over 5 years | Contract cash flows | Carrying value |
| Short-term loans | $ 86,297 | $ - | $ - | $ 86,297 | $ 85,440 |
| Accounts payable | 325,376 | - | - | 325,376 | 325,376 |
| Other payables | 278,293 | - | - | 278,293 | 278,293 |
| Lease liabilities | 18,662 | 19,802 | - | 38,464 | 37,347 |
| Long-term loans (including long-term loans due within a year) | 141,236 | 806,696 | - | 947,932 | 925,419 |
| Guarantee deposits received | 4,791 | - | - | 4,791 | 4,791 |
| Total | $ 854,655 | $ 826,498 | $ - | $ 1,681,153 | $ 1,656,666 |

| Non-derivative financial liabilities | December 31, 2019 Within 1 year | 1-5 years | Over 5 years | Contract cash flows | Carrying value |
|---|---|---|---|---|---|
| Accounts payable | $ 264,374 | $ - | $ - | $ 264,374 | $ 264,374 |
| Other payables | 202,764 | - | - | 202,764 | 202,764 |
| Lease liabilities | 4,477 | 10,141 | - | 14,618 | 13,721 |
| Long-term loans (including long-term loans due within a year) | 217,622 | 481,355 | - | 698,977 | 678,732 |
| Guarantee deposits received | 5,166 | - | - | 5,166 | 5,166 |
| Total | $ 694,403 | $ 491,496 | $ - | $ 1,185,899 | $ 1,164,757 |

The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

**(3) Categories of financial instruments**

The carrying amount of each financial asset and financial liability of the Group as of December 31, 2020 and 2019 were as follows:

| | December 31 2020 | 2019 |
|---|---|---|
| Financial assets | | |
| Financial assets at fair value through profit or loss | $ 418,388 | $ 202,684 |
| Financial assets at amortized cost (Note 1) | 1,604,878 | 1,850,119 |
| Financial assets at fair value through other comprehensive income | 17,821 | 1,558 |
| Financial liabilities | | |
| Financial liabilities at amortized cost (Note 2) | $ 1,619,319 | $ 1,151,036 |

Note 1: The balances include financial assets such as cash and cash equivalents, notes receivable, accounts receivable, other receivables, financial assets at amortized cost and refundable deposits.

Note 2: The balances include accounts payable, other payables, short-term borrowings, guarantee deposits received and long-term borrowings (including long-term borrowings due within 1 year).

**(4) Fair value information**

**A.** Fair value measurements are grouped into Levels 1 to 3 as follows:

Level 1: Relevant inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs that used to measure fair value to the extent when relevant observable inputs are not available。

**B.** Fair values of financial instruments that are not measured at fair value:

The fair value of the Group's financial instruments not measured at fair value includes cash and cash equivalents, notes and accounts receivable, financial assets at amortized cost, other financial assets, refundable deposits, short-term loans, payables, long-term loans (including long-term loans due within one year) and guarantee deposits received whose carrying amount is approximately their fair value.

**C.** Fair value of financial instruments that are measured at fair value:

The financial instruments are measured at fair value on a recurring basis. The information of fair value is listed as follows:

| | December 31, 2020 | | | |
|---|---|---|---|---|
| Item | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Recurring fair value measurement | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial instruments with guaranteed capital and floating yield | $ - | $ 418,388 | $ - | $ 418,388 |
| Financial assets at fair value through other comprehensive income | | | | |
| Debt instruments | | | | |
| Foreign corporate bonds | - | 16,554 | - | 16,554 |
| Equity instruments | | | | |
| Foreign unlisted stocks | - | - | 1,267 | 1,267 |
| Total | $ - | $ 434,942 | $ 1,267 | $ 436,209 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| Item | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Recurring fair value measurement | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial instruments with guaranteed capital and floating yield | $ - | $ 202,684 | $ - | $ 202,684 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity instruments | | | | |

| Item | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Foreign unlisted stocks | $ - | $ - | $ 1,558 | $ 1,558 |
| Total | $ - | $ 202,684 | $ 1,558 | $ 204,242 |

**D.** The methods and assumptions the Group used to measure fair value are as follows:

(a) The fair value of financial assets and liabilities traded in an active market is based on the quoted market prices.

(b) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models.

(c) Fair value of equity investment on unlisted stocks without active market was estimated through the market approach that is mainly referenced to the same type of companies' valuation, net assets and state of operation. The significant and unobservable input parameter for assessing the unlisted stocks mainly relates to valuation multiple and liquidity discount rate. Since the possible changes of valuation multiple and liquidity discount rate may not cause significant influence on financial standing, the quantitative information will not be disclosed.

(d) Fair value of other financial assets and financial liabilities (except for the aforementioned) are determined in accordance with generally accepted pricing model based on the discounted cash flow analysis.

**E.** Transfer between Level 1 and Level 2 of the fair value hierarchy: None

**F.** Changes in level 3 instruments are as follows:

| Item | Years ended December 31 | |
|---|---|---|
| | 2020 | 2019 |
| Financial assets at fair value through other comprehensive income | | |
| Balance at January 1 | $ 1,558 | $ 930 |
| Recognized in other comprehensive income | (304) | 688 |
| Effect of exchange rate difference | 13 | (60) |
| Balance at December 31 | $ 1,267 | $ 1,558 |

**G.** Sensitivity analysis of Level 3 fair value measurement and assumption of fair value reasonably being substituted: None.

## 13. SUPPLEMENTARY DISCLOSURES

### (1) Disclosure of significant transactions information (before inter-company eliminations)：

**A.** Financings provided: Please see Table 1 attached;

**B.** Endorsement/guarantee provided: Please see Table 2 attached;

**C.** Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): Please see Table 3 attached;

**D.** Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Please see Table 4 attached;

**E.** Acquisition of individual real estate properties at costs of at least NT$300 million or 20% of the paid-in capital: None;

**F.** Disposal of individual real estate properties at prices of at least NT$300 million or 20% of the paid-in capital: None;

**G.** Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Please see Table 5 attached;

**H.** Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 6 attached;

**I.** Information on the derivative instrument transactions: None;

**J.** Intercompany relationships and significant intercompany transactions: Please see Table 7 attached;

**(2) Information on investees (before inter-company eliminations): Please see Table 8 attached;**

**(3) Information on investment in Mainland China**

**A.** The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 9 attached;

**B.** Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial statements: Please see Table 7 attached.

**(4) Information of major shareholder: Please see Table 10 attached.**

## 14. SEGMENT INFORMATION

**(1) General information**

For the purpose of group management, the Group has provided to the chief operating decision maker the information on resource allocation and assessment of segment performance focuses on the financial information by geographic plants.

**(2) Measurement basis**

Management monitors the operation results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss before tax and is measured consistently with profit or loss before tax in the consolidated financial statements. Furthermore, because the information of assets and liabilities is not reported to the chief operating decision maker for operation decision making, segment assets and liabilities are not disclosed. The accounting policies for reportable segments are the same as Group's accounting policies described in Note 4.

**(3) Segment information: Please see Table 11 attached;**

**(4) Reconciliation for segment income (loss)**

The segment revenue, segment income (loss) and segment assets reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statements of comprehensive income and consolidated balance sheets.

**(5) Information on product and service**

Details of sales from external customers are as follows:

| | Years ended December 31 | |
|---|---|---|
| Item | 2020 | 2019 |
| Bicycle valves | $ 628,896 | $ 565,702 |
| Motorcycle and electric bike valves | 850,779 | 967,602 |
| Passenger car, truck and other valves | 631,821 | 698,610 |
| Accessories and others | 490,761 | 484,975 |
| Total | $ 2,602,257 | $ 2,716,889 |

**(6) Geographic information**

**A.** Sales from external customers

| | Years ended December 31 | |
|---|---|---|
| Areas | 2020 | 2019 |
| China | $ 1,164,113 | $ 1,179,262 |
| Indonesia | 691,578 | 761,096 |
| Others | 746,566 | 776,531 |
| Total | $ 2,602,257 | $ 2,716,889 |

**B.** Noncurrent assets

| | December 31 | |
|---|---|---|
| Areas | 2020 | 2019 |
| China | $ 1,760,695 | $ 1,214,236 |
| Indonesia | 146,490 | 152,629 |
| Others | 13,489 | 14,575 |
| Total | $ 1,920,674 | $ 1,381,440 |

**(7) Major customer information**

| | Years ended December 31 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Amount | % | Amount | % |
| Customer A | $ 386,211 | 14.84% | $ 367,569 | 13.53% |

LUHAI HOLDING CORP. AND SUBSIDIARIES
FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2020
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 1

| No. (Note 1) | Financing Company | Counter-party | Financial Statement Item | Related Party | Maximum Balance for the Period | Ending Balance | Amount Actually Drawn (Note 6) | Interest Rate | Nature for Financing (Note 2) | Transaction Amounts | Reason for Financing | Recognized loss allowance | Collateral | | Limit on Financing Provided to Each Company (Note 3) | Financing Company's Total Financing Limit (Note 4) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 0 | The Company | PT.LUHAI | Other receivables-related parties | Yes | 56,960<br>USD 2,000 | –<br>– | –<br>– | – | 2 | – | Operating capital | – | – | – | 1,087,769 | 1,087,769 |
| 0 | The Company | LUHAI KUNSHAN | Other receivables-related parties | Yes | 85,440<br>USD 3,000 | –<br>– | –<br>– | – | 2 | – | Operating capital | – | – | – | 1,087,769 | 1,087,769 |
| 0 | The Company | XIAHUI | Other receivables-related parties | Yes | 142,400<br>USD 5,000 | 142,400<br>USD 5,000 | –<br>– | 1.20% | 2 | – | Operating capital | – | – | – | 1,087,769 | 1,087,769 |
| 1 | LUHAI KUNSHAN | XIAHUI | Other receivables-related parties | Yes | 95,816<br>RMB 22,000 | 95,816<br>RMB 22,000 | 95,816<br>RMB 22,000 | 3.50% | 2 | – | Operating capital | – | – | – | 214,720<br>RMB 49,301 | 429,440<br>RMB 98,602 |

Note 1: The numbers filled in for the financing company represent the following:

1. The Company is '0'
2. The subsidiaries are numbered in order starting from '1'

Note 2: Nature of loans:

1. Business transaction
2. Short-term financing

Note 3: Limit on loans granted by financing company is 40% of the financing company's net assets. Limit on loans granted to a single party is 30% of the net assets value of LUHAI KUNSHAN.

Note 4: Limit on total loans granted by financing company is 40% of the financing company's net assets. Limit on total loans granted is 60% of the net assets value of LUHAI KUNSHAN.

Note 5: Foreign currencies aforementioned were translated into NTD using the exchange rate as of December 31, 2020 or average exchange rate for the year ended.

Note 6: The loan transaction between LUHAI KUNSHAN and XIAHUI was an entrusted loan through a mainland financial institution, and the actual amount of the loan was eliminated in consolidated financial statements.

LUHAI HOLDING CORP. AND SUBSIDIARIES
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2020
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 2

| No. (Notes 1) | Endorsement/ Guarantee Provider | Guaranteed Party | | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3) | Maximum Balance for the Period | Ending Balance | Amount Actually Drawn | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements | Maximum Endorsement/ Guarantee Amount Allowable (Note 4) | Guarantee Provided by Parent company | Guarantee Provided by Subsidiary to Parent Company | Guarantee Provided to Subsidiaries in Mainland China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Name | Nature of Relationship (Note 2) | | | | | | | | | | |
| 0 | The Company | PT.LUHAI | 2 | 1,087,769 | 213,600<br>USD 7,500 | 156,640<br>USD 5,500 | 156,640<br>USD 5,500 | – | 5.76% | 1,359,712 | Y | N | N |
| 0 | The Company | LUHAI KUNSHAN | 2 | 1,087,769 | 56,960<br>USD 2,000 | –<br>– | –<br>– | – | – | 1,359,712 | Y | N | Y |
| 0 | The Company | XIAHUI | 2 | 1,087,769 | 655,040<br>USD 23,000 | 484,160<br>USD 17,000 | 484,160<br>USD 17,000 | – | 17.80% | 1,359,712 | Y | N | Y |

Note 1：The Company is '0'.

Note 2：Entities having business transactions with is '1'.

Subsidiaries owned directly or indirectly over 50% is '2' .

Note 3：Limit on endorsements to a single company is 40% of the company's net assets.

Note 4：Limit on total endorsements is 50% of the company's net assets.

LUHAI HOLDING CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2020

(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 3

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Item | December 31, 2020 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares/Units | Carrying Value | Percentage of Ownership (%) | Fair Value (Note 1) | |
| XIAHUI | Xiamen Taiwan Merchants Association Management Co., LTD | None | Financial assets at fair value through other comprehensive income-noncurrent | – | RMB 291 | 0.53% | RMB 291 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Fubon Bank (China) Co., Ltd. | None | Financial assets at fair value through profit or loss-current | – | RMB 10,174 | – | RMB 10,174 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Fubon Bank (China) Co., Ltd. | None | Financial assets at fair value through profit or loss-current | – | RMB 10,173 | – | RMB 10,173 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Fubon Bank (China) Co., Ltd. | None | Financial assets at fair value through profit or loss-current | – | RMB 10,173 | – | RMB 10,173 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Fubon Bank (China) Co., Ltd. | None | Financial assets at fair value through profit or loss-current | – | RMB 10,087 | – | RMB 10,087 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Bank SinoPac (China) Co., Ltd. | None | Financial assets at fair value through profit or loss-current | – | RMB 10,299 | – | RMB 10,299 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Bank SinoPac (China) Co., Ltd. | None | Financial assets at fair value through profit or loss-current | – | RMB 5,030 | – | RMB 5,030 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CITIC Bank Co., Ltd | None | Financial assets at fair value through profit or loss-current | – | RMB 10,056 | – | RMB 10,056 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CITIC Bank Co., Ltd | None | Financial assets at fair value through profit or loss-current | – | RMB 10,042 | – | RMB 10,042 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CTBC Bank Co., Ltd | None | Financial assets at fair value through profit or loss-current | – | RMB 5,016 | – | RMB 5,016 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CTBC Bank Co., Ltd | None | Financial assets at fair value through profit or loss-current | – | RMB 5,002 | – | RMB 5,002 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CTBC Bank Co., Ltd | None | Financial assets at fair value through profit or loss-current | – | RMB 5,013 | – | RMB 5,013 | – |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CTBC Bank Co., Ltd | None | Financial assets at fair value through profit or loss-current | – | RMB 5,000 | – | RMB 5,000 | – |
| LU HAI IND. | EXXON MOBIL CORP corporate bonds | None | Financial assets at fair value through other comprehensive income-current | – | USD 581 | – | USD 581 | – |

LUHAI HOLDING CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2020

(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 4

| Company Name | Marketable Securities Type and Name | Financial Statement Item | Counterparty | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | | Ending Balance | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Amount | Shares | Amount | Shares | Amount | Carrying Value | Gain/Loss on Disposal | Shares | Amount | |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Fubon Bank (China) Co., Ltd. | Finanvial assets at fair value through profit or loss-current | — | None | — | RMB 47,078 | — | RMB 23,000 | — | RMB 71,419 | RMB 71,419 | — | — | — | Note 1 |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by Fubon Bank (China) Co., Ltd. | Finanvial assets at fair value through profit or loss-current | — | None | — | — | — | RMB 70,000 | — | RMB 30,290 | RMB 30,290 | — | — | RMB 40,607 | Note 1 |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CITIC Bank Co., Ltd | Finanvial assets at fair value through profit or loss-current | — | None | — | — | — | RMB 81,500 | — | RMB 82,054 | RMB 82,054 | — | — | — | Note 1 |
| LUHAI KUNSHAN | The RMB financial product with principal guaranteed and floating yield by CITIC Bank Co., Ltd | Finanvial assets at fair value through profit or loss-current | — | None | — | — | — | RMB 69,000 | — | RMB 49,241 | RMB 49,241 | — | — | RMB 20,098 | Note 1 |

Note 1：The marketable security is recognized in financial assets at fair value through profit or loss. The asset is evaluated according to IFRS and the gain/loss on valuation is recognized.

LUHAI HOLDING CORP. AND SUBSIDIARIES
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020
(AMOUNTS IN THOUSANDS OF FOREIGN CURRENCIES)

Table 5

| Purchaser/Seller | Counterparty | Nature of Relationships | Transaction Details | | | | Difference in transaction term to third party transaction | | Notes/Accounts Payable or Receivable | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchases/ Sales | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | |
| XIAHUI | PT.LUHAI | Subsidiary of ultimate parent company | Sales | USD 14,629 | 21.11% | According to conditions agreed upon the parties | – | – | Accounts receivable USD 5,090 | 20.60% | Note 1 |
| XIAHUI | The company | The ultimate parent of the Company | Sales | USD 6,476 | 9.37% | According to conditions agreed upon the parties | – | – | Accounts receivable USD 2,392 | 9.68% | Note 1 |

Note 1: All the transactions had been eliminated when preparing consolidated financial statements.

LUHAI HOLDING CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2020

(AMOUNTS IN THOUSANDS FOREIGN CURRENCIES)

Table 6

| **Company Name** | **Counterparty** | **Nature of Relationships** | **Ending Balance of Receivable-Related Party** | | **Turnover Rate** | **Overdue** | | **Amounts Received in Subsequent Period** | **Recognized loss allowance** |
|---|---|---|---|---|---|---|---|---|---|
| | | | **Item** | **Ending Balance (Note 1)** | | **Amount** | **Action Taken** | | |
| XIAHUI | PT.LUHAI | Subsidiary of ultimate parent company | Accounts receivable | USD 5,090 | － | － | － | USD 4,370 | － |

Note 1：All the transactions had been eliminated when preparing consolidated financial statements.

Table 7

LUHAI HOLDING CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION

FOR THE YEAR ENDED DECEMBER 31, 2020

(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLORS)

| No. (Note 1) | Company Name | Counter Party | Nature of Relationship (Note 2) | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Item | Amount | Terms | Percentage of Net Consolidated Revenue |
| 0 | The Company | PT.LUHAI | 1 | Sales revenue | 9,198 | Note 3 | 0.35% |
| 0 | The Company | PT.LUHAI | 1 | Other revenue | 600 | 〃 | 0.02% |
| 0 | The Company | XIAHUI | 1 | Sales revenue | 7,645 | 〃 | 0.29% |
| 0 | The Company | XIAHUI | 1 | Other revenue | 11,478 | 〃 | 0.44% |
| 0 | The Company | LUHAI KUNSHAN | 1 | Sales revenue | 1,781 | 〃 | 0.07% |
| 0 | The Company | LUHAI KUNSHAN | 1 | Other revenue | 3,372 | 〃 | 0.13% |
| 1 | LU HAI IND. | The Company | 2 | Service revenue | 51 | 〃 | - |
| 1 | LU HAI IND. | The Company | 2 | Rental income | 2,597 | 〃 | 0.10% |
| 2 | PT.LUHAI | The Company | 2 | Sales revenue | 132 | 〃 | 0.01% |
| 2 | PT.LUHAI | XIAHUI | 3 | Sales revenue | 3,121 | 〃 | 0.12% |
| 3 | XIAHUI | The Company | 2 | Sales revenue | 191,687 | 〃 | 7.37% |
| 3 | XIAHUI | The Company | 2 | Other revenue | 32 | 〃 | - |
| 3 | XIAHUI | PT.LUHAI | 3 | Sales revenue | 431,926 | 〃 | 16.60% |
| 3 | XIAHUI | LUHAI KUNSHAN | 3 | Sales revenue | 40,053 | 〃 | 1.54% |
| 3 | XIAHUI | LUHAI KUNSHAN | 3 | Processing revenue | 1,864 | 〃 | 0.07% |
| 5 | LUHAI KUNSHAN | The Company | 2 | Sales revenue | 37,025 | 〃 | 1.42% |
| 5 | LUHAI KUNSHAN | PT.LUHAI | 3 | Sales revenue | 2,226 | 〃 | 0.09% |
| 5 | LUHAI KUNSHAN | XIAHUI | 3 | Sales revenue | 34,495 | 〃 | 1.33% |
| 5 | LUHAI KUNSHAN | XIAHUI | 3 | Processing revenue | 4,743 | 〃 | 0.18% |
| 5 | LUHAI KUNSHAN | XIAHUI | 3 | Interest revenue | 2,634 | 〃 | 0.10% |

(Continued)

Table 7

LUHAI HOLDING CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION

FOR THE YEAR ENDED DECEMBER 31, 2020

(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLORS)

| No. (Note 1) | Company Name | Counter Party | Nature of Relationship (Note 2) | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Item | Amount | Terms | Percentage of Total Consolidated Assets |
| 0 | The Company | PT.LUHAI | 1 | Account receivables | 782 | Note 3 | 0.02% |
| 0 | The Company | XIAHUI | 1 | Account receivables | 3,079 | 〃 | 0.07% |
| 0 | The Company | XIAHUI | 1 | Other receivables | 1,057 | 〃 | 0.02% |
| 0 | The Company | LUHAI KUNSHAN | 1 | Account receivables | 157 | 〃 | - |
| 0 | The Company | LUHAI KUNSHAN | 1 | Other receivables | 411 | 〃 | 0.01% |
| 1 | LU HAI IND. | The Company | 2 | Other receivables | 682 | 〃 | 0.01% |
| 2 | PT.LUHAI | XIAHUI | 3 | Account receivables | 1,946 | 〃 | 0.04% |
| 3 | XIAHUI | The Company | 2 | Account receivables | 68,119 | 〃 | 1.44% |
| 3 | XIAHUI | PT.LUHAI | 3 | Account receivables | 144,975 | 〃 | 3.07% |
| 3 | XIAHUI | LUHAI KUNSHAN | 3 | Account receivables | 20,275 | 〃 | 0.43% |
| 4 | LUHAI KUNSHAN | The Company | 2 | Account receivables | 7,951 | 〃 | 0.17% |
| 4 | LUHAI KUNSHAN | The Company | 2 | Prepaid of equipment | 262 | 〃 | 0.01% |
| 4 | LUHAI KUNSHAN | XIAHUI | 3 | Account receivables | 34,814 | 〃 | 0.74% |
| 4 | LUHAI KUNSHAN | XIAHUI | 3 | Other receivables | 95,919 | 〃 | 2.03% |

Note 1: The numbers filled in for the transaction company represent the follows:

1. Parent company is ‘0’.
2. The subsidiaries are numbered in order starting from ‘1’.

Note2: Relationships between transaction companies and counterparties are classified into the following three categories as listed below:

‘1’ represents parent company to subsidiary.

‘2’ represents subsidiary to parent company.

‘3’ represents subsidiary to subsidiary.

Note 3: Sale price with related parties were determined and negotiated referring to related market price. Payment terms were T/T 90 days.

Note 4: All the transactions had been eliminated when preparing consolidated financial report.

(Concluded)

LUHAI HOLDING CORP. AND SUBSIDIARIES
INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2020
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 8

| Investor | Investee | Location | Main Businesses activities | Original Investment Amount | | Balance as of December 31, 2020 | | | Net Income (Losses) of the Investee | Share of Profits/Losses of Investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2020 | December 31, 2020 | Shares (In Thousands) | Percentage of Ownership | Carrying Value | | | |
| The Company | LU HAI BVI | Note 1 | Investing activities | 252,247 (USD 8,857) | 252,247 (USD 8,857) | 8,857 | 100% | 1,169,988 | 99,909 | 99,909 | Note 8 |
| | ALLPRO | Note 2 | Investing activities | 189,193 (USD 6,643) | 189,193 (USD 6,643) | 6,643 | 100% | 878,699 | 74,934 | 74,934 | Note 8 |
| | YUANHUI | Note 3 | Investing activities | 185,120 (USD 6,500) | 185,120 (USD 6,500) | 6,500 | 100% | 717,723 | 369,721 | 369,721 | Note 8 |
| | LU HAI IND. | Note 4 | Leasing and selling various kinds of valves and accessories | 30,000 | 30,000 | 3,000 | 100% | 120,500 | 10,464 | 10,464 | Note 8 |
| | MEGA | Note 5 | Selling activities | — | — | — | — | — | 272 | 272 | Note 7、8 |
| | PT.LUHAI | Note 6 | Manufucturing and selling various kinds of valves and accessories | 193,664 (USD 6,800) | 193,664 (USD 6,800) | 6,800 | 85% | 345,256 | 78,327 | 66,204 | Note 8、9 |
| LU HAI IND. | PT.LUHAI | Note 6 | Manufucturing and selling various kinds of valves and accessories | 34,176 (USD 1,200) | 34,176 (USD 1,200) | 1,200 | 15% | 60,954 | 78,327 | Note 10 | Note 8、9 |

Note 1：P.O. BOX 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
Note 2：Corner Hutson & Eyre Street, Blake Building, Suite 302Belize City, Belize.
Note 3：Level 3, Alexander House, 35 Cybercity, Ebene Mauritius.
Note 4：No.64, Xingong 5th Rd., Tianzhong Township, Changhua County 52046, Taiwan (R.O.C.)
Note 5：#35 Barrack Road, 3rd Floor Belize City, Belize C.A.
Note 6：d\a. JI. Raya Cikande Rangkasbitung Km.4.5. Desa Junti, Jawilan, Serang, Indonesia.
Note 7：MEGA will has no operating activities under the group's business plan. On August 7,2020, the Group board of Directors resolved to close MEGA's operations, and completed the procedures in October 28,2020.
Note 8：The transactions had been eliminated when preparing the consolidated financial statements.
Note 9：The differences between net income and share of profits/losses are due from unrealized sales (losses) gains.
Note 10：The share of profits/losses of the investee company is not reflected herein as such amount is already included in the share of profits/losses of the investor company.

LUHAI HOLDING CORP. AND SUBSIDIARIES
INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 9

| Investee Company | Main Businesses and activities | Total Amount of Paid-in Capital | Investment Method | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2020 | Amount remitted from Taiwan for the year ended December 31,2020 | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2020 | Net Income (Losses) of the Investee Company (Note 5) | Percentage of Ownership | Share of Profits/Losses (Note 2) | Carrying Amount as of December 31, 2020 | Accumulated Inward Remittance of Earnings as of December 31, 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remittance to | Remittance back | | | | | | |
| XIAHUI | Manufucturing and selling various kinds of valves and accessories | 441,440<br>USD 15,500 | Note 1 | Not applicable | — | — | Not applicable | 196,164<br>USD 6,644 | 100% | 194,865<br>USD 6,600 | 2,053,323<br>USD 72,097 | Not applicable |
| LUHAI KUNSHAN | Manufucturing and selling various kinds of valves and accessories | 234,789<br>USD 8,244 (Note 4) | Note 1 | Not applicable | — | — | Not applicable | 369,948<br>USD12,530 | 100% | 370,952<br>USD 12,564 | 713,737<br>USD 25,061 | Not applicable |

| Accumulated Investment in Mainland China as of December 31, 2020 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

Note 1：Through investing in an existing company in the third area, which then investing in the investee in Mainland China.

Note 2：Profit or loss recognized were based on the financial statements audited by the auditor of parent company.

Note 3：Foreign currencies aforementioned were translated into NTD using the exchange rate as of December 31, 2020 or average exchange rate for the year ended.

Note 4：The Company had capitalization of retained earnings amounted to USD 1,744 thousand in 2007.

Note 5：The differences between net income and share of profits/losses are due from unrealized sales (losses) gains.

LUHAI HOLDING CORP. AND SUBSIDIARIES
INFORMATION F MAJOR SHAREHOLDERS
DECEMBER 31, 2020

Table 10

| Name of Major Shareholder | Shares | |
|---|---|---|
| | Number of Shares | Percentage of Ownership(%) |
| DAY LIGHT BUSINESS CO., LTD. | 9,706,320 | 10.74% |
| GET JOINT BUSINESS CORPORATION | 9,706,320 | 10.74% |

Note 1：Table 10 is based on the information on the last business day of the quarter provided by the Taiwan Depository & Clearing Corporation (TDCC). The TDCC calculate the total number of ordinary shares and preferred shares held by shareholders who retain more than 5% of the Company's share (including treasury shares) that have delivered without physical registration. The number of shares in the Company's consolidated financial report and the actual number of shares delivered without physical registration may differ due to the different calculation basis.

Table 11

LUHAI HOLDING CORP. AND SUBSIDIARIES
SEGMENT INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Year ended December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Company | XIAHUI | LUHAI KUNSHAN | PT.LUHAI | Others | Elimination | Total |
| Revenue | | | | | | | |
| Net revenue from external customers | $ 277,035 | $ 1,376,128 | $ 291,313 | $ 678,372 | $ - | $ (20,591) | $ 2,602,257 |
| Inter-segment revenue | 18,624 | 665,530 | 78,489 | 3,253 | 2,648 | (768,544) | - |
| Total | $ 295,659 | $ 2,041,658 | $ 369,802 | $ 681,625 | $ 2,648 | $ (789,135) | $ 2,602,257 |
| Interest income | $ 166 | $ 3,745 | $ 5,355 | $ 1,564 | $ 663 | $ (2,634) | $ 8,859 |
| Interest expenses | $ 6,050 | $ 4,536 | $ 872 | $ 82 | $ - | $ (2,795) | $ 8,745 |
| Depreciation and amortization | $ 2,926 | $ 77,282 | $ 27,099 | $ 18,095 | $ 1,213 | $ (2,486) | $ 124,129 |
| Impairment of property, plant and equipment | $ - | $ 5,803 | $ - | $ - | $ - | $ - | $ 5,803 |
| Segment benefit (loss) | $ (25,055) | $ 262,229 | $ 493,435 | $ 100,863 | $ (1,683) | $ - | $ 829,789 |
| Income (loss) before tax | | | | | | | $ 829,789 |
| Total assets | | | | | | | $ 4,725,135 |

(Continued)

Table 11

LUHAI HOLDING CORP. AND SUBSIDIARIES
SEGMENT INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Year ended December 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | The Company | XIAHUI | LUHAI KUNSHAN | PT.LUHAI | Others | Elimination | Total |
| Revenue | | | | | | | |
| Net revenue from external customers | $ 108,956 | $ 1,330,162 | $ 415,436 | $ 642,262 | $ 248,395 | $ (28,322) | $ 2,716,889 |
| Inter-segment revenue | 8,891 | 661,265 | 156,574 | 711 | 15,100 | (842,541) | - |
| Total | $ 117,847 | $ 1,991,427 | $ 572,010 | $ 642,973 | $ 263,495 | $ (870,863) | $ 2,716,889 |
| Interest income | $ 555 | $ 10,185 | $ 1,403 | $ 704 | $ 2,059 | $ - | $ 14,906 |
| Interest expenses | $ 8,669 | $ 3,915 | $ 47 | $ 509 | $ - | $ (146) | $ 12,994 |
| Depreciation and amortization | $ 2,111 | $ 69,828 | $ 23,369 | $ 18,113 | $ 1,853 | $ (2,170) | $ 113,104 |
| Impairment of property, plant and equipment | $ - | $ 5,288 | $ - | $ - | $ - | $ - | $ 5,288 |
| Segment benefit (loss) | $ (13,578) | $ 251,392 | $ 9,178 | $ 68,194 | $ 30,652 | $ - | $ 345,838 |
| Income (loss) before tax | | | | | | | $ 345,838 |
| Total assets | | | | | | | $ 4,146,656 |

(Concluded)