

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

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

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**September 30, 2017 and 2016  
(With Independent Auditors' Review Report Thereon)**

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

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## **Independent Auditors' Review Report**

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

We have reviewed the accompanying consolidated balance sheets of YFC-BONEAGLE ELECTRIC CO., LTD. (the "Company") and its subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2017 and 2016, consolidated statement of changes in equity and consolidated statement of cash flows for the nine months ended September 30, 2017 and 2016. These consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

Except as described in the third paragraph, we conducted our reviews in accordance with Statement on Auditing Standard 36, "Engagements to Review Financial Statements". A review consists principally of inquiries of the Company's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with the generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated interim financial statements taken as a whole. Accordingly, we do not express such an opinion.

Also included in the accompanying consolidated financial statements are the financial statements of certain immaterial consolidated subsidiaries, which have not been reviewed by independent accountants. These consolidated subsidiaries had total assets of NT\$805,251 thousand and NT\$782,337 thousand, constituting 11% and 15%, respectively, of the total consolidated assets as of September 30, 2017 and 2016. The total liabilities of these subsidiaries as of September 30, 2017 and 2016 amounted to NT\$537,634 thousand and NT\$550,056 thousand, constituting 11% and 20%, respectively, of total consolidated liabilities. The comprehensive income of these subsidiaries for the three months and nine months ended September 30, 2017 and 2016 amounted to profits (losses) of NT\$5,201 thousand, NT\$13,727 thousand, NT\$11,369 thousand and NT\$27,757 thousand, constituting 2%, 10%, 5% and 15%, respectively, of consolidated comprehensive income.

Based on our reviews, except for the effects of the adjustments described in paragraph 3, if any, that might have emerged had the financial statements of the said consolidated subsidiaries been reviewed by independent accountants, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to in the first paragraph in order for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China.

KPMG

Taipei, Taiwan (Republic of China)

November 13, 2017

#### **Notes to Readers**

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

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

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**AS OF SEPTEMBER 30, 2017 AND 2016 REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS**

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

**Consolidated Balance Sheets**

**September 30, 2017, December 31, 2016, and September 30, 2016**

(Expressed in Thousands of New Taiwan Dollars)

		September 30, 2017		December 31, 2016		September 30, 2016			
Assets		Amount	%	Amount	%	Amount	%	Amount	%
Current assets:									
1100	Cash and cash equivalents (note (6)(a))	\$ 775,892	11	928,231	13	989,211	20	2100	Short-term borrowings (notes (6)(j) and (8))
1150-70	Notes and accounts receivable (notes (6)(b) and (8))	2,410,754	32	2,360,900	32	1,854,178	36	2110	Short-term notes and bills payable (note (6)(k))
1200	Other receivables (note (6)(b))	24,414	-	24,759	-	12,572	-	2150-70	Notes and accounts payable
1220	Current tax assets	53,051	1	23,701	-	16,159	-	2200	Other payables (notes (6)(o) and (7))
130X	Inventories (notes (6)(c) and (8))	2,008,604	27	1,776,811	24	765,052	15	2230	Current tax liabilities
1470	Other current assets (notes (6)(i) and (8))	321,902	4	185,756	3	126,008	3	2251	Current provisions for employee benefits
	Total current assets	5,594,617	75	5,300,158	72	3,763,180	74	2252	Short-term warranty provision (note (6)(n))
Non-current assets:									
1600	Property, plant and equipment (notes (6)(f) and (8))	1,181,358	16	1,257,324	18	1,112,451	22	2320	Long-term liabilities, current portion (notes (6)(l)(m) and (8))
1780	Intangible assets (note (6)(g))	579,814	8	629,519	9	149,346	3	2300	Other current liabilities (note (6)(o))
1840	Deferred tax assets	107,530	1	45,128	1	25,105	1		Total current liabilities
1915	Prepayments for business facilities	16,605	-	10,848	-	15,434	-		Non-current liabilities:
1985	Long-term prepaid rents (note (6)(h))	13,082	-	12,936	-	13,173	-	2530	Bonds payable (note (6)(m)(s))
1900	Other non-current assets (notes (6)(i) and (8))	26,086	-	29,424	-	14,479	-	2540	Long-term borrowings (notes (6)(l) and (8))
	Total non-current assets	1,924,475	25	1,985,179	28	1,329,988	26	2570	Deferred tax liabilities
								2600	Other non-current liabilities
									Total non-current liabilities
									Total liabilities
Equity attributable to owners of parent (notes (6)(m)(r)(s)):									
	Ordinary share	1,245,545	17	1,238,603	17	1,238,269	24		
	Certificate of entitlement to new shares from convertible bond	-	-	6,942	-	334	-		
	Subtotal	1,245,545	17	1,245,545	17	1,238,603	24		
	Capital surplus	677,621	9	636,586	9	636,261	13		
	Retained earnings	656,879	9	536,243	7	447,047	9		
	Other equity interest	(131,501)	(2)	55,668	1	(2,384)	-		
	Total equity attributable to owners of parent:	2,448,544	33	2,474,042	34	2,319,527	46		
	Non-controlling interests	4,924	-	5,204	-	6,474	-		
	Total equity	2,453,468	33	2,479,246	34	2,326,001	46		
	Total liabilities and equity	\$ 7,519,092	100	7,285,337	100	5,093,168	100		

See accompanying notes to consolidated interim financial statements.

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

**Consolidated Statements of Comprehensive Income**

**For the three months and nine months ended September 30, 2017 and 2016**

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

	For the three months ended September 30				For the nine months ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
4110 Total sales revenue	\$ 3,570,557	100	2,220,020	100	8,640,021	100	4,777,870	100
5110 Cost of sales (notes (6)(c)(f)(g)(q))	<u>2,684,126</u>	<u>75</u>	<u>1,647,096</u>	<u>74</u>	<u>6,444,198</u>	<u>75</u>	<u>3,602,261</u>	<u>75</u>
5900 <b>Gross profit</b>	<u>886,431</u>	<u>25</u>	<u>572,924</u>	<u>26</u>	<u>2,195,823</u>	<u>25</u>	<u>1,175,609</u>	<u>25</u>
<b>Operating expenses (notes (6)(b)(f)(g)(h)(q)(u)):</b>								
6100 Selling expenses	477,080	14	200,873	9	1,383,756	15	536,458	11
6200 Administrative expenses	71,415	2	68,601	3	207,318	2	182,442	4
6300 Research and development expenses	<u>15,317</u>	<u>-</u>	<u>14,753</u>	<u>1</u>	<u>41,683</u>	<u>1</u>	<u>38,031</u>	<u>1</u>
6000 <b>Total operating expenses</b>	<u>563,812</u>	<u>16</u>	<u>284,227</u>	<u>13</u>	<u>1,632,757</u>	<u>18</u>	<u>756,931</u>	<u>16</u>
6900 <b>Operating income</b>	<u>322,619</u>	<u>9</u>	<u>288,697</u>	<u>13</u>	<u>563,066</u>	<u>7</u>	<u>418,678</u>	<u>9</u>
<b>Non-operating income and expenses (note (6)(v) and (7)):</b>								
7010 Total other income	2,457	-	5,434	-	17,990	-	17,811	-
7020 Other gains and losses, net	(6,043)	-	(9,051)	-	5,436	-	(3,913)	-
7050 Finance costs, net	<u>(13,983)</u>	<u>-</u>	<u>(10,538)</u>	<u>-</u>	<u>(54,183)</u>	<u>(1)</u>	<u>(35,723)</u>	<u>-</u>
<b>Total non-operating income and expenses</b>	<u>(17,569)</u>	<u>-</u>	<u>(14,155)</u>	<u>-</u>	<u>(30,757)</u>	<u>(1)</u>	<u>(21,825)</u>	<u>-</u>
7900 <b>Profit from continuing operations before tax</b>	305,050	9	274,542	13	532,309	6	396,853	9
7950 Less: Income tax expense (note (6)(r))	<u>86,665</u>	<u>2</u>	<u>62,939</u>	<u>3</u>	<u>125,383</u>	<u>1</u>	<u>85,032</u>	<u>2</u>
8200 <b>Profit</b>	<u>218,385</u>	<u>7</u>	<u>211,603</u>	<u>10</u>	<u>406,926</u>	<u>5</u>	<u>311,821</u>	<u>7</u>
<b>Other comprehensive income:</b>								
<b>Other components of other comprehensive income that may be reclassified to profit or loss</b>								
8361 Exchange differences on translation (note (6)(s))	32,577	-	(84,981)	(4)	(225,506)	(3)	(150,582)	(3)
8399 Income tax related to components of other comprehensive income that will be reclassified to profit (loss) (note (6)(r))	<u>(5,537)</u>	<u>-</u>	<u>14,447</u>	<u>-</u>	<u>38,337</u>	<u>1</u>	<u>25,599</u>	<u>-</u>
<b>Components of other comprehensive income that may be reclassified to profit or loss</b>	<u>27,040</u>	<u>-</u>	<u>(70,534)</u>	<u>(4)</u>	<u>(187,169)</u>	<u>(2)</u>	<u>(124,983)</u>	<u>(3)</u>
8300 <b>Other comprehensive (loss) income</b>	<u>27,040</u>	<u>-</u>	<u>(70,534)</u>	<u>(4)</u>	<u>(187,169)</u>	<u>(2)</u>	<u>(124,983)</u>	<u>(3)</u>
8500 <b>Total comprehensive income</b>	<u>\$ 245,425</u>	<u>7</u>	<u>141,069</u>	<u>6</u>	<u>219,757</u>	<u>3</u>	<u>186,838</u>	<u>4</u>
<b>Profit (loss), attributable to:</b>								
8610 Profit, attributable to owners of parent	\$ 218,264	7	211,356	10	407,111	5	312,267	7
8620 Gain (loss), attributable to non-controlling interests	<u>121</u>	<u>-</u>	<u>247</u>	<u>-</u>	<u>(185)</u>	<u>-</u>	<u>(446)</u>	<u>-</u>
8600 <b>Net profit</b>	<u>\$ 218,385</u>	<u>7</u>	<u>211,603</u>	<u>10</u>	<u>406,926</u>	<u>5</u>	<u>311,821</u>	<u>7</u>
<b>Comprehensive income (loss) attributable to:</b>								
8710 Comprehensive income, attributable to owners of parent	\$ 245,304	7	140,822	6	219,942	3	187,284	4
8720 Comprehensive gain (loss), attributable to non-controlling interests	<u>121</u>	<u>-</u>	<u>247</u>	<u>-</u>	<u>(185)</u>	<u>-</u>	<u>(446)</u>	<u>-</u>
8700 <b>Comprehensive income</b>	<u>\$ 245,425</u>	<u>7</u>	<u>141,069</u>	<u>6</u>	<u>219,757</u>	<u>3</u>	<u>186,838</u>	<u>4</u>
<b>Earnings per share (in dollars) (note (6)(t))</b>								
9750 <b>Basic earnings per share</b>	<u>\$ 1.75</u>		<u>1.68</u>		<u>3.27</u>		<u>2.41</u>	
9850 <b>Diluted earnings per share</b>	<u>\$ 1.63</u>		<u>1.67</u>		<u>3.18</u>		<u>2.39</u>	

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

**Consolidated Statements of Changes in Equity**

**For the nine months ended September 30, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent												
	Share capital		Retained earnings						Total other equity interest				
	Ordinary shares	Certificate of entitlement to new shares from convertible bond	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Treasury shares	Total equity attributable to owners of parent	Non-controlling interests	Total equity
<b>Balance at January 1, 2016</b>	\$ 1,309,901	15,428	1,325,329	684,757	52,142	94,886	142,752	289,780	122,599	(40,330)	2,382,135	7,428	2,389,563
Profit (loss)	-	-	-	-	-	-	312,267	312,267	-	-	312,267	(446)	311,821
Other comprehensive income (note (6)(s))	-	-	-	-	-	-	-	-	(124,983)	-	(124,983)	-	(124,983)
Total comprehensive income	-	-	-	-	-	-	-	312,267	(124,983)	-	187,284	(446)	186,838
Appropriation and distribution of retained earnings (note(6)(s)):													
Legal reserve appropriated	-	-	-	-	7,106	-	(7,106)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	(25,000)	25,000	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(155,000)	(155,000)	-	-	(155,000)	-	(155,000)
Conversion of convertible bonds (note (6)(m)(s))	28,108	(15,094)	13,014	2,448	-	-	-	-	-	-	15,462	-	15,462
Purchase of treasury share (note (6)(s))	-	-	-	-	-	-	-	-	-	(110,354)	(110,354)	-	(110,354)
Retirement of treasury share (note (6)(s))	(99,740)	-	(99,740)	(50,944)	-	-	-	-	-	150,684	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(508)	(508)
<b>Balance at September 30, 2016</b>	<u>\$ 1,238,269</u>	<u>334</u>	<u>1,238,603</u>	<u>636,261</u>	<u>59,248</u>	<u>69,886</u>	<u>317,913</u>	<u>447,047</u>	<u>(2,384)</u>	<u>-</u>	<u>2,319,527</u>	<u>6,474</u>	<u>2,326,001</u>
<b>Balance at January 1, 2017</b>	\$ 1,238,603	6,942	1,245,545	636,586	59,248	69,886	407,109	536,243	55,668	-	2,474,042	5,204	2,479,246
Profit (loss)	-	-	-	-	-	-	407,111	407,111	-	-	407,111	(185)	406,926
Other comprehensive income (note (6)(s))	-	-	-	-	-	-	-	-	(187,169)	-	(187,169)	-	(187,169)
Total comprehensive income	-	-	-	-	-	-	-	407,111	(187,169)	-	219,942	(185)	219,757
Appropriation and distribution of retained earnings (note (6)(s)):													
Legal reserve appropriated	-	-	-	-	40,174	-	(40,174)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(286,475)	(286,475)	-	-	(286,475)	-	(286,475)
Due to recognition of equity component of convertible bonds issued (note (6)(m))	-	-	-	41,035	-	-	-	-	-	-	41,035	-	41,035
Conversion of convertible bonds (note (6)(m)(s))	6,942	(6,942)	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(95)	(95)
<b>Balance at September 30, 2017</b>	<u>\$ 1,245,545</u>	<u>-</u>	<u>1,245,545</u>	<u>677,621</u>	<u>99,422</u>	<u>69,886</u>	<u>487,571</u>	<u>656,879</u>	<u>(131,501)</u>	<u>-</u>	<u>2,448,544</u>	<u>4,924</u>	<u>2,453,468</u>

See accompanying notes to consolidated interim financial statements.

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 AUDITING STANDARDS**

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

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 532,309	396,853
<b>Adjustments:</b>		
Adjustments to reconcile profit (loss):		
Depreciation expense	84,600	70,677
Amortization expense	44,252	1,342
Provision for bad debt expense (reversal of provision)	8,348	(8,130)
Net loss on financial assets or liabilities at fair value through profit or loss	-	21
Interest expense	54,183	35,723
Interest income	(2,434)	(1,401)
Loss on disposal of property, plant and equipment	1,336	6,622
Unrealized foreign exchange (gain) loss	(13,845)	7,142
<b>Total adjustments to reconcile profit</b>	<b>176,440</b>	<b>111,996</b>
<b>Changes in operating assets and liabilities:</b>		
Changes in operating assets:		
Notes receivable	(260)	2,466
Accounts receivable	(228,539)	124,420
Other receivable	(3,560)	(8,743)
Inventories	(335,073)	92,225
Prepaid expenses	(145,093)	(18,879)
Other current assets	(1,547)	8,463
<b>Total changes in operating assets</b>	<b>(714,072)</b>	<b>199,952</b>
Changes in operating liabilities:		
Notes payable	(1,236)	402
Accounts payable	74,183	223,408
Other payable	33,927	31,363
Warranty provisions	(974)	8,464
Other current liabilities	39,094	(2,222)
Defined benefit liability	(659)	62
<b>Total changes in operating liabilities</b>	<b>144,335</b>	<b>261,477</b>
<b>Total changes in operating assets and liabilities</b>	<b>(569,737)</b>	<b>461,429</b>
<b>Total adjustments</b>	<b>(393,297)</b>	<b>573,425</b>
Cash inflow generated from operations	139,012	970,278
Interest received	2,429	1,396
Interest paid	(51,746)	(35,119)
Income taxes paid	(236,300)	(70,003)
<b>Net cash flows (used in) from operating activities</b>	<b>(146,605)</b>	<b>866,552</b>

See accompanying notes to consolidated interim financial statements.



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

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used in) investing activities:</b>		
Net cash used in acquisition of subsidiaries	-	(7,400)
Acquisition of property, plant and equipment	\$ (66,797)	(24,709)
Proceeds from disposal of property, plant and equipment	1,431	2,512
Acquisition of intangible assets	(33,991)	(515)
Decrease in refundable deposits	1,028	10,461
Increase in prepayments for business facilities	(5,905)	(5,691)
Decrease (increase) in other non-current assets	2,443	(2,239)
<b>Net cash flows used in investing activities</b>	<b>(101,791)</b>	<b>(27,581)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	2,600,991	1,029,078
Decrease in short-term loans	(2,882,760)	(1,522,907)
Increase in short-term notes and bills payable	49,954	29,975
Proceeds from issuing bonds	699,200	-
Proceeds from long-term debt	200,000	199,229
Repayments of long-term debt	(225,486)	(98,226)
Decrease in guarantee deposits received	-	(246)
Redemption of bonds	-	(507)
Cash dividends paid	(286,475)	-
Proceeds from sale of treasury shares	-	(128,574)
Changes in non-controlling interests	(95)	(508)
<b>Net cash flows from (used in) financing activities</b>	<b>155,329</b>	<b>(492,686)</b>
<b>Effect of exchange in foreign exchange rate</b>	<b>(59,272)</b>	<b>(32,274)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(152,339)</b>	<b>314,011</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>928,231</b>	<b>675,200</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 775,892</b>	<b>989,211</b>

See accompanying notes to consolidated interim financial statements.

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

**Notes to the Consolidated Interim Financial Statements**

**September 30, 2017 and 2016**

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

**(1) Company history**

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

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

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

The consolidated financial statements as of and for the nine months ended September 30, 2017 and 2016 were reported the board of directors and issued on November 13, 2017.

**(3) New standards, amendments and interpretations adopted:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IAS 36 “ Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014
Amendments to IAS 39 “ Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

The Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 “Classification and Measurement of Share based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
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Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated interim financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its positions at September 30, 2017 and hedging relationships designated under during the first half of 2017 under IAS 39.

1) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI ) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at September 30, 2017, would have had a material impact on its accounting for trade receivables.

2) Impairment – Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Group's preliminary assessment indicated that application of IFRS 9's impairment requirements at September 30, 2017 would not have a material impact on the recognition of loss allowances. However, the Group has not yet finalized the impairment methodologies that it will apply under IFRS 9.

#### 3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

#### 4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

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## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

#### (ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

##### 1) Sales of goods

For the sale of products for retailing companies, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable, and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Group’s preliminary assessment indicated that there are no significant differences in timing between the transfer of ownership to the customer and the transfer of control, and therefore the Group does not expect any material impact on its consolidated financial statements.

For certain contracts that permit a customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

2) Transition

The Group plans to adopt IFRS 15 in its consolidated interim financial statements using the cumulative effect approach. As a result, the Group does not present information on comparative periods, and any cumulative effects from initial adoption of IFRS 15 are adjusted through retained earnings as of January 1, 2018.

The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period presented, are not restated.

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019

Those which may be relevant to the Group are set out below:

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term.</li> <li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
June 7, 2017	IFRIC 23 “Uncertainty over Income Tax Treatments”	<ul style="list-style-type: none"> <li>• In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.</li> <li>• If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.</li> </ul>
October 12, 2017	Amendments to IAS 28 “Long-term interests in associates and joint ventures”	<ul style="list-style-type: none"> <li>• The amendment to IAS 28, which addresses equity-accounted loss absorption by long-term interests, will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or ‘LTI’). It also involves the dual application of IAS 28 and IFRS 9 Financial Instruments.</li> </ul>

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

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

**(4) Summary of significant accounting policies:**

**(a) Statement of compliance**

The accompanying consolidated interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Report by Securities Issuers (hereinafter referred to as the Regulations) and the preparation and guidelines of IAS 34 Interim Financial Reporting which are endorsed by the FSC. These consolidated interim financial statements do not include all of the information required by the International Financial Reporting standards, the International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as the IFRS endorsed by the FSC) for annual financial statements.

Except as described in the following paragraph, the significant accounting policies adopted in the preparation of the interim consolidated financial statements are applied consistently with those of the consolidated financial statements for the year ended December 31, 2016. Please refer to note (4) of the consolidated financial statements for the year ended December 31, 2016, for related information.

**(b) Basis of consolidation**

Except as described in note (3), the principles of preparation have been applied consistently with those described in the annual consolidated financial statements for the year ended December 31, 2016. For detailed information, please refer to note (4)(c) of the annual consolidated financial statements for the year ended December 31, 2016.

**(i) List of subsidiaries in the consolidated financial statements**

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

Investor	The name of subsidiaries	Business activity	Percentage Ownership			Note
			September 30, 2017	December 31, 2016	September 30, 2016	
The Company	BESTLINK NETWORK, INC. (BESTLINK)	Trading business	100 %	100 %	100 %	1
The Company	YFC-BONEAGLE ELECTRIC (B.V.I.) CO., LTD. (B.V.I.)	Holding company set up for investments in China and USA	100 %	100 %	100 %	
The Company	UNC INVESTMENT & DEVELOPMENT INC. (UNC)	Real estate investment business	100 %	100 %	100 %	1
The Company	PREMIUM-LINE KSI GMBH (KSI)	Trading business	100 %	100 %	- %	1, 2
The Company	MONOPRICE HOLDINGS, INC. (MONOPRICE HOLDINGS)	Holding company set up for investments in USA	100 %	100 %	- %	
B.V.I.	YFC-BONEAGLE HOLDINGS (CAYMANS) CO., LTD. (CAYMANS)	Holding company set up for investments in China and USA	100 %	100 %	100 %	
B.V.I.	EUROPOWER INTERNATIONAL LIMITED (EUROPOWER)	Trading business	100 %	100 %	100 %	

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

Investor	The name of subsidiaries	Business activity	Percentage Ownership			Note
			September 30, 2017	December 31, 2016	September 30, 2016	
B.V.I.	UNIVERSAL NETWORK CORPORATION (UNIVERSAL)	Holding company set up for investments in China	100 %	100 %	100 %	
B.V.I.	MAX SYNERGY LIMITED (MAX)	Holding company set up for investments in China	80 %	80 %	80 %	1
B.V.I.	PREMIUM LINE ASIA LTD. (PREMIUMLINE)	Trading business	100 %	100 %	100 %	1
CAYMANS	DONGGUAN YFC-BONEAGLE ELECTRONIC TECHNOLOGY CO., LTD (DONGGUAN YFC)	Manufacturing and sale of power cables, wires, and outlets	100 %	100 %	100 %	
CAYMANS	PRIME WIRE & CABLE, INC. (PRIME WIRE)	Retailing of cord sets and network cabling system	100 %	100 %	100 %	
CAYMANS	CHENZHOU YFC-BONEAGLE ELECTRONIC CO.,LTD. (CHENZHOU YFC)	Processing and sale of communication products and internet cables	100 %	100 %	100 %	1
UNIVERSAL	WUXI UNIVERSAL NETWORK CORPORATION (WUXI UNIVERSAL)	Manufacturing and sale of high-speed high-frequency LAN cables	100 %	100 %	100 %	
MAX	YFC INTERNATIONAL TRADING (WUXI) CO.,LTD. (INTERNATIONAL TRADING (WUXI))	Sale of electronic calculator software and hardware, network equipment and electronic appliances	94.5 %	94.5 %	90 %	1
MONOPRICE HOLDINGS	MONOPRICE, INC. (MONOPRICE)	Trading business	100 %	100 %	- %	

Note 1: Except for BESTLINK, UNC, KSI, MAX, PREMIUM LINE, CHENZHOU YFC, and INTERNATIONAL TRADING (WUXI), whose financial statements are based on the statements for the nine months ended on September 30, 2017 and 2016 by the respective subsidiaries, the financial statements of all other subsidiaries are based on the reports reviewed by auditors.

Note 2: Originally named KONAKT-SYSTEME INTER GESELLSCHAFT M.B.H

(ii) Subsidiaries excluded from the interim consolidated financial statements: None.

(c) Employee benefits

Pension cost under the defined benefit plans for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(d) **Income tax**

Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 “Interim Financial Reporting”.

Income tax expense for the interim period is determined based on the best estimate of effective annual tax rate, as forecasted by the management, applied to the pre-tax income for the interim reporting period. This should be recognized fully as tax expense for the current period.

For income expenses recognized directly in equity or other comprehensive income, temporary differences between the carrying amounts of the related assets and liabilities for financial reporting purposes and their respective tax bases are measured based on the applicable tax rates at the time that the asset or liability is expected to be recovered or settled.

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

The preparation of the consolidated interim financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

On the preparation of the consolidated interim financial statements, the underlying accounting assumptions, judgments, and the major sources of estimation uncertainty are in conformity with those described in note (5) of the consolidated financial statements for the year ended December 31, 2016.

**(6) Explanation of significant accounts:**

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2016. Please refer to Note (6) of the 2016 annual consolidated financial statements.

(a) **Cash and cash equivalents**

	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Cash on hand	\$ 8,245	2,569	2,634
Bank deposits	746,383	874,472	976,545
Check deposits	21,264	51,190	10,032
Cash and cash equivalents in consolidated statement of cash flows	<u><u>\$ 775,892</u></u>	<u><u>928,231</u></u>	<u><u>989,211</u></u>

For the interest rate risk and fair value sensitivity analysis of financial assets and liabilities, please refer to note (6)(w).

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(b) Notes receivable, accounts receivable, and other receivables

	September 30, 2017	December 31, 2016	September 30, 2016
Notes receivable from operating activities	\$ 5,490	5,232	6,911
Less: allowance for doubtful accounts	-	-	-
Net	<u>5,490</u>	<u>5,232</u>	<u>6,911</u>
Accounts receivable	2,420,018	2,364,167	1,848,988
Less: allowance for doubtful accounts	(14,754)	(8,499)	(1,721)
Net	<u>2,405,264</u>	<u>2,355,668</u>	<u>1,847,267</u>
Other receivables	24,414	24,759	12,572
Less: allowance for doubtful accounts	-	-	-
Net	<u>24,414</u>	<u>24,759</u>	<u>12,572</u>
Total	<u><u>\$ 2,435,168</u></u>	<u><u>2,385,659</u></u>	<u><u>1,866,750</u></u>

The aging analysis for notes receivables, accounts receivables, and other receivables which were past due but not impaired were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Past due less than 30 days	\$ 20,596	172,359	96,234
Past due 31~120 days	88,657	127,300	10,401
Past due 121~365 days	6,757	221	3,120
Past due over one year	-	-	678
Total	<u><u>\$ 116,010</u></u>	<u><u>299,880</u></u>	<u><u>110,433</u></u>

The movement in the allowances for trade and other receivables for the nine months ended September 30, 2017 and 2016 were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2017	\$ -	8,499	8,499
Impairment loss	-	8,348	8,348
Write-off unrecoverable amount	-	(1,727)	(1,727)
Foreign exchange gains	-	(366)	(366)
Balance at September 30, 2017	<u><u>\$ -</u></u>	<u><u>14,754</u></u>	<u><u>14,754</u></u>
Balance at January 1, 2016	\$ -	10,075	10,075
Impairment loss reversed	-	(8,130)	(8,130)
Foreign exchange gains	-	(224)	(224)
Balance at September 30, 2016	<u><u>\$ -</u></u>	<u><u>1,721</u></u>	<u><u>1,721</u></u>

For information on accounts receivable pledged as collateral, please refer to note (8).

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(c) Inventory

	September 30, 2017	December 31, 2016	September 30, 2016
Merchandise inventory	\$ 1,447,103	1,353,515	356,215
Finished goods	188,784	164,251	144,921
Work in progress	277,010	187,781	198,676
Raw materials	88,484	63,667	61,028
Supplies	7,223	7,597	4,212
Total	<u>\$ 2,008,604</u>	<u>1,776,811</u>	<u>765,052</u>

For the three months and nine months ended 2017 and 2016, (reversal of write-downs) write-downs of inventories amounted to \$(48,137), \$276, \$(79,285) and \$10,504, respectively, which were included in cost of goods sold.

For information on inventories pledged as collateral, please refer to note (8).

(d) Acquisition of subsidiaries

In August and November 2016, the Group directly acquired 100% shares of PREMIUM-LINE KSI GMBH (KSI, originally KONTAKT-SYSTEME INTER GESELLSCHAFT M.B.H.), a company based in Austria, and MONOPRICE HOLDINGS, INC. (MONOPRICE HOLDINGS), a company based in the United States, for a total of €350 thousand and US\$40,506 thousand, respectively. The Group consequently obtained substantial control over the aforementioned companies, as well as their customer base. Through the newly acquired subsidiaries, the Group expects to increase its share in the European and American markets.

For further details, please refer to note (6)(e) of the consolidated financial statements for the year ended December 31, 2016.

During the measurement period, the Group continues to monitor the facts or circumstances that existed as of the acquisition date and is currently evaluating for any additional assets and liabilities. Upon completion of the valuation, any changes will be adjusted retrospectively, and the accounting treatment will be revised accordingly.

(e) Changes in ownership interest in subsidiaries

In December 2016, the Group acquired an additional 4.5% shares of China-based subsidiary, WUXI UNIVERSAL, for a total of US\$41 thousand (approximately \$1,297), thereby increasing its proportionate share in the subsidiary from 72% to 75.6%. For further details, please refer to note (6)(f) of the consolidated financial statements for the year ended December 31, 2016.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(f) Property, plant, and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Costs or deemed cost:					
Balance at January 1, 2017	\$ 81,608	1,050,769	1,080,138	260,778	2,473,293
Additions	-	7,932	21,555	30,385	59,872
Disposals	-	(30,053)	(23,985)	(4,059)	(58,097)
Effect of changes in foreign exchange rate	-	(39,767)	(20,231)	(10,841)	(70,839)
Balance at September 30, 2017	<u>\$ 81,608</u>	<u>988,881</u>	<u>1,057,477</u>	<u>276,263</u>	<u>2,404,229</u>
Balance at January 1, 2016	\$ 81,608	1,090,485	1,059,990	162,582	2,394,665
Acquired through business combination	-	1,816	19	225	2,060
Additions	-	3,629	14,923	7,792	26,344
Disposals	-	-	(60,895)	(3,120)	(64,015)
Effect of changes in foreign exchange rate	-	(54,880)	(54,284)	(9,369)	(118,533)
Balance at September 30, 2016	<u>\$ 81,608</u>	<u>1,041,050</u>	<u>959,753</u>	<u>158,110</u>	<u>2,240,521</u>
Depreciation and impairment loss:					
Balance at January 1, 2017	\$ -	271,233	787,058	157,678	1,215,969
Depreciation	-	23,720	43,462	17,418	84,600
Disposals	-	(30,053)	(21,727)	(3,524)	(55,304)
Effect of changes in foreign exchange rate	-	(5,186)	(11,456)	(5,752)	(22,394)
Balance at September 30, 2017	<u>\$ -</u>	<u>259,714</u>	<u>797,337</u>	<u>165,820</u>	<u>1,222,871</u>
Balance at January 1, 2016	\$ -	253,061	811,696	110,535	1,175,292
Depreciation	-	26,287	36,097	8,293	70,677
Disposals	-	-	(52,198)	(2,683)	(54,881)
Effect of changes in foreign exchange rate	-	(14,230)	(41,930)	(6,858)	(63,018)
Balance at September 30, 2016	<u>\$ -</u>	<u>265,118</u>	<u>753,665</u>	<u>109,287</u>	<u>1,128,070</u>
Carrying value:					
Balance at January 1, 2017	<u>\$ 81,608</u>	<u>779,536</u>	<u>293,080</u>	<u>103,100</u>	<u>1,257,324</u>
Balance at September 30, 2017	<u>\$ 81,608</u>	<u>729,167</u>	<u>260,140</u>	<u>110,443</u>	<u>1,181,358</u>
Balance at January 1, 2016	<u>\$ 81,608</u>	<u>837,424</u>	<u>248,294</u>	<u>52,047</u>	<u>1,219,373</u>
Balance at September 30, 2016	<u>\$ 81,608</u>	<u>775,932</u>	<u>206,088</u>	<u>48,823</u>	<u>1,112,451</u>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

- (i) Property, plant and equipment were derecognized from the Group's statement of financial position when it was fully depreciated and withdrawn from use, and when it was sold.
- (ii) For information on property, plant and equipment pledged as collateral, please refer to note (8).

(g) Intangible assets

The costs, amortization, and impairment loss of intangible assets of the Group were as follows:

	<u>Goodwill</u>	<u>Trademark</u>	<u>Patent</u>	<u>Computer software and development cost</u>	<u>Total</u>
Balance at January 1, 2017	\$ 328,704	117,306	83,025	199,145	728,180
Adjustments of business combination during the measurement period	3,367	(12,212)	4,408	-	(4,437)
Separate acquisition	-	-	-	38,428	38,428
Effect of changes in foreign exchange rate	(20,329)	(7,189)	(4,993)	(12,085)	(44,596)
Balance at September 30, 2017	<u>\$ 311,742</u>	<u>97,905</u>	<u>82,440</u>	<u>225,488</u>	<u>717,575</u>
Balance at January 1, 2016	\$ 148,834	7,638	2,565	21,116	180,153
Acquired through business combination	-	-	-	788	788
Effect of changes in foreign exchange rate	(6,653)	(341)	-	1,130	(5,864)
Balance at September 30, 2016	<u>\$ 142,181</u>	<u>7,297</u>	<u>2,565</u>	<u>23,034</u>	<u>175,077</u>
Balance at January 1, 2017	\$ -	5,129	2,565	90,967	98,661
Amortization	-	354	21,170	22,728	44,252
Effect of changes in foreign exchange rate	-	(319)	(103)	(4,730)	(5,152)
Balance at September 30, 2017	<u>\$ -</u>	<u>5,164</u>	<u>23,632</u>	<u>108,965</u>	<u>137,761</u>
Balance at January 1, 2016	\$ -	4,711	-	19,084	23,795
Amortization	-	376	-	966	1,342
Effect of changes in foreign exchange rate	-	(222)	-	816	594
Balance at September 30, 2016	<u>\$ -</u>	<u>4,865</u>	<u>-</u>	<u>20,866</u>	<u>25,731</u>
Book value :					
Balance at January 1, 2017	<u>\$ 328,704</u>	<u>112,177</u>	<u>80,460</u>	<u>108,178</u>	<u>629,519</u>
Balance at September 30, 2017	<u>\$ 311,742</u>	<u>92,741</u>	<u>58,808</u>	<u>116,523</u>	<u>579,814</u>
Balance at January 1, 2016	<u>\$ 148,834</u>	<u>2,927</u>	<u>2,565</u>	<u>2,032</u>	<u>156,358</u>
Balance at September 30, 2016	<u>\$ 142,181</u>	<u>2,432</u>	<u>2,565</u>	<u>2,168</u>	<u>149,346</u>

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
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For the amortization of intangible assets, please refer to note (12). For other related information, please refer to note (6)(h) of the consolidated financial statements for the year ended December 31, 2016.

(h) Long-term prepaid rent

Long-term prepaid rent refers to prepaid land use right of China subsidiaries for lands located in Wuxi city with an area on 130,959 square meters. The Group had already prepaid rent from 2008 to 2058, and as of September 30, 2017 and 2016, the Group did not provide any of the aforementioned prepaid rent as collaterals for loans. For the nine months ended September 30, 2017 and 2016, prepaid rent amortized and recognized as operating expense were \$235 and \$263, respectively.

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

Other current and non-current assets were detailed as follows:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Other current assets:			
Prepayments	\$ 307,717	172,930	103,138
Other financial assets – current	-	-	12,842
Temporary payments	<u>14,185</u>	<u>12,826</u>	<u>10,028</u>
Subtotal	<u>321,902</u>	<u>185,756</u>	<u>126,008</u>
Other non-current assets:			
Other financial assets – non-current	5,969	6,311	6,137
Guarantee deposits paid	18,211	20,500	3,619
Other	<u>1,906</u>	<u>2,613</u>	<u>4,723</u>
Subtotal	<u>26,086</u>	<u>29,424</u>	<u>14,479</u>
Total	<u><u>\$ 347,988</u></u>	<u><u>215,180</u></u>	<u><u>140,487</u></u>

- (i) Prepayments refer to payments for raw materials and e-commerce platform related fees.
- (ii) Other financial assets – current refers to time deposits pledged as collaterals for the current portion of bonds payable.
- (iii) Temporary payments are mainly payments made on behalf of others.
- (iv) Other financial assets – non-current are reserve accounts pledged as collaterals for bank loans.
- (v) Guarantee deposits paid are security deposits on leases and car rentals, performance bonds for loans, and time deposits pledged as collaterals for customs security deposit.

For additional information on other current and non-current assets pledged as collaterals, please refer to note (8).

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(j) Short-term borrowings

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

	September 30, 2017	December 31, 2016	September 30, 2016
Letters of credit	\$ -	64,203	19,231
Unsecured bank loans	1,616,254	1,950,316	601,795
Secured bank loans	166,156	128,800	187,860
Total	<u>\$ 1,782,410</u>	<u>2,143,319</u>	<u>808,886</u>
Unused short-term and long-term credit lines	<u>\$ 1,450,879</u>	<u>1,232,800</u>	<u>2,183,500</u>
Interest rates	<u>0.91~4.25%</u>	<u>0.83~3.75%</u>	<u>0.83~3.75%</u>

For the nine months ended September 30, 2017 and 2016, the Group issued short-term borrowings amounted to \$2,600,991 and \$1,029,078, respectively; repayments of short-term borrowings amounted to \$2,882,760 and \$1,522,907, respectively. For other related information, please refer to note (6)(k) of the consolidated financial statements for the year ended December 31, 2016.

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

(k) Short-term notes and bills payable

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

	September 30, 2017	December 31, 2016	September 30, 2016
Commercial paper payable	\$ 150,000	100,000	30,000
Less: Discount on short-term notes and bills payable	(74)	(28)	(25)
Total	<u>\$ 149,926</u>	<u>99,972</u>	<u>29,975</u>
Interest rates	<u>1.14~1.18%</u>	<u>1.18~1.20%</u>	<u>1.22%</u>

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

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(l) Long-term borrowings

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

	September 30, 2017	December 31, 2016	September 30, 2016
Unsecured bank loans	\$ 474,101	487,274	330,781
Secured bank loans	542,253	585,707	576,489
Total	1,016,354	1,072,981	907,270
Less: Current portion	(578,140)	(163,447)	(139,604)
Non-current portion	<u>\$ 438,214</u>	<u>909,534</u>	<u>767,666</u>
Interest rates	<u>1.52~3.50%</u>	<u>1.52~3.50%</u>	<u>1.52~3.50%</u>

(i) Issues and repayments of borrowings

For the nine months ended September 30, 2017 and 2016, the Group issued long-term borrowings amounting to \$200,000 and 199,229, with an interest rate of 1.63% and 1.69%~3.50%, respectively, which are due in August 2010 and October 2018, respectively. For the nine months ended September 30, 2017, the repayments amounted to \$225,486 and \$98,226.

(ii) Collaterals

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

(m) Bonds payable

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

	September 30, 2017	December 31, 2016	September 30, 2016
Convertible bonds issued	\$ 704,200	300,000	300,000
Less: Unamortized discount on convertible bonds	(42,164)	-	(501)
Accumulated converted and redeemed amount	-	(300,000)	(292,100)
	662,036	-	7,399
Less: Current portion	-	-	(7,399)
Non-current portion	<u>\$ 662,036</u>	<u>-</u>	<u>-</u>

(Continued)

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

**Notes to the Consolidated Interim Financial Statements**

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Embedded derivative instruments – call and put options (accounted for as “Financial assets at fair value through profit or loss – current”)	\$ <u>-</u>	<u>-</u>	<u>-</u>
Equity component – conversion options (accounted for as “Capital surplus – stock options”)	\$ <u>41,035</u>	<u>-</u>	<u>304</u>
	<u>For the three months ended September 30</u>	<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u> <u>2016</u>
Interest expense (effective rate of 1.33%~2.44%)	\$ <u>3,871</u>	<u>152</u>	<u>3,871</u> <u>1,059</u>

(ii) The major terms of bonds payable were as follows:

<u>Period</u>	<u>Type</u>	<u>Issuance Period</u>	<u>Total Amount (in thousands dollars)</u>	<u>Coupon Rate</u>	<u>Effective Rate</u>	<u>Conversion Price (in dollar)</u>
Period 6	Secured convertible bonds payable	2013.07~2016.07	100,000	0 %	1.33 %	11.90
Period 7	Unsecured convertible bonds payable	2013.11~2016.11	200,000	0 %	2.44 %	11.38
Period 8	Unsecured convertible bonds payable	2017.06~2020.06	700,000	0 %	2.06 %	63.60

Aside from the information described below, please refer to note (6)(n) of the consolidated financial statements for the year ended December 31, 2016 for further details.

(iii) Issuance of bonds

On June 19, 2017, the Group issued the 8th unsecured convertible bonds for a total of 7,000 bonds, with a face value of \$100 each. The bonds were issued at a premium rate of 100.6% and the total issuance amounted to \$704,200.

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

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

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

4) the period from capital reduction record date to one day prior to the stock renewal date.

The conversion price at the issuance date was \$66 per share. In the event of any ex-rights or exdividend, the conversion price shall be adjusted using the conversion pricing formula. Since July 22, 2017, the conversion price was adjusted to \$63.6 per share due to the events of ex-rights or exdividend.

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

There were no new issuances of corporate bonds for the nine months ended September 30, 2016. For other related information, please refer to note (6)(n) of the consolidated financial statements for the year ended December 31, 2016.

(iv) Conversion of bonds

There was no conversion of bonds for the nine months ended September 30, 2017 .

For the nine months ended September 30, 2016, a total of 155 bonds amounting to \$15,475 were converted by the request of the bondholders. The net change in capital surplus due to the conversion of bonds amounted to \$2,461, and the increase in capital was \$13,014. For information on the conversion of stock, please refer to note (6)(s).

(v) Redemption of bonds

There was no redemption of bonds for the nine months ended September 30, 2017.

From the nine months ended September 30, 2016, the number of bonds redeemed at maturity was 5 bonds, which amounted to \$507, and net changes in capital surplus was \$(13).

(vi) Collateral

For information on the collaterals for bonds, please refer to note (8).

(n) Short-term warranty provision

	<u>Warranties</u>
Balance at January 1, 2017	\$ 32,309
Provisions made during the year	36,473
Provisions used during the year	<u>(39,439)</u>
Balance at September 30, 2017	<u>\$ 29,343</u>
Balance at January 1, 2016	\$ 6,157
Provisions made during the year	26,656
Provisions used during the year	<u>(18,723)</u>
Balance at September 30, 2016	<u>\$ 14,090</u>

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(o) Other payables and other current liabilities

	September 30, 2017	December 31, 2016	September 30, 2016
Salaries and bonuses payable	\$ 101,578	99,122	60,483
Compensation and bonus due to employees	27,093	27,383	26,439
Compensation due to directors and supervisors	17,920	15,316	14,276
Cash dividends payable	-	-	155,000
Interest payable	4,782	6,216	3,752
Processing fee payable	23,494	20,100	18,833
Payable on machinery and equipment	2,070	8,995	6,792
Service fee payable	1,753	3,331	-
Freight payable	33,450	30,401	12,242
Rent payable	6,872	-	3,478
Utilities expense payable	3,190	3,030	3,276
Accounts payable – related parties	-	-	656
Other accrued expenses	130,371	132,340	71,739
Total other payables	<u>\$ 352,573</u>	<u>346,234</u>	<u>376,966</u>
Advance receipts	\$ 98,493	72,292	21,425
Others	13,710	12,417	3,861
Total current liabilities	<u>\$ 112,203</u>	<u>84,709</u>	<u>25,286</u>

Other payables and other current liabilities are expected to be settled within one year.

(p) Operating lease

There were no significant changes in operating lease for the nine months ended September 30, 2017 and 2016. Please refer to note (6)(q) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(q) Employee benefits

(i) Defined benefit plans

There were no material volatility of the market, reimbursement and settlement, or other material one-time events since the prior fiscal year. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2016.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
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The details of pension expenses were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Operating costs	\$ -	-	\$ -	-
Selling expenses	-	-	-	-
Administrative expenses	59	75	179	225
Research and development expenses	-	-	-	-
<b>Total</b>	<b>\$ 59</b>	<b>75</b>	<b>179</b>	<b>225</b>

(ii) Defined contribution plans

The Company's pension expenses under the defined contribution method amounted to \$2,034 and \$1,926 for the nine months ended September 30, 2017 and 2016, respectively. Payments has been made to the Bureau of Labor Insurance.

Pension expenses made in accordance with local regulations for all subsidiaries amounted to \$26,339 and \$17,134 for the nine months ended September 30, 2017 and 2016 respectively.

Pension expenses recognized by the Group were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Operating costs	\$ 3,329	3,223	9,750	10,139
Selling expenses	4,295	1,860	10,807	4,067
Administrative expenses	1,810	837	5,936	2,840
Research and development expenses	634	636	1,880	2,014
<b>Total</b>	<b>\$ 10,068</b>	<b>6,556</b>	<b>28,373</b>	<b>19,060</b>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(r) Income tax

The interim period income tax expense is accrued using the best estimate of effective annual tax rate, as forecasted by the management, applied to the pre-tax income of the interim period.

(i) Income tax expense

The details of income tax expense for the three months and the nine months ended September 30, 2017 and 2016 were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Current tax expense				
Current period	\$ 62,364	61,981	114,032	75,470
Adjustments for prior periods	16,851	2,121	16,103	11,164
	<u>79,215</u>	<u>64,102</u>	<u>130,135</u>	<u>86,634</u>
Deferred tax expense				
Origination and reversal of temporary differences	7,450	(1,163)	(4,752)	(1,602)
Income tax expense	<u>\$ 86,665</u>	<u>62,939</u>	<u>125,383</u>	<u>85,032</u>

The amount of income tax (income) expense recognized in other comprehensive income were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation differences of foreign operations	\$ <u>5,537</u>	<u>(14,447)</u>	<u>(38,337)</u>	<u>(25,599)</u>

(ii) Examination and approval

The Company's income tax returns for all years through 2015 have been examined by the R.O.C. income tax authorities.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(iii) Integrated income tax information

The Group's integrated income tax information was as follows:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Unappropriated earnings from January 1, 1998	\$ <u>487,571</u>	<u>407,109</u>	<u>317,913</u>
Balance of deductible tax account	\$ <u>10,293</u>	<u>1,834</u>	<u>27,909</u>
		<b>2016 (Actual)</b>	<b>2015 (Actual)</b>
Creditable ratio for earnings distribution to domestic stockholders		<u>16.64 %</u>	<u>15.10 %</u>

The aforementioned information was prepared in accordance with No.10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

(s) Capital and other equities

Except for the following disclosure, there was no significant change in capital and other equity for the periods from January 1 to September 30, 2017 and 2016. For related information, please refer to note (6)(t) of the consolidated financial statements for the year ended December 31, 2016.

(i) Issuance of common stock

For the nine months ended September 30, 2017, there were no issuances of shares from conversions of convertible debt. For the nine months ended September 30, 2016, issuance of shares through conversions of convertible debt amounted to 1,301 thousand shares, which were issued at par, and the total amount was \$13,014. As of September 30, 2016, the registration process was completed for the issuance of 1,268 thousand shares. The amount of shares from convertible debt converted but not yet registered was 33 thousand shares.

Reconciliation of shares outstanding for the nine months ended September 30, 2017 and 2016 were as follows:

	<b>Common Shares (in thousand shares)</b>	
	<b>2017</b>	<b>2016</b>
Beginning balance at January 1	123,860	130,990
Shares repurchased	-	(9,974)
Conversion of convertible bonds	694	2,811
Ending balance at September 30	<u>124,554</u>	<u>123,827</u>

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
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(ii) Capital surplus

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

	September 30, 2017	December 31, 2016	September 30, 2016
Premium issuance of common shares for cash	\$ 432,122	432,122	432,121
Premium issuance of convertible bond	198,890	198,890	198,047
Difference between consideration and carrying amount of shares	334	334	550
Stock options from convertible bonds issued	41,035	-	304
Others	5,240	5,240	5,239
Total	<u>\$ 677,621</u>	<u>636,586</u>	<u>636,261</u>

(iii) Retained earnings and dividend policy

Under the Company's Articles of Incorporation amended in June 2016, upon closing of accounts, if there is profit, the Company shall first offset any deficit in the previous years and pay the income tax in accordance with the law, then set aside a legal reserve of 10% of the remaining profits until the accumulated legal capital reserve equals paid-in capital. Special reserve is then set aside or reversed pursuant to existing regulations. For any remaining balance, along with any accumulated unappropriated profits from prior years, the board of directors shall propose a distribution plan to be approved in the shareholders' meeting; however, in cases where distributable earnings are lower than the actual paid-in capital by 0.5%, the Company may choose to not distribute its earnings.

For the payment of dividends, the Company takes into account the future development, growth stage, financial structure, and the rights of its shareholders. Dividends may be done through transferring of retained earnings to capital, as well as capital surplus to capital, or through cash dividend, which depends on the earnings of the year. In considering the maturing stage of the industry and the capital structure of the Company, dividends are mainly distributed by way of stock dividends and cash dividends wherein cash dividends may not be less than 10% of the sum of stock dividend and cash dividend. However, actual appropriation methods and ratios may be adjusted through the shareholders' meetings according to actual earnings and capital of the year.

1) Legal reserve

In accordance with the Company Act amended in January 2012, 10% of the net income after tax should be set aside as legal reserve, until the legal reserve is equal to the paid-in capital. If the Group experienced profit for the year, the distribution of the reserve, either by new shares or by cash, shall be decided at the shareholders' meeting. The distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the Company is required to set aside additional special capital reserve equivalent to the net debit balances of the other components of stockholders' equity. Similarly, for any cumulative prior period net debit balances of other components of stockholders' equity, special reserve are set aside from prior year unappropriated earnings, which do not qualify for earnings distribution. Any subsequent reversals pertaining to the reductions to stockholders' equity shall qualify for additional distribution, but is limited to the amount of the reversal.

Pursuant to the ruling above, the Company sets aside additional special reserve from earnings of current period and any unappropriated prior year earnings equivalent to the difference between the debit balance of other components of stockholders' equity and the balance of special reserve. Similarly, for any cumulative prior period net debit balances of other components of stockholders' equity, special reserve are set aside from prior year unappropriated earnings. Any subsequent reversals pertaining to the reductions to stockholders' equity will be distributed.

3) Earnings distribution

In the shareholders' meeting held on June 14, 2017, the resolution for the distribution of earnings from the year 2016 has been approved. Based on the resolution, distributable earnings is calculated as net income after tax of \$401,741 for the year 2016, less, actuarial loss of \$278, plus, the beginning balance of unappropriated earnings of \$5,646, which amounted to \$366,935, not including the required legal reserve of \$40,174. Cash dividend distributed to shareholders was \$286,475 (NT2.24 dollars per share), which has been distributed by August 10, 2017.

On June 22, 2016, the resolution for the distribution of earnings from the year 2015 has been approved in the shareholders' meeting. Based on the resolution, distributable earnings is calculated as the sum of net income after tax of \$71,064 for the year 2015 and the reversal of special reserve of \$25,000, less, actuarial loss of \$362, plus, the beginning balance of unappropriated earnings of \$72,050, amounting to a distributable earning of \$167,752, not including the required legal reserve of \$7,106. Cash dividend distributed to shareholders was \$155,000 (NT1.1695 dollars per share), which has been distributed by October 7, 2016.

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

(Continued)

# YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Interim Financial Statements

### (iv) Treasury stock

Pursuant to Article 28-2 of the Securities and Exchange Act, in order to maintain the Company's credit and owner's equity, the Company engages in the 12th and 11th treasury stock transactions, as approved by the board of directors in March 2016 and December 2015, respectively.

Item	Approval date	Buyback period	December 31, 2016		Registration
			Shares bought back (in thousands of shares)	Amount	
11th	2015.12.22	2015.12.23~2016.02.22	5,974	\$ 92,036	Completed on June 1, 2016
12th	2016.03.29	2016.03.30~2016.05.29	4,000	58,648	Completed on August 24, 2016
Total			<u>9,974</u>	<u>\$ 150,684</u>	

  

Item	Approval date	Buyback period	September 30, 2016		Registration
			Shares bought back (in thousands of shares)	Amount	
11th	2015.12.22	2015.12.23~2016.02.22	5,974	\$ 92,036	Completed on June 1, 2016
12th	2016.03.29	2016.03.30~2016.05.29	4,000	58,648	Completed on August 24, 2016
Total			<u>9,974</u>	<u>\$ 150,684</u>	

Pursuant to the article stated above, the ratio of shares repurchased may not exceed 10% of total outstanding shares, and the amount of the repurchase may not exceed the sum of retained earnings, shares premium, and realized capital surplus. The treasury stock transactions of the Company comply with the regulations mentioned above. The restrictions on the treasury stock are as follows:

No.	Base day	Upper limit (in thousands of shares)	Upper limit amount
11th	2015.09.30	<u>13,093</u>	<u>\$ 973,185</u>
12th	2015.09.30	<u>13,253</u>	<u>\$ 811,743</u>

In accordance with regulations, treasury stock of the Company was not pledged as collaterals. Prior to the transfer, the Company does not own any shareholder's rights.

### (v) Other equity interest (net taxes)

	Foreign exchange differences arising from foreign operation
January 1, 2017	\$ 55,668
Foreign exchange differences	(187,169)
Balance at September 30, 2017	<u>\$ (131,501)</u>
January 1, 2016	\$ 122,599
Foreign exchange differences	(124,983)
Balance at September 30, 2016	<u>\$ (2,384)</u>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(t) Earnings per share

The calculations of basic earnings and diluted earnings per share were as follows:

	(In thousands of shares/thousands of dollars)			
	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
<b>Basic earnings per share</b>				
Profit attributable to ordinary shareholders of the Company	\$ <u>218,264</u>	<u>211,356</u>	<u>407,111</u>	<u>312,267</u>
Weighted-average number of ordinary shares	<u>124,554</u>	<u>125,664</u>	<u>124,504</u>	<u>129,450</u>
Basic earnings per share (in dollars)	\$ <u>1.75</u>	<u>1.68</u>	<u>3.27</u>	<u>2.41</u>
<b>Diluted earnings per share</b>				
Profit of the company	\$ 218,264	211,356	407,111	312,267
Effects of dilutive potential ordinary shares – convertible bond	<u>3,213</u>	<u>126</u>	<u>3,213</u>	<u>895</u>
Profit attributable to ordinary shareholders of the Company (adjusted for the effects of all dilutive potential ordinary shares)	\$ <u>221,477</u>	<u>211,482</u>	<u>410,324</u>	<u>313,162</u>
Weighted-average number of ordinary shares (in thousands of shares)	124,554	125,664	124,504	129,450
Effects of dilutive potential ordinary shares				
Effects of employee share bonus	157	-	314	-
Effects of conversion of convertible bond (in thousands of shares)	<u>11,006</u>	<u>730</u>	<u>4,153</u>	<u>1,520</u>
Weighted-average number of ordinary shares (adjusted for the effects of all dilutive potential ordinary shares) (in thousands of shares)	<u>135,717</u>	<u>126,394</u>	<u>128,971</u>	<u>130,970</u>
Diluted earnings per share (in dollars)	\$ <u>1.63</u>	<u>1.67</u>	<u>3.18</u>	<u>2.39</u>

(u) Remuneration to employee, directors, and supervisor

In accordance with the articles of incorporation, earnings shall first be offset against any deficit, then, a minimum of 6% will be distributed as employee remuneration and a maximum of 6% will be allocated as directors' and supervisors' remuneration. Earnings refer to pre-tax net profit for the period before deducting remunerations. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the Company's affiliated companies which are at least 50% directly or indirectly owned by the Company.

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

For the nine months ended September 30, 2017 and 2016, the Company accrued remuneration to employees of \$27,710 and \$19,861, and remuneration to directors and supervisors amounted to \$18,474 and \$12,413 respectively. These amounts were calculated by using the Company's pre-tax net profit for the period before deducting the remunerations to employees, directors and supervisors, multiplied by the distribution ratio of remuneration to employees, directors under the Company's articles of association. These remunerations were expensed under operating expenses for the period. The difference between the estimated amounts in the financial statements and the actual amounts approved by the board of directors', if any, shall be treated as changes in accounting estimates and recognized as profit or loss in the following year.

Actual employee bonuses and directors' and supervisors' remuneration for the year 2016 amounted to \$28,000 and \$16,000, respectively, and the estimated amounts were \$29,016 and \$16,754, respectively. Actual employee bonuses and directors' and supervisors' remuneration for the year 2015 amounted to \$6,000 and \$3,300, respectively, and the estimated amounts were \$5,698 and \$1,899, respectively. There were no significant differences between actual distribution and the estimate, and any difference has been adjusted accordingly.

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

(v) Other non-operating income and expenses

(i) Other income

Other income of the Group for the three months and the nine months ended September 30, 2017 and 2016 were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest income	\$ 904	548	2,434	1,401
Other income	1,553	4,886	15,556	16,410
Total	<u>\$ 2,457</u>	<u>5,434</u>	<u>17,990</u>	<u>17,811</u>

(ii) Other gains and losses

Other gains and losses of the Group for the three months and the nine months ended September 30, 2017 and 2016 were as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Foreign exchange gain (loss)	\$ (3,499)	(4,529)	11,513	4,790
Loss on disposal of property, plant, and equipment	(598)	(3,638)	(1,336)	(6,622)
Others	(1,946)	(884)	(4,741)	(2,081)
Total	<u>\$ (6,043)</u>	<u>(9,051)</u>	<u>5,436</u>	<u>(3,913)</u>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(iii) Financial costs

Financial costs for the three months and the nine months ended September 30, 2017 and 2016 were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Interest expense				
Bank loans	\$ (9,938)	(10,330)	(49,763)	(34,572)
Short-term notes and bills payable	(174)	(56)	(549)	(92)
Bonds payable	(3,871)	(152)	(3,871)	(1,059)
Total	<u>\$ (13,983)</u>	<u>(10,538)</u>	<u>(54,183)</u>	<u>(35,723)</u>

(w) Financial instruments

Except as described below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk, and market risk arising from financial instruments. For related information, please refer to note (6)(z) of the consolidated financial statements for the year ended December 31, 2016.

(i) Credit risk

As of September 30, 2017, December 31 and September 30, 2016, the Group's major customer contributed to 43%, 56%, and 39%, respectively, of accounts receivable. The other top four customers accounted for 22%, 13%, and 25%, respectively, of accounts receivable.

(ii) Liquidity risk

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

	Carrying value	Contractual cash flow	Within 1 year	1-2 years	2-5 years	Over 5 years
<b>September 30, 2017</b>						
Non-derivative financial liabilities						
Short-term borrowings	\$ 1,782,410	1,800,113	1,800,113	-	-	-
Short-term notes and bills payable	149,926	150,000	150,000	-	-	-
Notes and accounts payable	850,749	850,749	850,749	-	-	-
Other payables	205,982	205,982	205,982	-	-	-
Bonds payable (includes current portion)	662,036	700,000	700,000	-	-	-
Long-term borrowings (includes current portion)	<u>1,016,354</u>	<u>1,047,011</u>	<u>617,261</u>	<u>323,246</u>	<u>58,594</u>	<u>47,910</u>
Total	<u>\$ 4,667,457</u>	<u>4,753,855</u>	<u>4,324,105</u>	<u>323,246</u>	<u>58,594</u>	<u>47,910</u>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

	<u>Carrying value</u>	<u>Contractual cash flow</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
<b>December 31, 2016</b>						
Non-derivative financial liabilities						
Short-term borrowings	\$ 2,143,319	2,155,071	2,155,071	-	-	-
Short-term notes and bills payable	99,972	100,000	100,000	-	-	-
Notes and accounts payable	895,400	895,400	895,400	-	-	-
Other payables	204,413	204,413	204,413	-	-	-
Long-term borrowings (including current portion)	<u>1,072,981</u>	<u>1,120,659</u>	<u>284,931</u>	<u>686,629</u>	<u>95,044</u>	<u>54,055</u>
Total	<u><u>\$ 4,416,085</u></u>	<u><u>4,475,543</u></u>	<u><u>3,639,815</u></u>	<u><u>686,629</u></u>	<u><u>95,044</u></u>	<u><u>54,055</u></u>
<b>September 30, 2016</b>						
Non-derivative financial liabilities						
Short-term borrowings	\$ 808,886	811,991	811,991	-	-	-
Short-term notes and bills payable	29,975	30,000	30,000	-	-	-
Notes and accounts payable	537,142	537,142	537,142	-	-	-
Other payables (includes related parties)	275,768	275,768	275,768	-	-	-
Bonds payable (including current portion)	7,399	7,900	7,900	-	-	-
Long-term borrowings (including current portion)	<u>907,270</u>	<u>957,872</u>	<u>170,714</u>	<u>626,104</u>	<u>106,356</u>	<u>54,698</u>
Total	<u><u>\$ 2,566,440</u></u>	<u><u>2,620,673</u></u>	<u><u>1,833,515</u></u>	<u><u>626,104</u></u>	<u><u>106,356</u></u>	<u><u>54,698</u></u>

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

	<u>September 30, 2017</u>			<u>December 31, 2016</u>			<u>September 30, 2016</u>		
	<u>Local currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Local currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Local currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets:</u>									
<u>Monetary items</u>									
USD	\$ 14,765	30.21	446,051	14,680	32.20	472,696	13,424	31.31	420,305
HKD	3,654	3.87	14,133	4,975	4.15	20,646	6,910	4.01	27,709
CNY	10,448	4.55	47,557	3,969	4.63	18,376	3,246	4.69	15,224
EUR	674	35.55	23,961	1,199	33.70	40,406	1,133	34.88	39,519
CAD	779	24.23	18,879	1,059	23.99	25,405	943	23.88	22,519
<u>Financial liabilities:</u>									
<u>Monetary items</u>									
USD	18,000	30.21	543,780	13,474	32.20	433,863	7,375	31.31	230,911

(Continued)



## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

The Group's exposure to foreign currency risk arises from the foreign currency exchange gain and losses on cash and cash equivalents, trade and other receivables, loans and borrowings, and trade and other payables, which are denominated in foreign currency. The overall effects to the net income before tax for the nine months ended September 30, 2017 and 2016, had the TWD appreciated/depreciated by 1% against the USD, would have been (decreases) increase of \$(977) and \$1,893, respectively, assuming all other variables remain constant. The analysis is performed on the same basis for the prior year.

As the Group deals in diverse functional currencies, gains or losses on foreign exchange were summarized as a single amount. For the three months and nine months ended September 30, 2017 and 2016, the foreign exchange (loss) gains (including both realized and unrealized) amounted to \$(3,499), \$(4,529), \$11,513 and \$4,790, respectively.

#### 2) Interest rate analysis

Please refer to the notes on liquidity risk management for the Group's interest rate exposure of the financial assets and liabilities.

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

If the interest rate had increased by 0.25% at the reporting date, all things held constant, the net profit before tax would have (decreased) by \$(5,248) and \$(3,218) for the nine months ended September 30, 2017 and 2016, respectively, which mainly results from bank loans with variable interest rates.

#### (iv) Fair value of financial instruments

##### 1) Types of financial instruments and fair value

Financial assets and liabilities at fair value through profit or loss, derivative financial assets and liabilities for hedging, and available-for-sale financial assets of the Group are measured at fair value on a recurring basis. The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include the fair value information of the financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

<b>September 30, 2017</b>					
	<b>Book value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Loans and receivables					
Cash and cash equivalents	\$ 775,892	-	-	-	-
Notes and accounts receivable	2,410,754	-	-	-	-
Other receivables	24,414	-	-	-	-
Other financial assets – current and non-current	5,969	-	-	-	-
Guarantee deposits paid	18,211	-	-	-	-
Total	<u>\$ 3,235,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 1,782,410	-	-	-	-
Short-term notes and bills payable	149,926	-	-	-	-
Notes and accounts payable	850,749	-	-	-	-
Other payables	205,982	-	-	-	-
Bonds payable (including current portion)	662,036	-	-	-	-
Long-term borrowings (including current portion)	1,016,354	-	-	-	-
Total	<u>\$ 4,667,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>December 31, 2016</b>					
	<b>Book value</b>	<b>Fair value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Loans and receivables					
Cash and cash equivalents	\$ 928,231	-	-	-	-
Notes and accounts receivable	2,360,900	-	-	-	-
Other receivables	24,759	-	-	-	-
Other financial assets – current and non-current	6,311	-	-	-	-
Guarantee deposits paid	20,500	-	-	-	-
Total	<u>\$ 3,340,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 2,143,319	-	-	-	-
Short-term notes and bills payable	99,972	-	-	-	-
Notes and accounts payable	895,400	-	-	-	-
Other payables	204,413	-	-	-	-
Long-term borrowings (including current portion)	1,072,981	-	-	-	-
Total	<u>\$ 4,416,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

September 30, 2016					
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Loans and receivables					
Cash and cash equivalents	\$ 989,211	-	-	-	-
Notes and accounts receivable	1,854,178	-	-	-	-
Other receivables	12,572	-	-	-	-
Other financial assets – current and non-current	18,979	-	-	-	-
Guarantee deposits paid	3,619	-	-	-	-
Total	<u>\$ 2,878,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Short-term borrowings	\$ 808,886	-	-	-	-
Short-term notes and bills payable	29,975	-	-	-	-
Notes and accounts payable	537,142	-	-	-	-
Other payables (includes related parties)	275,768	-	-	-	-
Bonds payable (including current portion)	7,399	-	-	-	-
Long-term borrowings (including current portion)	907,270	-	-	-	-
Total	<u>\$ 2,566,440</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2) Valuation techniques of financial instruments not measured at fair value

a) Non-derivative financial instruments

The fair value of financial instruments traded in active markets are based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a basis to determine the fair value of the listed companies' equity instrument and the debt instrument with quoted price in an active market.

A financial instrument is regarded as being quoted in an active market if the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Financial instruments that do not meet the above definitions are regarded as having no active markets. Generally, wide bid-ask spreads, significant changes in the spread, and significant declines in trading volume, are all indicators of inactive markets.

(Continued)

## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

If a financial instrument is traded in an active market, its fair value is classified as follows:

Bonds payable are financial liabilities with standard contractual conditions and is traded in an active market, thus its fair value is based on open market prices.

Aside from the above-mentioned financial instruments with an active market, fair value for all financial instruments is determined using the valuation techniques or the quoted price from counterparties. Valuation techniques include using the current fair value of financial instruments with similar characteristics as valuation basis, discounted cash flow method, or calculating fair value with observable market inputs and valuation models (such as over-the-counter yield curve, Reuters average commercial paper interest rate).

If a financial instrument is regarded as an instrument without an active market, its fair value is as follows:

For equity instrument without a quoted price, fair value is estimated using the discounted cash flow model. The major assumption uses the expected future cash flow of the investees, discounted at a rate of return that reflects time value of money and investment risk, for valuation.

3) Transfers between Level 1 and Level 2: None.

4) Movements in Level 3 transfers : None.

(x) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note (6)(aa) of the consolidated financial statements for the year ended December 31, 2016.

(y) Capital management

The management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2016. In addition, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2016. Please refer to note (6)(ab) of the consolidated financial statements for the year ended December 31, 2016 for further details.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(z) Non-cash investing and financing activities

For the nine months ended September 30, 2017 and 2016, non-cash investing and financing activities were as follows:

For details on the conversions of convertible bonds to ordinary shares, please refer to note (6)(m).

**(7) Related-party transactions:**

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group.

(b) Names and relationship with related parties

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

<u>Name of related party</u>	<u>Relationship with the Group</u>
TAIPIN CIRCULATING ENTERPRISE CO., LTD (TAIPIN)	Other related-parties
All directors, supervisors, directors, general managers, etc.	Key management personnel

(c) Significant related-party transaction

(i) Payables to related parties

The payables to related parties were as follows:

<u>Accounts</u>	<u>Relationship</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Other payables	Other related-parties	\$ -	-	656

(ii) Rent income

<u>Accounts</u>	<u>Relationship</u>	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Rent income	Other related-parties	\$ -	28	-	114

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(d) Key management personnel compensation

Key management personnel compensation was comprised of the following:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Short-term employee benefits	\$ 7,618	9,855	25,727	22,729
Post-employment benefits	86	92	254	278
Total	<u>\$ 7,704</u>	<u>9,947</u>	<u>25,981</u>	<u>23,007</u>

For the nine months ended September 30, 2017 and 2016, the Group rented both 5 vehicles, for use by key management personnel. Rent expense amounted to \$2,281 and \$2,479, respectively.

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Pledged assets	Pledged to secure	September 30, 2017	December 31, 2016	September 30, 2016
Accounts receivable	Short-term loans	\$ 89,856	59,513	135,572
Inventory	Short-term loans	76,299	69,287	52,288
Property, plant, and equipment	Long-term loans	585,033	624,082	623,346
Other financial asset — current and non-current	Issuance of bonds payable and customs security deposits	5,969	6,311	11,696
Total		<u>\$ 757,157</u>	<u>759,193</u>	<u>822,902</u>

(9) Commitments and contingencies:

- (a) The Group enters into agreement with its suppliers for the purchase of copper. If the Group makes payments in advance, the Group may claim a discount at 2% interest starting from the day after the payment date until the following shipment date. In the event the Group did not comply with provisions and terms in the contract, the Group shall pay interest on the amount overdue. Details of the contracts are summarized as follows:

Supplier	Contract Period	Pricing Terms	Product	Breach Clause
A	2017.01~2017.12	Average price (in USD) listed in LME of the previous month, plus, US\$93, multiplied by the spot exchange rate released by Bank of Taiwan, plus, an additional \$5,500 per ton of conversion cost	600~1,080 tons of copper wire	Late payment surcharge at 10% annual rate
D	2017.01~2017.12	Spot price listed in LME agreed by both parties, considering any premiums or discounts, plus, an additional US\$243 per ton of conversion cost	480~1200 tons of copper rods	1. 30% of the amount overdue 2. Late payment surcharge at 1% rate perday

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

<b>Supplier</b>	<b>Contract Period</b>	<b>Pricing Terms</b>	<b>Product</b>	<b>Breach Clause</b>
E	2017.01~2017.12	Spot price listed in LME agreed by both parties, considering any premiums or discounts, plus, an additional US\$243 per ton of conversion cost	840~1,560 tons of copper wire	20% of the total amount
F	2017.01~2017.12	Average price (in USD) listed in LME of the previous month, plus, US\$93, multiplied by the spot exchange rate released by Bank of Taiwan, plus, an additional \$5,500 per ton of conversion cost	240~720 tons of copper wire	1. 30% of the amount overdue 2. Late payment surcharge at 1% rate perday
G	2017.03~2018.02	LME 3-months price agreed by both parties, considering any premiums or discounts, plus, an additional US\$245 per ton of conversion cost	960~1920 tons of copper wire	1. 30% of the amount overdue 2. Late payment surcharge at 1% rate perday

(b) The unused letters of credit were as follows:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Unused letters of credit	\$ -	17,000	50,872

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

**(10) Losses Due to Major Disasters:None**

**(11) Subsequent Events:None**

**(12) Other:**

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

by Function by Nature	For the three months ended September 30, 2017			For the three months ended September 30, 2016		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefit						
Salaries	90,471	245,586	336,057	66,670	106,647	173,317
Labor and health insurance (Note 1)	774	16,214	16,988	1,677	8,163	9,840
Pension (Note 2)	3,328	6,799	10,127	3,223	3,408	6,631
Others	1,497	3,674	5,171	2,800	3,179	5,979
Depreciation	19,228	12,818	32,046	17,811	4,858	22,669
Amortization	95	19,180	19,275	6	452	458

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

by Function by Nature	For the nine months ended September 30, 2017			For the nine months ended September 30, 2016		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefit						
Salaries	210,318	583,349	793,667	196,820	267,628	464,448
Labor and health insurance (Note 1)	3,112	55,759	58,871	5,714	29,335	35,049
Pension (Note 2)	9,749	18,803	28,552	10,139	9,146	19,285
Others	4,113	11,622	15,735	7,341	9,427	16,768
Depreciation	48,226	36,374	84,600	55,269	15,408	70,677
Amortization	342	43,910	44,252	6	1,336	1,342

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

Note 2: Includes local endowment insurance of China subsidiaries.

(b) Seasonality of operations

The Group's products are subject to seasonal fluctuations due to winter season festivities in the United States. Consequently, the product demands from this sector are usually higher during the third quarter of every year. The Group attempts to minimize the seasonal impact by managing inventories to meet demands during this period. However, this segment typically has higher revenues and results for the third quarter of the year.

(Continued)



## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

#### (13) Other disclosures:

##### (a) Information on significant transactions:

The following is the information on significant transactions for the nine months ended September 30, 2017, required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

##### (i) Loans to other parties:

(In Thousands of Dollars)

No. (Note 1)	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower (Note 2)	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits (Note 3)	Maximum limit of fund financing (Note 3)
													Item	Value		
0	The Company	WUXI UNIVERSAL	Other receivables	Yes	91,840 (CNY20,000)	90,520 (CNY20,000)	67,890	1.18%~1.20%	1	298,903	Working capital	-		-	612,136	979,417
1	EUROPOWER INTERNATIONAL LIMITED	The Company	Other receivables	Yes	708,400 (USD22,000)	664,620 (USD22,000)	181,260	-	2	-	Working capital	-		-	1,202,910	1,202,910
2	PRIME WIRE & CABLES INC.	MONOPRICE, INC.	Other receivables	Yes	80,500 (USD2,500)	75,525 (USD2,500)	-	3.00%	2	-	Working capital	-		-	714,585	714,585

Note 1: The numbers are filled in as follows:

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

Note 2: Purposes of financing are labelled as follows:

- For those companies with business relations with the Company, please fill in 1.
- For those companies with short-term financing needs, please fill in 2.

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

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

##### (ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Name of guarantor (Note 1)	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements (Note 3)	Maximum amount for guarantees and endorsements (Note 4)	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company (Note 2)										
0	The Company	EUROPOWER INTERNATIONAL LIMITED	2	2,448,544	1,754,347	1,171,218	-	-	47.83 %	4,897,088	Y	N	N
0	The Company	WUXI UNIVERSAL	2	2,448,544	838,185	749,515	483,360	-	30.61 %	4,897,088	Y	N	Y
1	EUROPOWER INTERNATIONAL LIMITED	The Company	4	1,202,910	200,000	200,000	37,500	-	8.17 %	2,405,820	N	Y	N
1	EUROPOWER INTERNATIONAL LIMITED	MONOPRICE, INC.	3	1,202,910	455,550	453,150	252,254	-	18.51 %	2,405,820	N	N	N
2	PRIME WIRE & CABLE, INC.	UNC INVESTMENT & DEVELOPMENT INC.	3	714,585	516,488	484,568	465,705	-	19.79 %	1,429,170	N	N	N
3	WUXI UNIVERSAL	EUROPOWER INTERNATIONAL LIMITED	3	581,097	483,000	-	-	-	- %	1,162,194	N	N	N

Note 1: The numbers are filled in as follows:

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

Note 2: The counter-party's relationship with the Company is as follows:

- Companies with business relationships with the Company.
- Subsidiaries of which the Company directly holds more than 50% of the voting shares.
- Investees of which the parent company and its subsidiaries collectively holds more than 50% of the voting shares.
- Companies who directly or indirectly holds 50% of the Company's voting shares.
- Companies in the same industry with contractual obligation with the Company to provide mutual endorsements or guarantees.
- Jointly invested companies in which shareholders provide guarantees or endorsement in proportion to their shareholding percentages

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

(Continued)

## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

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

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

- (iii) Securities held as of September 30, 2017 (excluding investment in subsidiaries, associates and joint ventures):None.
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount (Note 1)	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance (Note 2)	Percentage of total notes/accounts receivable (payable)	
The Company	DONGGUAN YFC	Group	Purchases	404,438 (USD13,287)	41 %	OA 90 days	-	-	(85,117) (USD2,818)	(31)%	
The Company	WUXI UNIVERSAL	Group	Purchases	293,712 (USD9,561)	30 %	OA 90 days	-	-	(151,084) (USD5,001)	(55)%	
The Company	MONOPRICE, INC.	Group	Sales	147,278 (USD4,868)	(13) %	OA 60 days	-	-	54,311 (USD1,798)	17%	
EUROPOWER INTERNATIONAL LIMITED	WUXI UNIVERSAL	Group	Purchases	871,194 (USD28,698)	40 %	OA 90 days	-	-	(339,766) (USD11,247)	(62)%	
EUROPOWER INTERNATIONAL LIMITED	DONGGUAN YFC	Group	Purchases	698,831 (USD23,020)	32 %	OA 90 days	-	-	(83,663) (USD2,769)	(15)%	
EUROPOWER INTERNATIONAL LIMITED	PRIME WIRE & CABLE, INC.	Group	Sales	(769,745) (USD25,356)	(30) %	OA 90 days	-	-	337,000 (USD11,155)	22%	
EUROPOWER INTERNATIONAL LIMITED	BESTLINK NETWORK INC.	Group	Sales	(232,054) (USD7,644)	(9) %	OA 90 days	-	-	155,454 (USD5,146)	10%	

Note 1: For transactions in CNY, the amount shown above is the amount (in NTD) recorded on the Company's books. In addition, transactions in USD are translated into NTD using the average exchange rate of 30.3572.

Note 2: Assets denominated in USD are translated into NTD at the exchange rate of 30.21.

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

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

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period (Note1)	Allowance for bad debts
					Amount	Action taken		
EUROPOWER INTERNATIONAL LIMITED	PRIME WIRE & CABLE, INC.	Group	Accounts receivable: 337,000	2.46 %	-	-	93,312	-
EUROPOWER INTERNATIONAL LIMITED	BESTLINK NETWORK INC.	Group	Accounts receivable: 155,454	1.21 %	-	-	21,298	-
WUXI UNIVERSAL	The Company	Group	Accounts receivable: 151,084	2.90 %	-	-	51,275	-
WUXI UNIVERSAL	EUROPOWER INTERNATIONAL LIMITED	Group	Accounts receivable: 339,766	1.75 %	-	-	210,530	-

Note 1: The information above shows subsequent collection of accounts receivable – related party as of November 10, 2017.

Note 2: For transactions in CNY, the amount shown above is the amount (in NTD) recorded on the Company's books. In addition, transactions in USD are translated into NTD using the average exchange rate of 30.3572.

Note 3: Assets denominated in USD are translated into NTD at the exchange rate of 30.21.

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

- (ix) Trading in derivative instruments:None.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(x) Business relationships and significant intercompany transactions:

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions for the six months ended June 30, 2017 (Note 3)			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	DONGGUAN YFC	1	Sales	8,496	A percentage of gross profit	-%
0	The Company	WUXI UNIVERSAL	1	Sales	9,683	A percentage of gross profit	-%
0	The Company	WUXI UNIVERSAL	1	Accounts Receivable	2,252	OA 90 days	-%
0	The Company	WUXI UNIVERSAL	1	Other Receivables	67,890	Based on collection status	1%
0	The Company	PRIME WIRE & CABLE, INC.	1	Sales	29,824	A percentage of gross profit	-%
0	The Company	PRIME WIRE & CABLE, INC.	1	Accounts Receivable	10,896	OA 90 days	-%
0	The Company	PREMIUM LINE ASIA LTD.	1	Other Receivables	1,385	Based on collection status	-%
0	The Company	MONOPRICE, INC.	1	Sales	147,278	A percentage of gross profit	2%
0	The Company	MONOPRICE, INC.	1	Accounts Receivable	54,311	OA 60 days	1%
1	BESTLINK NETWARE INC.	PRIME WIRE & CABLE, INC.	3	Sales	6,788	A percentage of gross profit	-%
2	EUROPOWER INTERNATIONAL LIMITED	The Company	2	Other Receivables	181,260	Based on collection status	2%
2	EUROPOWER INTERNATIONAL LIMITED	PRIME WIRE & CABLE, INC.	3	Sales	769,745	A percentage of gross profit	9%
2	EUROPOWER INTERNATIONAL LIMITED	PRIME WIRE & CABLE, INC.	3	Accounts Receivable	337,000	OA 90 days	4%
2	EUROPOWER INTERNATIONAL LIMITED	BESTLINK NETWARE INC.	3	Sales	232,054	A percentage of gross profit	3%
2	EUROPOWER INTERNATIONAL LIMITED	BESTLINK NETWARE INC.	3	Accounts Receivable	155,455	OA 90 days	2%
2	EUROPOWER INTERNATIONAL LIMITED	BESTLINK NETWARE INC.	3	Other Receivables	3,620	Based on collection status	-%
3	DONGGUAN YFC	The Company	2	Sales	404,438	A percentage of gross profit	5%
3	DONGGUAN YFC	The Company	2	Accounts Receivable	85,117	OA 90 days	1%
3	DONGGUAN YFC	EUROPOWER INTERNATIONAL LIMITED	3	Sales	698,831	A percentage of gross profit	8%
3	DONGGUAN YFC	EUROPOWER INTERNATIONAL LIMITED	3	Accounts Receivable	83,663	OA 90 days	1%
4	WUXI UNIVERSAL	The Company	2	Sales	293,712	A percentage of gross profit	3%
4	WUXI UNIVERSAL	The Company	2	Accounts Receivable	151,084	OA 90 days	2%
4	WUXI UNIVERSAL	EUROPOWER INTERNATIONAL LIMITED	3	Sales	871,194	A percentage of gross profit	10%
4	WUXI UNIVERSAL	EUROPOWER INTERNATIONAL LIMITED	3	Accounts Receivable	339,766	OA 90 days	5%
4	WUXI UNIVERSAL	DONGGUAN YFC	3	Sales	4,202	A percentage of gross profit	-%
4	WUXI UNIVERSAL	INTERNATIONAL TRADING (WUXI)	3	Sales	2,544	A percentage of gross profit	-%
4	WUXI UNIVERSAL	INTERNATIONAL TRADING (WUXI)	3	Accounts Receivable	1,453	OA 90 days	-%
5	PRIME WIRE & CABLE, INC.	EUROPOWER INTERNATIONAL LIMITED	3	Commission Income	57,235	Monthly payment	1%
5	PRIME WIRE & CABLE, INC.	EUROPOWER INTERNATIONAL LIMITED	3	Prepayments	67,317	-	1%
5	PRIME WIRE & CABLE, INC.	EUROPOWER INTERNATIONAL LIMITED	3	Accounts Receivable	47,579	OA 90 days	1%
5	PRIME WIRE & CABLE, INC.	BESTLINK NETWARE INC.	3	Sales	1,347	A percentage of gross profit	-%

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## YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Interim Financial Statements

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions for the six months ended June 30, 2017 (Note 3)			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
5	PRIME WIRE & CABLE, INC.	MONOPRICE, INC	3	Sales	33,869	A percentage of gross profit	-%
5	PRIME WIRE & CABLE, INC.	MONOPRICE, INC	3	Accounts Receivable	8,630	OA 90 days	-%
5	PRIME WIRE & CABLE, INC.	MONOPRICE, INC	3	Interest Income	1,149	Monthly payment	-%
6	CHENZHOUELECTRIC CO., LTD.	DONGGUAN YFC	3	Sales	12,364	A percentage of gross profit	-%
6	CHENZHOUELECTRIC CO., LTD.	DONGGUAN YFC	3	Accounts Receivable	1,864	OA 90 days	-%
7	UNC INVESTMENT & DEVELOPMENT INC.	PRIME WIRE & CABLE, INC.	3	Rent Income	19,357	Monthly payment	-%
7	UNC INVESTMENT & DEVELOPMENT INC.	BESTLINK NETWORK INC.	3	Rent Income	8,547	Monthly payment	-%

Note 1: The numbers are filled in as follows:

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

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

1. Transactions from the Company to subsidiaries
2. Transactions from subsidiaries to the Company.
3. Transactions between subsidiaries.

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

#### (b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2017 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of September 30, 2017			Net income (losses) of investee	Investment income (loss)	Note 1
				September 30, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	B.V.I.	Holding company set up for investments in China and USA	1,766,212 (USD53,903)	1,766,212 (USD53,903)	53,906	100.00 %	2,946,095	298,933	298,933	
The Company	BESTLINK NETWORK INC.	USA	Trading business	31,393 (USD1,000)	31,393 (USD1,000)	1,000	100.00 %	41,070	726	726	
The Company	UNC INVESTMENT & DEVELOPMENT, INC.	USA	Real estate investment business	1,496 (USD50)	1,496 (USD50)	50	100.00 %	6,249	(1,513)	(1,513)	
The Company	PREMIUM-LINE KSI GMBH	Austria	Trading business	28,193 (USD600)	28,193 (USD600)	-	100.00 %	14,111	(7,882)	(7,882)	
The Company	MONOPRICE HOLDINGS, INC.	USA	Holding company set up for investments in USA	1,286,213 (USD40,506)	1,255,208 (USD39,478)	100	100.00 %	1,302,466	102,277	103,250	
YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	YFC-BONEAGLE HOLDINGS (CAYMAN) CO., LTD.	Cayman Islands	Holding company set up for investments in China and USA	752,008 (USD22,807)	752,008 (USD22,807)	22,807	100.00 %	1,137,783	(119,696)	(119,696)	
YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	EUROPOWER INTERNATIONAL LIMITED	B.V.I.	Trading business	161,778 (USD4,890)	161,778 (USD4,890)	4,890	100.00 %	1,202,910	413,809	413,809	
YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	UNIVERSAL NETWORK CORPORATION	Samoa	Holding company set up for investments in China	646,459 (USD20,000)	646,459 (USD20,000)	20,000	100.00 %	587,900	7,461	7,461	
YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	MAX SYNERGY LIMITED	Samoa	Holding company set up for investments in China	23,392 (USD720)	23,392 (USD720)	720	80.00 %	19,064	(721)	(577)	
YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	PREMIUM LINE ASIA LTD.	Samoa	Trading business	1,472 (USD50)	1,472 (USD50)	50	100.00 %	880	(365)	(365)	
YFC-BONEAGLE HOLDINGS (CAYMAN) CO., LTD.	PRIME WIRE & CABLE, INC.	USA	Sale of electronic calculator software and hardware, network equipment and electronic appliances	511,700 (USD15,500)	511,700 (USD15,500)	15,500	100.00 %	714,585	80,130	80,130	
YFC-BONEAGLE ELECTRIC (B.V.I) CO., LTD.	TAIPIN CIRCULATING ENTERPRISE CO., LTD.	Samoa	Holding company set up for investments in China	167,022 (HKD42,000)	167,022 (HKD42,000)	4,200	15.81 %	-	-	-	Note 2
MONOPRICE HOLDINGS, INC.	MONOPRICE, INC	USA	Trading business	1,286,213 (USD40,506)	1,255,208 (USD39,478)	500	100.00 %	1,302,466	102,277	103,250	

Note 1: In preparing the consolidated financial report, the transactions listed above have been eliminated, except for TAIPIN CIRCULATING ENTERPRISE CO., LTD., which was accounted for under available-for-sale financial assets-noncurrent.

Note 2: For the year ended December 31, 2015, impairment loss was recognized and the book value was \$0.

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**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

(c) Information on investment in mainland China:

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

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of September 30, 2017 (Note 3)	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 2)	Carrying amount as of June 30, 2017	Accumulated remittance of earnings in current period
					Outflow	Inflow						
DONGGUAN YFC	Manufacturing and sale of power cables, wires, and outlets	241,998 (USD7,387)	(2)	240,494 (USD7,007)	-	-	240,494 (USD7,007)	(197,321)	100.00%	(197,321)	386,657	-
WUXI UNIVERSAL	Manufacturing and sale of high-speed high-frequency LAN cables	646,459 (USD20,000)	(2)	646,459 (USD20,000)	-	-	646,459 (USD20,000)	5,416	100.00%	5,416	581,097	-
CHENZHOUE YFC	Processing and sale of communication products and internet cables	9,593 (USD300)	(2)	9,593 (USD300)	-	-	9,593 (USD300)	(752)	100.00%	(752)	5,426	-
INTERNATIONAL TRADING (WUXI)	Sale of electronic calculator software and hardware, network equipment and electronic appliances	31,032 (USD1,000)	(2)	23,381 (USD753)	-	-	23,381 (USD753)	(739)	75.60%	(559)	19,101	-
T-MARK	Wholesaling business	900,877 (HKD234,228)	(2)	167,022 (HKD42,000)	-	-	167,022 (HKD42,000)	-	15.81%	-	(Note 6)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of September 30, 2017 (Note 3)	Investment Amounts Authorized by Investment Commission, MOEA (Note 3 and 4)	Upper Limit on Investment (Note 5)
1,084,829 (USD33,643 thousand)	1,101,189 (USD34,022 thousand)	-

Note 1: The method of investments are as follows:

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

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

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

Note 3: The amount shown is the actual accumulated investment in Mainland China as of September 30, 2017.

Note 4: The amount authorized does not include the reinvestment of earnings of the subsidiary DONGGUAN YFC, which amounted to US\$379 thousand.

Note 5: In accordance with the "Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China" amended in August 29, 2008 by the MOEAIC, which relates to the limits of investments, the Group has acquired the relevant documents issued by Industrial Development Bureau, Ministry of Economic Affairs on May 12, 2017. Therefore, there is no restriction on the Company's investment in Mainland China.

Note 6: T-MARK is an investee that the Group indirectly invested in through a subsidiary, which was accounted for under available-for-sale financial assets - noncurrent. For the year ended December 31, 2015, impairment loss on available-for-sale financial assets - noncurrent was \$148,368. As of September 30, 2017, the Company has yet to obtain the relevant certificate of dissolution.

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

(iii) Significant transactions:

Please refer to "Information on significant transaction" for the information on significant direct or indirect transactions, which were eliminated in the preparation of consolidated financial statements, between the Group and the investee companies in Mainland China for the period from January 1 to September 30, 2017.

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

**(14) Segment information:**

**(a) General information**

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

In the year 2016, the basis for identifying the different operating segments are not the same as the basis used in the previous year. This is mainly due to the acquisition of its subsidiary in the United States and the resulting adjustments that the Group made in order to better distinguish the operating segments and their operating activities. Therefore, the information for the interim period ended September 30, 2016 has also been adjusted accordingly.

The operating segment information and reconciliation were as follows:

For the three months ended September 30, 2017					
	<u>Manufacturing</u>	<u>Retailing</u>	<u>Online retailing</u>	<u>Adjustments and elimination</u>	<u>Total</u>
Revenue:					
Revenue from external customers	\$ 369,314	1,814,996	1,386,247	-	3,570,557
Inter-segment revenue	1,067,892	416,142	1,162	(1,485,196)	-
Total revenues	<u>\$ 1,437,206</u>	<u>2,231,138</u>	<u>1,387,409</u>	<u>(1,485,196)</u>	<u>3,570,557</u>
Reportable segment profit or loss	<u>\$ (40,959)</u>	<u>291,104</u>	<u>57,702</u>	<u>(2,797)</u>	<u>305,050</u>
For the three months ended September 30, 2016					
	<u>Manufacturing</u>	<u>Retailing</u>	<u>Online retailing</u>	<u>Adjustments and elimination</u>	<u>Total</u>
Revenue:					
Revenue from external customers	\$ 434,151	1,658,593	127,276	-	2,220,020
Inter-segment revenue	880,608	384,042	2,794	(1,267,444)	-
Total revenues	<u>\$ 1,314,759</u>	<u>2,042,635</u>	<u>130,070</u>	<u>(1,267,444)</u>	<u>2,220,020</u>
Reportable segment profit or loss	<u>\$ 71,244</u>	<u>188,299</u>	<u>6,911</u>	<u>8,088</u>	<u>274,542</u>
For the nine months ended September 30, 2017					
	<u>Manufacturing</u>	<u>Retailing</u>	<u>Online retailing</u>	<u>Adjustments and elimination</u>	<u>Total</u>
Revenue:					
Revenue from external customers	\$ 1,174,493	3,369,223	4,096,305	-	8,640,021
Inter-segment revenue	2,454,794	1,037,015	6,788	(3,498,597)	-
Total revenues	<u>\$ 3,629,287</u>	<u>4,406,238</u>	<u>4,103,093</u>	<u>(3,498,597)</u>	<u>8,640,021</u>
Reportable segment profit or loss	<u>\$ (19,649)</u>	<u>392,672</u>	<u>167,584</u>	<u>(8,298)</u>	<u>532,309</u>

(Continued)

**YFC-BONEAGLE ELECTRIC CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Interim Financial Statements**

For the nine months ended September 30, 2016					
	<u>Manufacturing</u>	<u>Retailing</u>	<u>Online retailing</u>	<u>Adjustments and elimination</u>	<u>Total</u>
Revenue:					
Revenue from external customers	\$ 1,203,415	3,192,144	382,311	-	4,777,870
Inter-segment revenue	<u>2,114,208</u>	<u>758,035</u>	<u>5,369</u>	<u>(2,877,612)</u>	<u>-</u>
Total revenues	<u>\$ 3,317,623</u>	<u>3,950,179</u>	<u>387,680</u>	<u>(2,877,612)</u>	<u>4,777,870</u>
Reportable segment profit or loss	<u>\$ 176,411</u>	<u>195,024</u>	<u>19,258</u>	<u>6,160</u>	<u>396,853</u>
	<u>Manufacturing</u>	<u>Retailing</u>	<u>Online retailing</u>	<u>Adjustments and elimination</u>	<u>Total</u>
Reportable segment assets:					
September 30, 2017	<u>\$ 7,143,843</u>	<u>3,832,905</u>	<u>2,443,969</u>	<u>(5,901,625)</u>	<u>7,519,092</u>
December 31, 2016	<u>\$ 6,963,645</u>	<u>4,312,241</u>	<u>2,212,015</u>	<u>(6,202,564)</u>	<u>7,285,337</u>
September 30, 2016	<u>\$ 5,351,141</u>	<u>3,400,662</u>	<u>175,195</u>	<u>(3,833,830)</u>	<u>5,093,168</u>
Reportable segment liabilities:					
September 30, 2017	<u>\$ 3,721,239</u>	<u>1,874,838</u>	<u>1,101,404</u>	<u>(1,631,857)</u>	<u>5,065,624</u>
December 31, 2016	<u>\$ 3,299,311</u>	<u>2,696,463</u>	<u>912,538</u>	<u>(2,102,221)</u>	<u>4,806,091</u>
September 30, 2016	<u>\$ 1,898,283</u>	<u>1,912,754</u>	<u>144,622</u>	<u>(1,188,492)</u>	<u>2,767,167</u>