Strong H Machinery Technology (Cayman) Incorporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of Strong H Machinery Technology (Cayman) Incorporation as of and for the year ended December 31, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Strong H Machinery Technology (Cayman) Incorporation and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION

By

CHI, PING HSIN
Chairman

March 14, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Strong H Machinery Technology (Cayman) Incorporation

Opinion

We have audited the accompanying consolidated financial statements of Strong H Machinery Technology (Cayman) Incorporation and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group's consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter from the audit of the Group's consolidated financial statement is as below:

Revenue Recognition

The Group's revenue mainly consists of the sales of industrial sewing machine's spare parts. For some of the major clients, the Group recognizes sales revenue when the goods have been delivered to the client's designated location and verifying accounting records has been completed in accordance with the agreement. As the above-mentioned sales revenue is significant for the year ended December 31, 2018, the appropriateness of revenue recognition for the aforementioned type of sales revenue has been deemed as a key audit matter for the year ended December 31, 2018.

To address this matter, we evaluated the Group's revenue recognition policy, trading characteristics, and the relevant design and implementation of internal control for this type of revenue. We selected samples of revenue for this type of sales and verified them against the client's transaction statements and the related documents to confirm that the transactions had been completed and recognized in the appropriate period.

Valuation of Inventory

The Group's inventory balance is significant as of December 31, 2018. Due to the uncertainty caused by the variety and the rapid categories change of sewing machine's spare parts, the inventories are to be stated at the lower of cost and net realizable value, taking the aging of the inventories in to consideration. The valuation in net realizable value usually involves significant accounting estimates. The related critical accounting estimates and judgments of inventories are disclosed in Note 5 of the consolidated financial statement and have been deemed as a key audit matter for the year ended December 31, 2018.

To address this matter, we conducted the audits with understanding of the industry and its related product's natures. We focus on the valuation of inventories with the evaluation of the relevant design and implementation of internal control for the management of inventory, the policy of the provisions for inventory write-down and sampled selection performed for calculation of the provisions for inventory write-down (including performing test of details to the sales invoices and aging for inventories). The provisions for inventories write-down are valued based on the detailed test. The result has been compared with the provisions for inventories write-down recognized by the Group to ensure the appropriateness and sufficiency of the provisions for inventories write-down as of December 31, 2018.

Other Matters

We have also audited the parent company only financial statements of Strong H Machinery Technology (Cayman) Incorporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unqualified opinion.

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

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

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

Those business units management of the Group, including those charged with governance, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Walter Liu and ChingTing Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2019

Notice to Readers

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 3, 4 and 6)	$ 351,561	15	$ 296,357	14
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 26)	44,720	2	-	-
Notes receivable (Notes 3, 4 and 8)	90,330	4	85,833	4
Trade receivables (Notes 3, 4, 5 and 8)	578,277	25	529,720	26
Other receivables from related parties (Notes 3, 4 and 27)	4,505	-	1,711	-
Inventories (Notes 4, 5 and 9)	444,805	19	463,800	23
Other current assets (Notes 3, 4, 13, 14 and 28)	87,129	4	65,752	3
Total current assets	1,601,327	69	1,443,173	70
NON-CURRENT ASSETS				
Property, plant and equipment (Notes 4, 11, 27 and 28)	524,520	22	492,970	24
Intangible assets (Notes 4 and 12)	7,414	-	6,091	-
Deferred tax assets (Notes 4, 5 and 22)	39,623	2	48,573	3
Prepayments for leases - non-current (Notes 4, 13 and 28)	135,052	6	38,146	2
Other non-current assets (Notes 4 and 14)	25,811	1	21,745	1
Total non-current assets	732,420	31	607,525	30
TOTAL	$ 2,333,747	100	$ 2,050,698	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 15)	$ -	-	$ 114,300	6
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 26)	480	-	-	-
Notes payable (Note 4)	5,322	-	693	-
Trade payables (Notes 4 and 27)	66,167	3	89,099	4
Other payables (Notes 4 and 17)	233,362	10	264,544	13
Current tax liabilities (Notes 4 and 22)	49,244	2	38,462	2
Other current liabilities (Note 4)	2,843	-	3,261	-
Total current liabilities	357,418	15	510,359	25
NON-CURRENT LIABILITIES				
Bonds payable (Notes 4, 16, 24 and 26)	234,663	10	-	-
Deferred tax liabilities (Notes 4 and 22)	89,634	4	75,428	4
Total non-current liabilities	324,297	14	75,428	4
Total liabilities	681,715	29	585,787	29
EQUITY (Notes 4, 16, 19 and 24)				
Share capital				
Ordinary shares	661,511	28	652,500	32
Capital surplus	401,444	17	371,995	18
Retained earnings				
Legal reserve	56,527	3	36,213	2
Special reserve	20,460	1	10,846	-
Unappropriated earnings	566,459	24	413,817	20
Total retained earnings	643,446	28	460,876	22
Other equity	(54,369)	(2)	(20,460)	(1)
Total equity	1,652,032	71	1,464,911	71
TOTAL	$ 2,333,747	100	$ 2,050,698	100

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4, 20, 27 and 32)	$ 1,816,136	100	$ 1,374,470	100
OPERATING COSTS (Notes 9, 18, 21 and 27)	(1,070,558)	(59)	(811,867)	(59)
GROSS PROFIT	745,578	41	562,603	41
OPERATING EXPENSES (Notes 18, 21 and 27)				
Marketing	(55,799)	(3)	(53,585)	(4)
Administrative	(197,551)	(11)	(180,906)	(13)
Research and development	(60,742)	(3)	(37,517)	(3)
Total operating expenses	(314,092)	(17)	(272,008)	(20)
INCOME FROM OPERATIONS	431,486	24	290,595	21
NON-OPERATING INCOME AND EXPENSES (Notes 4, 21 and 27)				
Other income	10,765	1	18,729	1
Other gains and losses	6,934	-	(10,565)	(1)
Finance costs	(13,077)	(1)	(4,951)	-
Total non-operating income and expenses	4,622	-	3,213	-
INCOME BEFORE INCOME TAX	436,108	24	293,808	21
INCOME TAX EXPENSE (Notes 4, 5 and 22)	(123,038)	(7)	(90,666)	(6)
NET INCOME	313,070	17	203,142	15
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 19)				
Items that will not be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations	(33,909)	(2)	(9,614)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 279,161	15	$ 193,528	14
EARNINGS PER SHARE (Note 23)				
Basic earnings per share	$ 4.76		$ 3.25	
Diluted earnings per share	$ 4.76		$ 3.25	

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Difference on Translating Foreign Operations	Total Equity
BALANCE AT JANUARY 1, 2017	$ 580,000	$ 212,334	$ 21,417	$ -	$ 340,717	$ 362,134	$ (10,846)	$ 1,143,622
Appropriations of 2016 earnings								
Legal reserve	-	-	14,796	-	(14,796)	-	-	-
Special reserve	-	-	-	10,846	(10,846)	-	-	-
Cash dividends to shareholders	-	-	-	-	(104,400)	(104,400)	-	(104,400)
	-	-	14,796	10,846	(130,042)	(104,400)	-	(104,400)
Net income in 2017	-	-	-	-	203,142	203,142	-	203,142
Other comprehensive income (loss) in 2017, net of income tax	-	-	-	-	-	-	(9,614)	(9,614)
Total comprehensive income (loss) in 2017	-	-	-	-	203,142	203,142	(9,614)	193,528
Issuance of ordinary shares for cash	72,500	159,661	-	-	-	-	-	232,161
BALANCE AT DECEMBER 31, 2017	652,500	371,995	36,213	10,846	413,817	460,876	(20,460)	1,464,911
Appropriations of 2017 earnings								
Legal reserve	-	-	20,314	-	(20,314)	-	-	-
Special reserve	-	-	-	9,614	(9,614)	-	-	-
Cash dividends to shareholders	-	-	-	-	(130,500)	(130,500)	-	(130,500)
	-	-	20,314	9,614	(160,428)	(130,500)	-	(130,500)
Equity component of convertible bonds issued by the Company	-	31,340	-	-	-	-	-	31,340
Issuance of share dividends from capital surplus	-	(32,625)	-	-	-	-	-	(32,625)
Net income in 2018	-	-	-	-	313,070	313,070	-	313,070
Other comprehensive income (loss) in 2018, net of income tax	-	-	-	-	-	-	(33,909)	(33,909)
Total comprehensive income (loss) in 2018	-	-	-	-	313,070	313,070	(33,909)	279,161
Convertible bonds converted to ordinary shares	9,011	30,734	-	-	-	-	-	39,745
BALANCE AT DECEMBER 31, 2018	$ 661,511	$ 401,444	$ 56,527	$ 20,460	$ 566,459	$ 643,446	$ (54,369)	$ 1,652,032

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 436,108	$ 293,808
Adjustments for:		
Depreciation expenses	47,663	53,315
Amortization expenses	3,419	3,727
Amortization of prepayments for leases	1,049	1,035
Expected credit loss recognized on trade receivables	3,640	-
Impairment loss reversed on trade receivables	-	(2,577)
Finance costs	13,077	4,951
Interest income	(3,453)	(881)
Write-down (reversal of write-down) of inventories	(10,371)	2,609
Loss of obsolete inventory	2,473	6,529
Net gain on fair value changes of financial assets and liabilities designated as at fair value through profit or loss	(641)	-
Other items	1,994	(335)
Changes in operating assets and liabilities		
Notes receivable	(6,300)	(35,399)
Trade receivables	(64,346)	(19,047)
Inventories	17,785	(102,387)
Other current assets	(24,849)	(21,333)
Notes payable	4,629	693
Trade payables	(21,503)	27,079
Other payables	(21,584)	17,268
Other current liabilities	(418)	2,917
Cash generated from operations	378,372	231,972
Interest received	3,453	881
Interest paid	(1,333)	(4,951)
Income tax paid	(91,162)	(82,348)
Net cash generated from operating activities	289,330	145,554
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets classified as at fair value through profit or loss	(44,720)	-
Payments for property, plant and equipment	(130,797)	(93,488)
Proceeds from disposal of property, plant and equipment	8,255	5,510
Payments for intangible assets	(4,892)	(3,295)
Increase in prepayments for equipment	(4,706)	(11,168)
Increase in prepayments for leases	(100,774)	-
Increase in items of other investing activities	115	1,054
Net cash used in investing activities	(277,519)	(101,387)

(Continued)

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	$ (114,888)	$ 11,767
Proceeds from issuance of convertible bonds	300,900	-
Proceeds from issuance of ordinary shares	-	232,161
Dividend paid to owners of the Company	(163,125)	(104,400)
Net cash used in financing activities	22,887	139,528
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(6,494)	(1,078)
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,204	182,617
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	296,357	113,740
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 324,561	$ 296,357

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Strong H Machinery Technology (Cayman) Incorporation (the "Company", formerly Formosa Komatsu Silicon Corporation) was established by Formosa Plastics Corporation, Asia Pacific Investment Corporation and Komatsu Electronic Metals Co., Ltd. The Company was incorporated in the Republic of China (ROC) in and commenced business in November 1995. The Company mainly manufactures, sells, and trades silicon wafers.

On October 18, 2006, Sumco Corporation acquired 51% equity in Komatsu Electronic Metals Co., Ltd. As a result, the Company's name was changed to Formosa Sumco Technology Corporation in accordance with the resolution passed at the general shareholders' meeting on December 29, 2006, and this name change was registered at the Ministry of Economic Affairs, Republic of China. Komatsu Electronic Metals Co., Ltd. has changed its name to Sumco Techxiv Corporation.

The Company became a public listed company on September 12, 2006. The Company's shares were listed on the Emerging Stock Board (ESB) on November 23, 2006 and subsequently became listed on the Taiwan Stock Exchange on December 10, 2007.

The Company's parent is Sumco Techxiv Corporation, which held 45.5% and 47% of ordinary shares of the Company as of December 31, 2018 and 2017, respectively. The Company's ultimate parent is Sumco Corporation.

The consolidated financial statements are presented in the Company's functional currency, the New Taiwan dollar (NTD).

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on March 14, 2019.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

1) IFRS 9 "Financial Instruments" and related amendment

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	Measurement Category		Carrying Amount	
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 296,357	$ 296,357
Trade receivables and other receivables	Loans and receivables	Amortized cost	626,122	626,122

Financial Assets	**IAS 39 Carrying Amount as of January 1, 2018**	**Reclassifications**	**Remeasurements**	**IFRS 9 Carrying Amount as of January 1, 2018**
Amortized cost	$ -			
Add: Reclassification from loans and receivables (IAS 39)	-	$ 922,479	$ -	$ 922,479
	$ -	$ 922,479	$ -	$ 922,479

Trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 are classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9. As a result of retrospective application, the adjustments had no difference on January 1, 2018.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

IFRS 15 require that a good or service is distinct if it is capable of being distinct, for the sales of products by the Group, there should be no service provision. There is no transactions with goods and services being integrated, while there are no authorized trade and other transactions within the Group. Hence, IFRS 15 and its related amendments have no material impact on the Group.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC) and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases - current	$ 1,028	$ (1,028)	$ -
Prepayments for leases - non-current	135,052	(135,052)	-
Right-of-use assets	-	136,080	136,080
Total effect on assets	$ 136,080	$ -	$ 136,080

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of defined benefit less fair value of assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

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

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 10 and Table 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of the Group, transactions in currencies other than the Group's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the entities (including subsidiaries in other countries which are using with currency different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollars, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at monthly weighted-average cost on the balance sheet date.

g. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Properties, plant and equipment in the course of construction are measured at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL and Financial assets at amortized cost.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at fair value through other comprehensive income (FVTOCI) and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 26.

ii. Financial assets at amortized cost

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

- Financial asset that has subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include bank acceptances and time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2017

Financial assets are classified into the following categories: Loans and receivables.

Loans and receivables

Loans and receivables (including note receivables, trade receivables, cash and cash equivalent, other receivables, and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and an increase in the number of delayed payments in the portfolio past the average credit period.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

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

Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or designated as at FVTPL.
Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on such financial liability.

Fair value is determined in the manner described in Note 26.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or upon the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised; in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

k. Revenue recognition

2018

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

Revenue from sale of goods

Revenue from sale of goods comes from sales of industrial sewing machine and spare parts. Sales of industrial sewing machine and spare parts are recognized as revenue when the goods are delivered to the customer's specific location and completed reconciliation or the goods are actually shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivable is recognized co-currently.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of the materials' ownership.

2) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

l. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

m. Borrowing costs

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

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

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

n. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carry forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 8. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

The carrying amount of trade receivables as of December 31, 2018 is disclosed in Note 8.

b Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of trade receivables as of December 31, 2017 is disclosed in Note 8.

c Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, and therefore, the Group uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid advancement in technologies, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to their net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, and hence may result in significant changes.

The carrying amount of inventories as of December 31, 2018 and 2017 are disclosed in Note 9.

d. Realization of deferred income tax assets

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

The carrying amount of deferred income tax assets at December 31, 2018 and 2017 are disclosed in Note 22.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand	$ 3,752	$ 2,182
Demand deposits	321,570	158,986
Cash equivalents (investments with original maturities less than 3 months)		
Bank acceptances	3,220	4,245
Time deposits	23,019	130,944
	$ 351,561	$ 296,357

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2018	**2017**
Demand deposits	0.01%-0.35%	0.01%-0.35%
Time deposits	2.35%	1.25%-1.76%

7. FINANCIAL ASSETS AT FVTPL - 2018

	December 31	
	2018	**2017**
Financial assets at FVTPL - current		
Financial assets held for trading		
Non-derivative financial assets		
Government bonds	$ 8,944	$ -
Financial assets mandatorily classified as at FVTPL		
Hybrid financial assets		
Structured deposits*	35,776	-
	$ 44,720	$ -
Financial liabilities at FVTPL - current		
Financial liabilities mandatorily classified as at FVTPL		
Convertible options	$ 480	$ -

* The Group entered into a structured deposit contract with a bank in 2018. The structured time deposit contract includes an embedded derivative instrument which is not closely related to the host contract. The entire contract is assessed and mandatorily classified as at FVTPL since it contained a host that is an asset within the scope of IFRS 9.

8. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Notes receivable		
At amortized cost		
Gross carrying amount - operating	$ 90,330	$ 85,833
Less: Allowance for impairment loss	-	-
	$ 90,330	$ 85,833
Trade receivables		
At amortized cost		
Gross carrying amount	$ 579,938	$ 536,853
Less: Allowance for impairment loss	(1,661)	(7,133)
	$ 578,277	$ 529,720

Trade Receivables

For the year ended December 31, 2018

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Not Past Due	Less than 60 Days	61 to 90 Days	91 to 180 Days	181 to 360 Days	Over 361 Days	Total
Expected credit loss rate	0%	0.1%	2%	5%	30%	100%	-
Gross carrying amount	$ 540,888	$ 28,914	$ 1,856	$ 3,546	$ 4,734	$ -	$ 579,938
Loss allowance (Lifetime ECL)	-	(28)	(37)	(176)	(1,420)	-	(1,661)
Amortized cost	$ 540,888	$ 28,886	$ 1,819	$ 3,370	$ 3,314	$ -	$ 578,277

The movements of the loss allowance of trade receivables were as follows:

	December 31, 2018
Balance at January 1, 2018 per IAS 39	$ 7,133
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	7,133
Add: Net remeasurement of loss allowance	3,640
Less: Amounts written off	(9,078)
Foreign exchange gains and losses	(34)
Balance at December 31, 2018	$ 1,661

For the year ended December 31, 2017

The average credit period on sales of goods was 60-181 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables that were 360 days overdue because based on historical experience receivables that are past due beyond 360 days were not recoverable. Allowance for impairment loss were recognized against trade receivables less than 360 days based on estimated irrecoverable amount determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of trade receivables was as follows:

	December 31, 2017
Not past due	$ 502,282
1-60 days	14,907
61-90 days	2,874
91-180 days	15,003
181-360 days	1,787
Over 361 days	-
	$ 536,853

The above aging schedule was based on past due days from invoice date.

There are no receivables that were past due but not impaired as of December 31, 2018 and 2017.

The movements of the allowance for doubtful trade receivables were as follows:

	December 31, 2017
Balance at January 1, 2017	$ 10,379
Less: Amounts written off	(508)
Less: Impairment losses reversed	(2,577)
Foreign exchange gains and losses	(161)
Balance at December 31, 2018	$ 7,133

As of December 31, 2018 and 2017, the amount of allowance for bad debts was not individually deductible for major financial difficulties.

9. INVENTORIES

	December 31	
	2018	2017
Raw materials	$ 137,051	$ 128,451
Work in progress	105,346	82,739
Finished goods	223,788	284,804
Less: Allowance for inventory write-downs	(21,380)	(32,194)
	$ 444,805	$ 463,800

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $1,070,558 thousand and $811,867 thousand, respectively.

The cost of goods sold for the year ended December 31, 2018 included reversal of inventory write-downs of $10,371 thousand and obsolete inventory loss of $2,473 thousand, respectively.

The cost of goods sold for the year ended December 31, 2017 included inventory write-downs of $2,609 thousand and obsolete inventory loss of $6,529 thousand, respectively.

10. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

			Proportion of Ownership December 31	
Investor	Investee	Nature of Activities	2018	2017
The Company	Vanden International Co., Ltd.	Investment and international trade	100.00%	100.00%
The Company	Faith Light International Corporation	Investment and international trade	100.00%	100.00%
Vanden International Co., Ltd.	Strong H Machinery Technology Co., Ltd. (Laichou)	Manufacturing and sales of high-tech special industrial sewing machine components	80.59%	80.59%
Faith Light International Corporation	Strong H Machinery Technology Co., Ltd. (Laichou)	Manufacturing and sales of high-tech special industrial sewing machine components	19.41%	19.41%
Strong H Machinery Technology Co., Ltd. (Laichou)	Grand Strong Precision Machiners Co., Ltd.	Manufacturing and sales of high-tech special industrial sewing machine components	100.00%	100.00%

Note 1: To meet the development needs of the industry, the Group uses 100% equity of Grand Strong Precision Machiners Co., Ltd. held by Faith Light International Corporation, was valued at US$387.87 million, which was invested by Strong H Machinery Technology Co., Ltd. (Laichou). Grand Strong Precision Machiners Co., Ltd. became a subsidiary of Strong H Machinery Technology Co., Ltd. (Laichou), which was approved by the Shandong Provincial Department of Commerce and completed the change registration.

Note 2: The board of directors of the Company decided to increase the capital of its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou) by US$3,000 thousand; as a result, its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou)'s capital increased from US$19,979 thousand to US$22,979 thousand and has completed the change registration on December 5, 2018.

The consolidated financial statements of the above subsidiaries have been audited by CPA for the years ended December 31, 2018 and 2017.

The consolidated financial statements were presented in the Company's functional currency, the renminbi (RMB), and the functional currency was changed to New Taiwan dollar from 2018. The functional currency of its sub-subsidiary is the RMB.

When preparing the consolidated financial statements, the assets and liabilities were converted into the presentation currency in accordance with the exchange rate at the balance sheet date and the shareholders' equity at the historical exchange rate and profit and loss account at the average exchange rate for each period. The profit or loss and other comprehensive income for the year.

The profit or loss accounted the comprehensive income of exchange rate changes of foreign currencies on the balance which was accounted for by the equity.

The exchange rate at the balance sheet date of RMB to NTD is $4.4720 and $4.5650 for the years ended December 31, 2018 and 2017. The average exchange rate of RMB to NTD is $4.5654 and $4.5015 for the years ended December 31, 2018 and 2017.

The above subsidiary was incorporated in the consolidated financial statements on the basis of audited financial statements as of and for the same reporting periods of the Company.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress	Total
Cost					
Balance at January 1, 2017	$ 340,728	$ 371,501	$ 57,310	$ 6,109	$ 775,648
Additions	7,070	46,670	7,270	32,611	93,621
Reclassified	-	16,457	158	(16,615)	-
Disposals	-	(13,592)	(4,364)	-	(17,956)
Effect of foreign currency exchange differences	(3,738)	(3,485)	(603)	157	(7,669)
Balance at December 31, 2017	$ 344,060	$ 417,551	$ 59,771	$ 22,262	$ 843,644

(Continued)

	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress	Total
Accumulated depreciation and impairment					
Balance at January 1, 2017	$ 92,488	$ 186,560	$ 32,292	$ -	$ 311,340
Disposals	-	(7,457)	(3,613)	-	(11,070)
Depreciation expense	16,503	29,832	6,980	-	53,315
Effect of foreign currency exchange differences	(809)	(1,785)	(317)	-	(2,911)
Balance at December 31, 2017	$ 108,182	$ 207,150	$ 35,342	$ -	$ 350,674
Carrying amounts at December 31, 2017	$ 235,878	$ 210,401	$ 24,429	$ 22,262	$ 492,970
Cost					
Balance at January 1, 2018	$ 344,060	$ 417,551	$ 59,771	$ 22,262	$ 843,644
Additions	6,161	47,911	10,847	38,993	103,912
Reclassified	10,385	11,660	(8,087)	(13,958)	-
Disposals	-	(25,304)	(4,381)	-	(29,685)
Effect of foreign currency exchange differences	(7,348)	(9,209)	(1,184)	(996)	(18,707)
Balance at December 31, 2018	$ 353,258	$ 442,609	$ 56,966	$ 46,331	$ 899,164
Accumulated depreciation and impairment					
Balance at January 1, 2018	$ 108,182	$ 207,150	$ 35,342	$ -	$ 350,674
Disposals	-	(12,012)	(3,887)	-	(15,899)
Reclassified	-	3,393	(3,393)	-	-
Depreciation expense	15,391	25,836	6,436	-	47,663
Effect of foreign currency exchange differences	(2,519)	(4,752)	(703)	-	(7,794)
Balance at December 31, 2018	$ 121,054	$ 219,795	$ 33,795	$ 46,331	$ 374,644
Carrying amounts at December 31, 2018	$ 232,204	$ 222,814	$ 23,171	$ 46,331	$ 524,520

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Building	
Real estate, dormitory, warehouse, and readiness room	20 years
Equipment under Installation	10-20 years
Machinery and equipment	3-10 years
Other equipment	3-10 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 28.

12. INTANGIBLE ASSETS

	Computer Software
Cost	
Balance at January 1, 2017	$ 15,372
Additions	3,295
Effect of foreign currency exchange differences	(132)
Balance at December 31, 2017	$ 18,535
Accumulated amortization	
Balance at January 1, 2017	$ 8,764
Amortization expense	3,727
Effect of foreign currency exchange differences	(47)
Balance at December 31, 2017	$ 12,444
Carrying amounts at December 31, 2017	$ 6,091
Cost	
Balance at January 1, 2018	$ 18,535
Additions	4,892
Effect of foreign currency exchange differences	(470)
Balance at December 31, 2018	$ 22,957
Accumulated amortization	
Balance at January 1, 2018	$ 12,444
Amortization expense	3,419
Effect of foreign currency exchange differences	(320)
Balance at December 31, 2018	$ 15,543
Carrying amounts at December 31, 2018	$ 7,414

Intangible assets are amortized over the period of 2-3 years on a straight-line basis over their estimated useful lives.

13. PREPAYMENTS FOR LEASES

	December 31	
	2018	2017
Current assets (included in other current assets line item)	$ 1,028	$ 1,049
Non-current assets	135,052	38,146
	$ 136,080	$ 39,195

Prepayments for leases are prepaid lease payments which include land use rights, which is located in mainland China.

As of December 31, 2018, prepaid lease payments include land use rights with carrying amounts of $100,774 thousand. The Group is in the process of obtaining the land use right certificates.

Land use rights pledged as collateral for bank borrowings is set out in Note 28.

14. OTHER ASSETS

	December 31	
	2018	2017
Other receivables	$ 12,501	$ 8,858
Prepayments to suppliers	40,209	35,745
Prepaid expenses	30,404	17,613
Prepayments for leases	1,028	1,049
Prepayments for business facilities	25,242	21,061
Others	3,556	3,171
	$ 112,940	$ 87,497
Current	$ 87,129	$ 65,752
Non-current	25,811	5,169
	$ 112,940	$ 87,497

15. BORROWINGS

Short-term Borrowings

	December 31	
	2018	2017
Secured borrowings		
Bank loans	$ -	$ 114,300
Interval of interest rate		
Secured borrowings	-	1.95%-4.79%

16. BONDS PAYABLE

As of February 5, 2018, the Company issued the unsecured domestic, zero-coupon convertible bonds payable with aggregate par value of $300,000 thousand and face value of $100 thousand. The Company issued at 100.3% of their face value, the aggregate issue price $300,900 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of $50.7 and $48.4. Conversion may occur at any time between May 6, 2018 and February 5, 2021. If the bonds have not been converted, between May 6, 2018 and December 27, 2020, they will be redeemed on February 5, 2021 at par value each.

Bondholders sold back the conversion to the Company in advance, which is two years after issuing convertible bonds on Feb 5, 2020. Interest compensation was added by par value of 1.0025%. Within seven business days after the sale was returned to the base date, converted corporate bonds held by the Company will be redeemed in cash.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - options. The effective interest rate of the liability component was 4.878% per annum on initial recognition.

Proceeds from issuance (less transaction costs of $5,775 thousand)	$ 295,125
Equity component (less transaction costs allocated to the equity component of $613 thousand)	(31,340)
Buy back and redeemed derivative financial assets	(1,121)
Liability component at the date of issue (less transaction costs allocated to the liability component of $5,140 thousand)	262,664
Interest charged at an effective interest rate	11,744
Convertible bonds converted into ordinary shares	(39,745)
Liability component at December 31, 2018	$ 234,663

17. OTHER LIABILITIES

	December 31	
	2018	2017
Other payables - current		
Payable for purchase of equipment	$ 65,610	$ 68,399
Payable for salary and bonus	2,726	3,420
Payable for tax (Note 1)	10,871	12,979
Payable for insurance	129,852	154,963
Payable for purchase of equipment	1,654	1,539
Others (Note 2)	22,649	23,244
	$ 233,362	$ 264,544

Note 1: Payable for tax included value-added tax, building tax and education-added tax.

Note 2: The others of other payables - current are mainly payable for project fee, pension cost, employees' compensation and taxation.

18. RETIREMENT BENEFIT PLANS

Strong H Company (Laichou) and Grand Strong H adopted a pension plan under the Labor Pension Act (LPA). The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme.

Strong H Machinery Technology Co., Ltd. (Laichou) and Grand Strong Precision Machiners Co., Ltd. adopted defined contribution plans, an entity makes contributions to employees' individual pension accounts of salaries and wages, and are managed by a local statutory insurance agency. When the employees retire, they can receive pension from the pension account.

The Company's Taiwan subsidiary adopted a pension plan under the LPA, which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The head office of the Company and the other subsidiaries do not set employee retirement plan because the Company has not employed any staffs.

19. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2018	2017
Numbers of shares authorized (in thousands)	100,000	100,000
Shares authorized	$ 1,000,000	$ 1,000,000
Number of shares issued and fully paid (in thousands)	66,151	65,250
Shares issued	$ 661,511	$ 652,500

The Company was established on October 31, 2014, completed company restructuring, issued 58,000 thousand shares held indirectly through the transfer of shares.

From the date of establishment, NT$868,190 thousand was transferred to the Company's share capital which amounted to NT$580,000 thousand, capital surplus which amounted to NT$212,334 thousand and other equity which amounted to NT$75,856 thousand. Ordinary shares were fully paid, which have a par value of $10; each share has the right to vote and the right to dividends.

On March 18, 2017, the Company's board of directors resolved to issue 7,250 thousand ordinary shares, with a par value of NT$10, for a consideration of NT$34.5 per share, which increased the share capital issued and fully paid to $652,500 thousand. The above transaction was approved by the FSC, and the subscription base date was determined as of May 24, 2017 by the board of directors.

The change in the Company's share capital was due to convertible into 901 thousand shares of ordinary shares at NT$10 par value in 2018.

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	$ 339,370	$ 371,995
Conversion of bonds	35,445	-
May not be used for any purpose		
Share warrants (2)	26,629	-
	$ 401,444	$ 371,995

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to once a year.

2) Such capital surplus recognized from issued bonds payable.

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders.

The Company's Articles also stipulate a dividends policy whereby the issuance of share dividends takes precedence over the payment of cash dividends. In principle, cash dividends are limited to 10% of the total dividends distributed.
An appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 12, 2018 and on June 8, 2017, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 20,314	$ 14,796		
Special reserve	9,614	10,846		
Cash dividends	130,500	104,400	$ 2.0	$ 1.60

Note: The cash dividends of the above appropriation of earnings for 2017 and 2016 were calculated based on the 65,250 thousand shares since the capital increase in 2017.

The Group was subjected to pay 32,625 thousand cash dividends through its capital surplus, as a resolution of the shareholders' meeting on June 12, 2018.

The appropriations of earnings for 2018 was proposed by the Company's board of directors on March 14, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 31,307	
Special reserve	33,909	
Cash dividends	185,223	$2.8

The appropriations of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 6, 2019.

d. Special reserves

	For the Year Ended December 31	
	2017	**2016**
Beginning at January 1	$ 10,864	$ -
Appropriations in respect of		
Debits to other equity items	9,614	10,864
Balance at December 31	$ 20,460	$ 10,864

A proportionate share of the special reserve relating to exchange differences on translating the financial statements of foreign operations (including the subsidiaries of the Company) will be reversed on the Group's disposal of foreign operations; on the Group's loss of significant influence, however, the entire special reserve will be reversed. Additional special reserve should be appropriated for the amount equal to the difference between net debit balance reserves. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and, thereafter, distributed.

e. Others equity items

The exchange differences arising on translation of foreign operation's net assets from its functional currency to the Group's presentation currency (NTD) are recognized directly in other comprehensive income and also accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the exchange differences on translating foreign operations are reclassified to profit or loss on the disposal of the foreign operation.

20. REVENUE

	For the Year Ended December 31	
	2018	**2017**
Sewing machine spare parts sales revenue	$ 1,816,136	$ 1,374,470

21. NET INCOME

a. Other income

	For the Year Ended December 31	
	2018	**2017**
Interest income	$ 74,978	$ 30,830
Government subsidy income (Note)	20	19
Others	18,712	16,576
	$ 93,710	$ 47,425

Note: The local government of China granted subsidies to the listed companies according to the Development Special Plan on July 11, 2017.

b. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Net foreign exchange gains (losses)	$ 12,859	$ (6,991)
(Loss) gain on disposal of property, plant and equipment	(1,994)	335
Others	(3,931)	(3,909)
	$ 6,934	$ (10,565)

c. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	$ 1,333	$ 4,951
Interest on convertible bonds	11,744	-
	$ 13,077	$ 4,951

d. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	$ 47,663	$ 53,315
Intangible assets and other non-current assets	3,419	3,727
Prepayments of leases	1,049	1,035
	$ 52,131	$ 58,077
An analysis of depreciation by function		
Operating costs	$ 34,083	$ 39,131
Operating expenses	13,580	14,184
	$ 47,663	$ 53,315
An analysis of amortization by function		
Operating costs	$ -	$ -
Operating expenses	4,468	4,762
	$ 4,468	$ 4,762

e. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Defined contribution plans of post-employment benefits	$ 48,588	$ 39,563
Salary and bonus	496,243	444,855
Other employee benefits	54,600	47,952
	$ 599,431	$ 532,370

(Continued)

	For the Year Ended December 31	
	2018	2017
An analysis of employee benefits expense by function		
Operating costs	$ 453,554	$ 397,390
Operating expenses	145,877	134,980
	$ 599,431	$ 532,370

(Concluded)

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation at the rates no less than 1% and no higher than 3%, respectively, of net profit before income tax, exclusive of employees' compensation. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2018 and 2017 which were approved by the Company's board of directors on March 14, 2019 and March 12, 2018, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Employees' compensation	1.00%	1.01%
Remuneration of directors and supervisors	1.00%	1.16%

Amount

	For the Year Ended December 31	
	2018	2017
	Cash	Cash
Employees' compensation	$ 3,193	$ 2,100
Remuneration of directors and supervisors	3,193	2,400

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Because of estimating difference, the actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2016 differed from the amounts recognized in the consolidated financial statements for the year ended December 31, 2016. The differences were adjusted to profit and loss for the year ended December 31, 2017.

	For the Year Ended December 31, 2018	
	Employees' Compensation	Remuneration of Directors and Supervisors
Amounts approved in the board of directors' meeting	$ 2,500	$ 2,250
Amounts recognized in the annual consolidated financial statements	-	1,309

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	$ 31,196	$ 10,130
Foreign exchange losses	(18,337)	(17,121)
Net gains (losses)	$ 12,859	$ (6,991)

22. INCOME TAX

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 101,373	$ 76,007
Adjustments for prior years	(2,534)	170
Deferred tax		
In respect of the current year	24,199	14,489
Income tax expense recognized in profit or loss	$ 123,038	$ 90,666

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before income tax	$ 436,108	$ 293,808
Income tax expense calculated at the statutory rate	$ 109,027	$ 73,452
Nondeductible expenses in determining taxable income	2,029	5,576
Deferred tax effect of earnings of subsidiaries	14,516	11,468
Adjustments for prior years' tax	(2,534)	170
Income tax expense recognized in profit or loss	$ 123,038	$ 90,666

Since the Company was established in the Cayman Islands, Vanden and Faith Light are established in Samoa and are exempted from income tax in accordance with local government regulations.

The applicable tax rate used in 2018 is the corporate tax rate of 20% payable by the Group in ROC, the applicable tax rate is the corporate tax rate of 25% payable by Strong H Machinery Technology (Laichou) Corporation and Grand Strong Precision Machines Corporation, and others in accordance with the relevant provisions of the Income Tax Act of Chinese enterprises, Vanden and Faith Light shall pay a 10% income tax on income derived from the 2008 annual surplus distribution in China and beyond.

The applicable tax rate used in 2017 is the corporate tax rate of 17% payable by the Group in ROC. The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018.

b. Current tax liabilities

	December 31	
	2018	**2017**
Income tax payable	$ 49,244	$ 38,462

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

Deferred tax assets	**Opening Balance**	**Recognized in Profit or Loss**	**Exchange Differences**	**Closing Balance**
Temporary differences				
Allowance for impairment loss	$ 1,783	$ 69	$ (37)	$ 1,815
Allowance for inventory write-off	8,049	(2,593)	(111)	5,345
Payable for insurance	38,741	(5,603)	(675)	32,463
	$ 48,573	$ (8,127)	$ (823)	$ 39,623
Deferred tax liabilities				
Deferred tax effect of earnings of subsidiaries	$ 67,537	$ 14,516	$ (1,673)	$ 80,380
Others	7,891	1,556	(193)	9,254
	$ 75,428	$ 16,072	$ (1,866)	$ 89,634

For the year ended December 31, 2017

Deferred tax assets	**Opening Balance**	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Closing Balance**
Temporary differences				
Allowance for impairment loss	$ 2,595	$ (771)	$ (41)	$ 1,783
Allowance for inventory write-off	7,471	652	(74)	8,049
Payable for insurance	39,182	-	(441)	38,741
	$ 49,248	$ (119)	$ (556)	$ 48,573

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Deferred tax effect of earnings of subsidiaries	$ 56,544	$ 11,468	$ (475)	$ 67,537
Others	5,004	2,902	(15)	7,891
	$ 61,548	$ 14,370	$ (490)	$ 75,428

(Concluded)

e. Income tax assessments

The income tax returns through 2016 for Strong H Machinery Technology (Laichou) Corporation and Grand Strong Precision Machines Corporation have been assessed by the tax authorities, according to local regulations.

The income tax returns through 2016, has been assessed by the tax authorities for the Group in ROC.

23. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per shares were as follows:

	For the Year Ended December 31	
	2018	2017
Net income	$ 313,070	$ 203,142
Weighted average number of ordinary shares in computation of basic earnings per share (in thousands)	65,708	62,410
Effect of potentially dilutive ordinary shares		
Employee compensation	71	43
Weighted average number of ordinary share used for the diluted earnings per share computation (in thousands)	65,779	62,453

If the Group offered to settle bonuses or compensation paid to employees in shares or in cash, the Group assumed to settle the entire amount of the bonus or compensation in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

24. NON-CASH TRANSACTION

Since the convertible bonds were converted to ordinary shares between June and September 2018, there was a decrease of 39,745 thousand bonds payables' carrying amount and an increase of 9,011 thousand share capital and 30,734 thousand capital surplus, refer to Note 16.

25. CAPITAL MANAGEMENT

In consideration of the prevailing industry dynamics and the Group's future development as well as the changes in the external economic environment, the Group manages its working capital and dividend payments in the future to ensure that the Group will be able to continue as going concern while maximizing the returns to shareholders as well as other related parties through the optimization of capital structure.

The Group could make adjustments to dividends or issue new shares in order to maintain or adjust the capital structure.

26. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The Group's management believes that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial liabilities					
Financial liabilities at amortized cost					
Convertible bonds	$ 234,663	$ -	$ -	$ 234,663	$ 234,663

The fair values of the financial assets and financial liabilities included in the Level 3 category and above have been determined in accordance with income approaches based on a discounted cash flow analysis, with the most significant unobservable inputs being the discount rate that reflects the credit risk of counterparties.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Government bonds	$ 8,944	$ -	$ -	$ 8,944
Structured deposits	35,776	-	-	35,776
	$ 44,720	$ -	$ -	$ 44,720
Financial liabilities at FVTPL				
Derivatives	$ -	$ -	$ -	$ 480

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

	December 31, 2018
Financial assets (liabilities) at FVTPL - current	
Issued date (February 5, 2018)	$ (1,121)
Recognized in profit or loss (included in other gains and losses)	641
Balance at December 31, 2018	$ (480)

3) Valuation techniques and inputs applied for Level 3 fair value measurement

a) The fair values of warrants are determined using binary tree models where the significant unobservable input is historical volatility. An increase in the historical volatility used in isolation would result in an increase in the fair value. As of December 31, 2018, the historical volatility used was 44.64%.

b) If the change in volatility rose 1%, 5%, or down 1%, 5%, and assuming the other risk variables remain unchanged, the financial assets at FVTPL will increase and decrease $102 thousand, $178 thousand and $51 thousand, $(76) thousand on December 31, 2018.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Financial assets at FVTPL		
Held for trading	$ 44,720	$ -
Loans and receivables (1)	-	922,479
Financial assets at amortized cost (2)	1,034,087	-
Financial liabilities		
Amortized cost (3)	460,307	383,838
Financial liabilities at FVTPL		
Mandatorily classified as at FVTPL	480	-

1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalent, trade and other receivables.

2) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other receivables.

3) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, trade and other payables (excluding payable for salary and bonus, employees' compensation, pension cost, and taxation), and bonds payable.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivable, trade payables, and bank borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (1) below) and interest rates (see (2) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 30.

Sensitivity analysis

	Currency Impact For the Year Ended December 31	
	2018	**2017**
Profit or loss	$ 3,703 (i)	$ 3,119 (i)

i. This was mainly attributable to the exposure outstanding on US$ cash, receivables and payables, which were not hedged at the end of the reporting period.

The Group's sensitivity to foreign currency has no major difference for the years ended December 31, 2018 and 2017.

b) Interest rate risk

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 31,964	$ 130,944
Financial liabilities	234,663	-
Cash flow interest rate risk		
Financial assets	357,346	158,986
Financial liabilities	-	114,300

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would increase/decrease by $3,573 thousand and $447 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on floating rate bank deposits and structured deposits.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk from operating activities, primarily trade receivables.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, except for the clients with trade receivables accounting for 10% of total monetary assets. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 10% of total monetary assets at any time during the years ended December 31, 2018 and 2017.

Except for the companies A and B of the Group, the Group does not have a significant credit risk for any single counterparty or any group of counterparties with similar characteristics. When the counterparties are related to each other, the Group defines them as counterparties with similar characteristics. On December 31, 2018 the balance of trade receivables from companies A and B were respectively 55,539 thousand and 60,091 thousand; on December 31, 2017 the balance of the accounts receivable, the amount of company A is 31,597 thousand. In addition, the concentration of credit risk of the Group against other counterparties did not exceed 5% of the total monetary assets.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents, highly liquid marketable securities, and sufficient bank borrowings deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Liquidity and interest risk rate table

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

To the extent that interest flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2018

	1-6 Months	6 Months to 1 Year	1+ Years
Non-derivative financial liabilities			
Non-interest bearing	$ 95,792	$ 129,852	$ -
Fixed interest rate assets	-	-	246,110
	$ 95,792	$ 129,852	$ 246,110

December 31, 2017

	1-6 Months	6 Months to 1 Year	1+ Years
Non-derivative financial liabilities			
Non-interest bearing	$ 114,575	$ 154,963	$ -
Fixed interest rate assets	116,191	-	-
	$ 230,766	$ 154,963	$ -

The following table details the Group's expected maturity for some of its non-derivative financial assets. The tables below had been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

December 31, 2018

	1-6 Months	6 Months to 1 Year	1+ Years
Non-derivative financial assets			
Non-interest bearing	$ 689,498	$ -	$ -
Variable interest rate assets	360,027	-	-
Fixed interest rate assets	23,154	8,944	-
	$ 1,072,679	$ 8,944	$ -

December 31, 2017

	1-6 Months	6 Months to 1 Year	1+ Years
Non-derivative financial assets			
Non-interest bearing	$ 632,549	$ -	$ -
Variable interest rate assets	159,780	-	-
Fixed interest rate assets	131,598	-	-
	$ 923,927	$ -	$ -

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities were subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

27. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and its related parties are disclosed below.

Related parties and their relationships with the Group:

Related Party	Related Party Categories and Relationship with the Group
Qianghao Machinery Technology (Qingdao) Co., Ltd.	Related party in substance
Imperial International Co., Ltd.	Investor with significant influence over the Group
Chi, Ping-Hsin	Chairman

Operating Transaction

a. Sales of goods

Line Items	Related Party Categories	For the Year Ended December 31 2018	2017
Sales	Related party in substance	$ 6,299	$ -

The transaction prices are based on mutual agreement. The credit term is 3 to 6 months from the day the related party confirms the sale.

b. Purchases of goods

Line Items	Related Party Categories	For the Year Ended December 31 2018	2017
Purchases	Related party in substance	$ 7,236	$ -

The transaction prices are based on mutual agreement. Payments are due within 1 month from the receipt of the Group's goods.

c. Receivables from related parties are listed:

Line Items	Related Party Category/Name	December 31 2018	December 31 2017
Other receivable	Related party in substance (Qianghao Machinery Technology (Qingdao) Co., Ltd.)	$ 4,505	$ 1,711

The outstanding trade receivables for selling of equipment from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized for trade receivables from related parties.

d. Payables to related parties are as below:

Line Items	Related Party Categories	December 31 2018	December 31 2017
Trade payable	Related party in substance	$ 2,968	$ -

The outstanding trade payables to related parties are unsecured and will be paid by cash.

e. Disposals of property, plant and equipment

	Proceeds For the Year Ended December 31		Gain (Loss) on Disposal For the Year Ended December 31	
Related Party Category/Name	2018	2017	2018	2017
Related party in substance Qianghao Machinery Technology (Qingdao) Co., Ltd.	$ 5,143	$ 1,442	$ 464	$ 88

f. Endorsements and guarantees

On December 31, 2018, the credit line of bank loans approved by the board of directors is guaranteed by Chi, Ping-Hsin, and Grand Strong Precision Machines Corporation set the land access $16,302 thousand and building $57,472 thousand as collateral for the loan. In addition, Imperial International Co. provides time deposit of USD 3,000 thousand to pledge.

On December 31, 2018, the bank loan of Strong H Machinery Technology (Laichou) Corporation is guaranteed by Chi, Ping-Hsin, and Grand Strong Precision Machines Corporation set the land access $16,302 thousand and building $57,472 thousand as collateral for the loan. In addition, Imperial International Co. provides time deposit of USD 3,000 thousand to pledge.

g. Compensation of key management personnel

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Short-term employee benefits	$ 5,818	$ 5,674
Post-employment benefits	56	28
	$ 5,874	$ 5,702

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, the tariffs of imported raw materials guarantees or the deposits for hiring foreign workers:

	December 31	
	2018	**2017**
Land use rights (classified as prepayments for leases)	$ 16,302	$ 17,067
Buildings	57,472	63,281
	$ 73,774	$ 80,348

29. SIGNIFICANT EVENTS AFTER REPORTING PERIOD: NONE

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2018

	Foreign Currencies	**Exchange Rate**	**Carrying Amount**
Financial assets			
Monetary items			
USD	$ 11,692	6.863 (USD:RMB)	$ 358,825
USD	7,873	30.716 (USD:NTD)	241,840
			$ 600,655
Financial liabilities			
Monetary items			
USD	7,500	30.733 (USD:RMB)	$ 230,363

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 8,487	6.650 (USD:RMB)	$ 257,654
USD	3,821	29.760 (USD:NTD)	113,725
			$ 371,379
Financial liabilities			
Monetary items			
USD	2,000	29.760 (USD:NTD)	$ 59,520

The Group is mainly exposed to USD. The significant realized and unrealized foreign exchange gains (losses), please refer to Note 21.

31. DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

1) Financing provided to others (Table 1)

2) Endorsements/guarantees provided (Table 2)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities) (None)

4) Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital (None)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 3)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 4)

9) Trading in derivative instruments (Notes 7, 16 and 26)

10) Intercompany relationships and significant intercompany transactions (Table 5)

11) Information on investees (Table 6)

c. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period: (None)

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period: (None)

c) The amount of property transactions and the amount of the resultant gains or losses: (None)

d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes: (None)

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds: (None)

f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services: (None)

32. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods. The Group's only reportable segment in the years ended December 31, 2018 and 2017 is the sewing machine spare parts segment as the Group's main activities are manufacturing and selling sewing machine spare parts. The accounting policy of the reportable segment is the same as Note 4 "summary of significant accounting policies".

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment Revenue		**Segment Profit**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2018	**2017**	**2018**	**2017**
Sewing machine spare parts segment	$ 1,816,136	$ 1,374,470	$ 418,409	$ 285,644
Other income			10,765	18,729
Other gains and losses			6,934	(10,565)
Profit before tax			$ 436,108	$ 293,808

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the years ended December 31, 2018 and 2017.

Segment profit represents the profit earned by silicon wafer segment without allocation of miscellaneous income (included in non-operating income) and miscellaneous expense (included in other profit and loss) and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

The Group's assets and liabilities information is not reported to chief management decision maker on a regular basis. Therefore, all the assets and liabilities are not allocated to the reportable segment.

c. Other segment information

	Depreciation and Amortization For the Year Ended December 31	
	2018	**2017**
Sewing machine spare parts segment	$ 52,131	$ 58,077

d. Revenue from major products

The Group's revenue from its major products, please refer to (a) Information of Segment revenues.

e. Geographical information

The Group operates mainly in Taiwan and China. The Group's sales revenue from external customers by their location are detailed below.

	Revenue from External Customers For the Year Ended December 31	
	2018	**2017**
China	$ 1,789,552	$ 1,356,406
Taiwan	26,584	18,064
	$ 1,816,136	$ 1,374,470

f. Information about major customers

Included in revenue arising from direct sales of sewing machine spare parts of $1,816,136 thousand and $1,374,470 thousand in 2018 and 2017, respectively, is revenue of approximately $130,037 thousand and $77,713 thousand which arose from sales to the Group's largest customer. No other single customers contributed 10% or more to the Group's revenue for both 2018 and 2017.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 3)	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing (Note 2)	Business Transaction Amounts	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrower	Total Financing Amount Limits	Note
													Item	Value			
0	Strong H Machinery Technology (Cayman) Incorporation	Strong H Machinery Technology (Laichou) Corporation	Receivables from related parties	Yes	$ 414,653 (US$ 13,500) (Notes 3 and 4)	$ - (Notes 3 and 4)	$ - (Note 3)	2.00% (3.50%)	2	$ -	Operating capital	$ -	None	$ -	$ 660,813 (Note 5)	$ 826,016 (Note 6)	

Note 1: a. "0" financing provide.
b. "1" and onward coded based on reduce of companies invested.

Note 2: a. "1" with trade transaction.
b. "2" the need for short-term financing.

Note 3: The calculation was based on the exchange rate as at December 31, 2018.

Note 4: The maximum balance for the period and ending balance represent the amounts approved by the board of directors.

Note 5: For short-term financing requirements, the financing limits for each borrowing company should not exceed 40% of Strong H Machinery Technology (Cayman) Inc.'s net worth.

Note 6: The maximum total financing provided should not exceed 50% of Strong H Machinery Technology (Cayman) Inc.'s net worth.

Note 7: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
1	Grand Strong Precision Machines Corporation	Strong H Machinery Technology (Laichou) Corporation	Fellow subsidiary	$ 30,428 (NT$ 136,073) (Note 3)	US$ 4,000 (NT$ 122,860) (Notes 2 and 3)	US$ 4,000 (NT$ 122,860) (Notes 2 and 3)	$ - (NT$ -)	$ 16,497 (NT$ 73,774) (Notes 2 and 3)	45.14	$ 60,856 (NT$ 272,146) (Note 3)	N	N	Y	

Note 1: a. “0” financing provide.
b. “1” and onward coded based on reduce of companies invested.

Note 2: The maximum balance for the period and ending balance represent the amounts approved by the board of directors.

Note 3: For short-term financing requirements, the endorsement limit for each endorsee should not exceed 50% of Grand Strong Precision Machines Corp.’s net worth.

Note 4: The maximum total financing provided should not exceed 100% of Grand Strong Precision Machines Corp.’s net worth.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Renminbi, Unless Specified Otherwise)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Strong H Machinery Technology (Laichou) Corporation	Grand Strong Precision Machines Corporation	Fellow subsidiary	Purchase	RMB 47,336 NT$ 216,111)	36.72	Net 60 days from the end of the month when invoice is issued	No significant difference	No significant difference	RMB (9,740) (NT$ -43,555)	(44.93)	
Grand Strong Precision Machines Corporation	Strong H Machinery Technology (Laichou) Corporation	Fellow subsidiary	Sale	RMB 47,336 (NT$ 216,111)	86.66	Net 60 days from the end of the month when invoice is issued	No significant difference	No significant difference	RMB 9,740 (NT$ 43,555)	84.70	

Note 1: The calculation was based on the exchange rate as of December 31, 2018, except for purchases and sales items which are translated at the average exchanged rates for the period.

Note 2: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Actions Taken		
Strong H Machinery Technology (Cayman) Incorporation	Strong H Machinery Technology (Laichou) Corporation	Sub-subsidiary	$ 230,363 (Notes 1 and 2)	Not applicable	$ -	-	$ -	$ -

Note 1: The Company issued a loan to Strong H Machinery Technology (Laichou) Corporation which includes a principal of $230,363 thousand.

Note 2: The amount was eliminated upon consolidation.

TABLE 5

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Relationship	Transactions Details			
				Financial Statement Accounts	Amount (Note 3)	Payment Terms	% to Total Sales or Assets (Note 2)
0	The Company	Strong H Machinery Technology (Laichou) Corporation	Subsidiary	Other receivables	$ 230,363	General terms	9.87
		〃	〃	Interest income	3,170	General terms	0.17
1	Strong H Machinery Technology (Laichou) Corporation	Grand Strong Precision Machines Corporation	Fellow subsidiary	Purchase	216,111	General terms	11.90
		〃	〃	Trade payable	43,555	General terms	1.87
		Strong H Machinery Technology (Cayman) Incorporation	Parent entity	Sales	26,706	General terms	1.47
		〃	〃	Trade receivable	4,319	General terms	0.19
		〃	〃	Purchases	25,670	General terms	1.41
		〃	〃	Trade payable	2,606	General terms	0.11

Note 1: The intercompany relationships are coded as blow:

a. "0" parent company
b. "1" and above coded based on the type of intercompany relationship.

Note 2: For assets and liabilities, the amount is shown as a percentage to consolidated total assets as of December 31, 2018, while revenue, costs and expenses are shown as a percentage to consolidated total operating revenue for the year ended December 31, 2018.

Note 3: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount			
Strong H Machinery Technology (Cayman) Incorporation	Vanden International Co., Ltd.	Samoa	Investment and international trade	US$ 7,518 (NT$ 235,763)	US$ 7,518 (NT$ 235,763)	1,000,000	100	RMB 292,349 (NT$ 1,307,383)	RMB 56,762 (NT$ 259,145)	RMB 56,516 (NT$ 258,021)	Notes 1 and 2
	Faith Light International Corporation	Samoa	Investment and international trade	US$ 8,038 (NT$ 257,587)	US$ 8,038 (NT$ 257,587)	6,000,000	100	RMB 70,835 (NT$ 316,773)	RMB 13,578 (NT$ 61,989)	RMB 13,518 (NT$ 61,718)	Notes 1 and 2

Note 1: Carrying amount and share of profits (loss) are calculated from the financial statement audited by independent accountant and the percentage of ownership of investor.

Note 2: The share of profits (losses) of investee includes the effect of unrealized gross profit on intercompany transaction.

Note 3: Intercompany balances and transactions between investor and investee have been eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee (Note 1)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2018 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Strong H Machinery Technology (Laichou) Corporation	Manufacturing and sales of industrial sewing machine parts	US$ 22,979 (Note 2)	Re-investment in mainland China through the establishment of holding company Vanden International Co., Ltd. and Faith Light International Corporation.	$ -	$ -	$ -	$ -	RMB 73,032 (NT$ 333,424)	100	RMB 73,032 (NT$ 333,424)	RMB 374,486 (NT$ 1,674,703)	$ -
Grand Strong Precision Machines Corporation	Manufacturing and sales of industrial sewing machine parts	US$ 8,000	Re-investment in mainland China through the establishment of holding company Vanden International Co., Ltd. and Faith Light International Corporation.	-	-	-	-	RMB (895) (NT$ -4,085)	100	RMB (569) (NT$ -2,598)	RMB 60,644 (NT$ 271,201)	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
(Note 4)	(Note 4)	(Note 4)

Note 1: Amount was recognized based on the financial statement audited by an independent accountant.

Note 2: Strong H Machinery Technology (Laichou) Corporation’s capital increased from US$19,979 to US$22,979 through retained earnings.

Note 3: The calculation was based on the exchange rate as of December 31, 2018, except for income and expense items which are translated at the average exchanged rates for the period.

Note 4: The Company is not applicable for the upper limit on the amount of investment stipulation because it is an offshore company.

Note 5: Intercompany balances and transactions between investor and investee have been eliminated upon consolidation.