

**Strong H Machinery Technology (Cayman)  
Incorporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2022 and 2021 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
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 (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

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, 2022 and 2021, 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 the Standards on Auditing of 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 consolidated financial statements for the year ended December 31, 2022. 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:

#### The Occurrence of Revenue Recognition

The Group's revenue mainly consists of the sales of industrial sewing machine 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 accounting records have been verified that they have been completed in accordance with the agreement. As the above-mentioned sales revenue is significant for the year ended December 31, 2022, the occurrence of revenue recognition for the aforementioned type of sales revenue has been deemed as a key audit matter for the year ended December 31, 2022.

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 also performed relevant tests of controls and substantive tests. We selected samples of revenue for this type of sale and verified them against the client's transaction statements and the related documents to confirm that the transactions had occurred.

#### **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 has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Standards on Auditing of 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 Standards on Auditing of the Republic of China, we exercise professional judgment and 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, 2022 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 audits resulting in this independent auditors' report are Wen-Yuan Chuang and Chingcheng Yang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 30, 2023

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, 2022 AND 2021  
(In Thousands of New Taiwan Dollars)**

ASSETS	2022		2021	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 527,420	21	\$ 409,528	17
Financial assets at amortized cost - current (Notes 4, 7 and 28)	72,443	3	101,642	4
Notes receivable (Notes 4 and 8)	90,687	4	87,453	4
Trade receivables (Notes 4, 5 and 8)	386,206	16	550,729	23
Inventories (Notes 4, 5 and 9)	489,307	20	440,382	18
Other current assets (Notes 4 and 14)	<u>66,789</u>	<u>3</u>	<u>102,403</u>	<u>4</u>
Total current assets	<u>1,632,852</u>	<u>67</u>	<u>1,692,137</u>	<u>70</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Notes 4, 11 and 28)	538,384	22	493,479	20
Right-of-use assets (Notes 4, 12 and 28)	165,403	7	166,826	7
Intangible assets (Notes 4 and 13)	21,689	1	18,659	1
Deferred tax assets (Notes 4, 5 and 21)	44,674	2	37,731	1
Other non-current assets (Notes 4 and 14)	<u>38,535</u>	<u>1</u>	<u>25,381</u>	<u>1</u>
Total non-current assets	<u>808,685</u>	<u>33</u>	<u>742,076</u>	<u>30</u>
<b>TOTAL</b>	<u>\$ 2,441,537</u>	<u>100</u>	<u>\$ 2,434,213</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 4 and 15)	\$ 218,041	9	\$ 312,794	13
Notes payable (Note 4)	4,134	-	5,054	-
Trade payables (Notes 4 and 27)	64,872	3	119,253	5
Other payables (Notes 4 and 16)	240,368	10	245,232	10
Current tax liabilities (Notes 4 and 21)	13,811	-	11,978	1
Other current liabilities (Note 4)	<u>158</u>	<u>-</u>	<u>567</u>	<u>-</u>
Total current liabilities	<u>541,384</u>	<u>22</u>	<u>694,878</u>	<u>29</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 21)	<u>60,333</u>	<u>3</u>	<u>59,626</u>	<u>2</u>
Total liabilities	<u>601,717</u>	<u>25</u>	<u>754,504</u>	<u>31</u>
<b>EQUITY (Notes 4, 18 and 23)</b>				
Share capital				
Ordinary shares	<u>680,972</u>	<u>28</u>	<u>680,972</u>	<u>28</u>
Capital surplus	<u>423,802</u>	<u>17</u>	<u>423,802</u>	<u>18</u>
Retained earnings				
Legal reserve	144,681	6	124,593	5
Special reserve	113,105	4	99,141	4
Unappropriated earnings	<u>559,746</u>	<u>23</u>	<u>464,306</u>	<u>19</u>
Total retained earnings	<u>817,532</u>	<u>33</u>	<u>688,040</u>	<u>28</u>
Other equity	<u>(82,486)</u>	<u>(3)</u>	<u>(113,105)</u>	<u>(5)</u>
Total equity	<u>1,839,820</u>	<u>75</u>	<u>1,679,709</u>	<u>69</u>
<b>TOTAL</b>	<u>\$ 2,441,537</u>	<u>100</u>	<u>\$ 2,434,213</u>	<u>100</u>

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, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2022		2021	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 19, 27 and 32)	\$ 1,760,939	100	\$ 1,722,922	100
OPERATING COSTS (Notes 10, 17, 20 and 27)	<u>(1,096,543)</u>	<u>(62)</u>	<u>(1,124,938)</u>	<u>(65)</u>
GROSS PROFIT	<u>664,396</u>	<u>38</u>	<u>597,984</u>	<u>35</u>
OPERATING EXPENSES (Notes 9, 17, 20 and 27)				
Marketing	(48,989)	(3)	(53,656)	(3)
Administrative	(209,202)	(12)	(205,777)	(12)
Research and development	(72,715)	(4)	(79,071)	(5)
Impairment loss	<u>(29,129)</u>	<u>(2)</u>	<u>(17,921)</u>	<u>(1)</u>
Total operating expenses	<u>(360,035)</u>	<u>(21)</u>	<u>(356,425)</u>	<u>(21)</u>
INCOME FROM OPERATIONS	<u>304,361</u>	<u>17</u>	<u>241,559</u>	<u>14</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 20)				
Interest income	2,066	-	1,761	-
Other income	8,175	-	11,953	1
Other gains and losses	3,314	-	(10,329)	(1)
Finance costs	<u>(8,403)</u>	<u>-</u>	<u>(4,636)</u>	<u>-</u>
Total non-operating income and expenses	<u>5,152</u>	<u>-</u>	<u>(1,251)</u>	<u>-</u>
INCOME BEFORE INCOME TAX	309,513	17	240,308	14
INCOME TAX EXPENSE (Notes 4, 5 and 21)	<u>(57,446)</u>	<u>(3)</u>	<u>(39,432)</u>	<u>(2)</u>
NET INCOME	<u>252,067</u>	<u>14</u>	<u>200,876</u>	<u>12</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 18)				
Items that will not be reclassified subsequently to profit or loss:				
Exchange difference on translation of the financial statements of foreign operations	<u>30,619</u>	<u>2</u>	<u>(13,964)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 282,686</u>	<u>16</u>	<u>\$ 186,912</u>	<u>11</u>

(Continued)

**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

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	<b>2022</b>		<b>2021</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
EARNINGS PER SHARE (Note 22)				
Basic earnings per share	<u>\$ 3.70</u>		<u>\$ 2.95</u>	
Diluted earnings per share	<u>\$ 3.70</u>		<u>\$ 2.93</u>	

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

(Concluded)



**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(In Thousands of New Taiwan Dollars)**

	Share Capital		Capital Surplus	Retained Earnings				Other Equity		Total	Total Equity
	Shares	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Difference on Translation of the Financial Statements of Foreign Operations	Unearned Employee Benefits		
	(Thousands)										
BALANCE AT JANUARY 1, 2021	68,062	\$ 680,620	\$ 423,593	\$ 116,973	\$ 124,706	\$ 313,543	\$ 555,222	\$ (99,141)	\$ (4,600)	\$ (103,741)	\$ 1,555,694
Appropriations of 2020 earnings											
Legal reserve	-	-	-	7,620	-	(7,620)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(68,058)	(68,058)	-	-	-	(68,058)
Reversal special reserve	-	-	-	-	(25,565)	25,565	-	-	-	-	-
	-	-	-	7,620	(25,565)	(50,113)	(68,058)	-	-	-	(68,058)
Net income in 2021	-	-	-	-	-	200,876	200,876	-	-	-	200,876
Other comprehensive loss in 2021, net of income tax	-	-	-	-	-	-	-	(13,964)	-	(13,964)	(13,964)
Total comprehensive income in 2021	-	-	-	-	-	200,876	200,876	(13,964)	-	(13,964)	186,912
Convertible bonds converted to ordinary shares	101	1,010	3,174	-	-	-	-	-	-	-	4,184
Share-based payment expenses	(66)	(658)	(2,965)	-	-	-	-	-	4,600	4,600	977
BALANCE AT DECEMBER 31, 2021	68,097	680,972	423,802	124,593	99,141	464,306	688,040	(113,105)	-	(113,105)	1,679,709
Appropriations of 2021 earnings											
Legal reserve	-	-	-	20,088	-	(20,088)	-	-	-	-	-
Special reserve	-	-	-	-	13,964	(13,964)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(122,575)	(122,575)	-	-	-	(122,575)
	-	-	-	20,088	13,964	(156,627)	(122,575)	-	-	-	(122,575)
Net income in 2022	-	-	-	-	-	252,067	252,067	-	-	-	252,067
Other comprehensive income in 2022, net of income tax	-	-	-	-	-	-	-	30,619	-	30,619	30,619
Total comprehensive income in 2022	-	-	-	-	-	252,067	252,067	30,619	-	30,619	282,686
BALANCE AT DECEMBER 31, 2022	68,097	\$ 680,972	\$ 423,802	\$ 144,681	\$ 113,105	\$ 559,746	\$ 817,532	\$ (82,486)	\$ -	\$ (82,486)	\$ 1,839,820

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, 2022 AND 2021 (In Thousands of New Taiwan Dollars)

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 309,513	\$ 240,308
Adjustments for:		
Depreciation expense	58,999	59,538
Amortization expense	5,247	3,917
Expected credit loss recognized on trade receivables	29,129	17,921
Finance costs	8,403	4,636
Compensation costs of share-based payment	-	977
Interest income	(2,066)	(1,761)
Write-down of inventories	10,429	5,213
Loss on disposal of property, plant and equipment	3,217	5,944
Other items	405	201
Changes in operating assets and liabilities		
Notes receivable	(1,994)	(79,376)
Trade receivables	144,219	9,874
Inventories	(53,566)	(77,187)
Other current assets	36,473	(10,681)
Notes payable	(920)	1,912
Trade payables	(56,425)	17,011
Other payables	(8,515)	9,269
Other current liabilities	(409)	(2,314)
Cash generated from operations	482,139	205,402
Interest received	2,066	1,761
Interest paid	(8,445)	(3,940)
Income tax paid	(62,019)	(59,775)
Net cash generated from operating activities	<u>413,741</u>	<u>143,448</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at amortized cost	-	(538)
Proceeds from sale of financial assets at amortized cost	29,199	-
Proceeds from sale of financial assets classified as at fair value through profit or loss	-	4,374
Payments for property, plant and equipment	(96,774)	(53,452)
Proceeds from disposal of property, plant and equipment	787	1,652
Payments for intangible assets	(8,013)	(2,501)
Increase in prepayments for business facilities	(13,426)	-
Decrease in items of other investing activities	584	2,423
Net cash used in investing activities	<u>(87,643)</u>	<u>(48,042)</u>

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**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021  
(In Thousands of New Taiwan Dollars)**

	<b>2022</b>	<b>2021</b>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	\$ (94,753)	\$ (146,131)
Repayments of bonds payable	-	(161,300)
Dividend paid to owners of the Company	<u>(122,575)</u>	<u>(68,058)</u>
Net cash used in financing activities	<u>(217,328)</u>	<u>(375,489)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>9,122</u>	<u>(5,255)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	117,892	(285,338)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>409,528</u>	<u>694,866</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 527,420</u>	<u>\$ 409,528</u>

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, 2022 AND 2021 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Strong H Machinery Technology (Cayman) Incorporation (the “Company”) was established in the British Cayman Islands on October 31, 2014, mainly as a result of the restructuring of the organization, the Company in accordance with the agreement of the equity exchange on December 15, 2014 to complete the reorganization, and the Company became a holding company of the Company and its subsidiaries (“the Group”).

In addition, in order to meet the development needs, the Company established the Taiwan branch by US\$158 thousand (equivalent to NT\$5,000 thousand) in March 2015, and approved by the Ministry of Economic Affairs, Republic of China.

The Company became listed on the Taiwan Stock Exchange on May 26, 2017.

The consolidated financial statements are presented in the Company’s functional currency, NTD.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 23, 2023.

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

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

The initial application of the amendments to the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies.

- b. The IFRSs issued by International Accounting Standards Board (IASB) and endorsed by the FSC with effective date from 2023

<b>New, Amended and Revised Standards and Interpretations</b>	<b>Effective Date Announced by IASB</b>
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 1)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 2)
Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”	January 1, 2023 (Note 3)

Note 1: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 2: The amendments will be applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 3: Except for deferred taxes that were recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments were applied prospectively to transactions that occurred on or after January 1, 2022.

As of the date the consolidated financial statements were authorized for issue, the Group has assessed that the application of above standards and interpretations will not have a material impact on the Group's financial position and financial performance.

- c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC

<u>New, Amended and Revised Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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
Amendments to IFRS 16 "Leases Liability in a Sale and Leaseback"	January 1, 2024 (Note 2)
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2024
Amendments to IAS 1 "Non-current Liabilities with Covenants"	January 1, 2024

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

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact of the application of above standards and interpretations 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.

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 Tables 4 and 5 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 property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets 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 individual cash-generating units on a reasonable and consistent basis of allocation, or otherwise they are allocated to the smallest group of cash-generating units.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

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.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.



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

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.

#### b) Impairment of financial assets

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.

#### 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.

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, and its carrying amounts are calculated based on weighted average by share types. 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:

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

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 the sale of goods comes from sales of industrial sewing machine spare parts and face mask machines. Sales of industrial sewing machine spare parts and face mask machines 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.

### l. Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

#### The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

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

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

### 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. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they are received.

o. 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.

p. Share-based payment arrangements

Restricted shares for employees granted to employees

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits. The grant date of issued ordinary shares for cash which are reserved for employees is the date on which the share issuance is approved by the FSC.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees.

At the end of each reporting period, the Group revises its estimate of the number of restricted shares for employees that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - restricted shares for employees.

q. Taxation

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

1) Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

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 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 on 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.

### Key Sources of Estimation Uncertainty

#### a. Estimated impairment of financial assets

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, 2022 and 2021 is disclosed in Note 8.

b. 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, 2022 and 2021 are disclosed in Note 9.

c. Realization of deferred income tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the 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, 2022 and 2021 are disclosed in Note 21.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Cash on hand	\$ 4,512	\$ 3,906
Demand deposits	518,015	403,450
Cash equivalents (investments with original maturities 3 months or less)		
Bank acceptances	287	2,172
Time deposits	<u>4,606</u>	<u>-</u>
	<u>\$ 527,420</u>	<u>\$ 409,528</u>

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Demand deposits	0.01%-1.05%	0.01%-0.30%
Time deposits	0.94%-3.15%	-

## 7. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Current</u>		
Domestic investments		
Pledged deposits	\$ <u>72,443</u>	\$ <u>101,642</u>

Refer to Note 28 for information relating to investments in financial assets at amortized cost.

## 8. NOTES RECEIVABLES AND TRADE RECEIVABLES

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount - operating	\$ 90,687	\$ 87,453
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 90,687</u>	<u>\$ 87,453</u>
 <u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 444,133	\$ 579,224
Less: Allowance for impairment loss	<u>(57,297)</u>	<u>(28,495)</u>
	<u>\$ 386,206</u>	<u>\$ 550,729</u>

### **Trade Receivables at Amortized Cost**

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 measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix prepared by reference to the past default experience of the customer and the customer's current financial position, economic conditions of the industry in which the customer operates, as well as the GDP forecasts and industry outlook. 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 evidence 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 Group determines the expected credit loss rate as 0% by reference to notes receivable that are not past due as of December 31, 2022 and 2021.

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

December 31, 2022

	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%	0.2%	2%	5%	29%	100%	
Gross carrying amount	\$ 326,798	\$ 43,292	\$ 6,603	\$ 6,648	\$ 4,974	\$ 55,818	\$ 444,133
Loss allowance (Lifetime ECL)	-	(230)	(125)	(325)	(1,429)	(55,818)	(57,927)
Amortized cost	<u>\$ 326,798</u>	<u>\$ 43,062</u>	<u>\$ 6,478</u>	<u>\$ 6,323</u>	<u>\$ 3,545</u>	<u>\$ -</u>	<u>\$ 386,206</u>

December 31, 2021

	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%	0.3%	2%	5%	30%	100%	
Gross carrying amount	\$ 488,666	\$ 26,481	\$ 3,267	\$ 7,034	\$ 36,741	\$ 17,035	\$ 579,224
Loss allowance (Lifetime ECL)	-	(79)	(60)	(352)	(10,969)	(17,035)	(28,495)
Amortized cost	<u>\$ 488,666</u>	<u>\$ 26,402</u>	<u>\$ 3,207</u>	<u>\$ 6,682</u>	<u>\$ 25,772</u>	<u>\$ -</u>	<u>\$ 550,729</u>

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

	<u>For the year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Balance at January 1	\$ 28,495	\$ 10,622
Add: Net remeasurement of loss allowance	29,129	17,921
Foreign exchange gains and losses	<u>303</u>	<u>(48)</u>
Balance at December 31	<u>\$ 57,927</u>	<u>\$ 28,495</u>

**9. INVENTORIES**

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Raw materials	\$ 138,290	\$ 138,265
Work in progress	83,156	98,052
Finished goods	306,545	231,951
Less: Allowance for inventory write-downs	<u>(38,684)</u>	<u>(27,886)</u>
	<u>\$ 489,307</u>	<u>\$ 440,382</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2022 and 2021 was \$1,096,543 thousand and \$1,124,938 thousand, respectively. The cost of goods sold included inventory write-downs of \$10,429 thousand and \$5,213 thousand, respectively.

## 10. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

Investor	Investee	Nature of Activities	Proportion of Ownership (%)	
			December 31	
			2022	2021
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 and mask machine	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 and mask machine	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 on November 8, 2018 and December 13, 2019 decided to increase the capital of its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou) by US\$3,000 thousand and US\$5,000 thousand; as a result, its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou)'s capital increased to US\$27,979 thousand and has completed the change registration.

Note 3: The board of directors of the Company on November 10, 2021 decided to increase the capital of its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou) by US\$10,000 thousand; as a result, its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou)'s capital increased from US\$27,979 thousand to US\$37,979 thousand and has completed the change registration.

The consolidated financial statements are presented in the Company's functional currency, NTD. 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 \$4.4080 and \$4.3440 for the years ended December 31, 2022 and 2021. The average exchange rate of RMB to NTD is \$4.4258 and \$4.3363 for the years ended December 31, 2022 and 2021.

## 11. PROPERTY, PLANT AND EQUIPMENT

### Assets Used By the Group

	Buildings	Machinery and Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>					
Balance at January 1, 2022	\$ 356,419	\$ 475,720	\$ 84,214	\$ 80,668	\$ 997,021
Additions	-	36,618	5,778	54,497	96,893
Reclassified	-	34,088	599	(34,687)	-
Disposals	-	(12,570)	(10,596)	-	(23,166)
Effects of foreign currency exchange differences	<u>5,252</u>	<u>6775</u>	<u>1,258</u>	<u>1,108</u>	<u>14,393</u>
Balance at December 31, 2022	<u>\$ 361,671</u>	<u>\$ 540,631</u>	<u>\$ 81,253</u>	<u>\$ 101,586</u>	<u>\$ 1,085,141</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2022	\$ 169,974	\$ 277,185	\$ 61,383	\$ -	\$ 503,542
Depreciation expense	17,421	30,621	7,061	-	55,103
Reclassified	-	(89)	89	-	-
Disposals	-	(8,842)	(10,320)	-	(19,162)
Effects of foreign currency exchange differences	<u>2,361</u>	<u>3,996</u>	<u>917</u>	<u>-</u>	<u>7,274</u>
Balance at December 31, 2022	<u>\$ 184,756</u>	<u>\$ 302,871</u>	<u>\$ 59,130</u>	<u>\$ -</u>	<u>\$ 546,757</u>
Carrying amount at December 31, 2022	<u>\$ 176,915</u>	<u>\$ 237,760</u>	<u>\$ 22,123</u>	<u>\$ 101,586</u>	<u>\$ 538,384</u>
<u>Cost</u>					
Balance at January 1, 2021	\$ 359,333	\$ 476,395	\$ 84,588	\$ 57,030	\$ 977,346
Additions	-	10,471	5,826	41,076	57,373
Transfers to inventories	-	(1,251)	-	-	(1,251)
Reclassified	(203)	20,287	515	(20,599)	-
Disposals	-	(26,596)	(6,078)	3,549	(29,125)
Effects of foreign currency exchange differences	<u>(2,711)</u>	<u>(3,586)</u>	<u>(637)</u>	<u>(388)</u>	<u>(7,322)</u>
Balance at December 31, 2021	<u>\$ 356,419</u>	<u>\$ 475,720</u>	<u>\$ 84,214</u>	<u>\$ 80,668</u>	<u>\$ 997,021</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2021	\$ 149,068	\$ 264,503	\$ 59,285	\$ -	\$ 472,856
Depreciation expense	17,069	30,923	7,729	-	55,721
Reclassified	(68)	68	-	-	-
Disposals	-	(16,341)	(5,188)	-	(21,529)
Effects of foreign currency exchange differences	<u>(1,095)</u>	<u>(1,968)</u>	<u>(443)</u>	<u>-</u>	<u>(3,506)</u>
Balance at December 31, 2021	<u>\$ 164,974</u>	<u>\$ 277,185</u>	<u>\$ 61,383</u>	<u>\$ -</u>	<u>\$ 503,542</u>
Carrying amount at December 31, 2021	<u>\$ 191,445</u>	<u>\$ 198,535</u>	<u>\$ 22,831</u>	<u>\$ 80,668</u>	<u>\$ 493,479</u>

No impairment assessment was performed for the years ended December 31, 2022 and 2021 since there was no indication of impairment.

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. LEASE ARRANGEMENTS

### Right-of-use Assets

	<u>December 31</u>	
	2022	2021
<u>Carrying amount</u>		
Land	<u>\$ 165,403</u>	<u>\$ 166,826</u>
	<b><u>For the Year Ended December 31</u></b>	
	2022	2021
Additions to right-of-use assets	<u>\$ -</u>	<u>\$ -</u>
Depreciation charge for right-of-use assets		
Land	<u>\$ 3,896</u>	<u>\$ 3,817</u>

Right-of-use assets are land use rights, which is located in mainland China.

As of December 31, 2021, the right-of-use assets include land use rights with carrying amounts of \$133,521 thousand. The Group is in the process of obtaining the land use rights certificates. The land use rights certificates were obtained on May 17, 2022.

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

## 13. INTANGIBLE ASSETS

	<b>Computer Software</b>
<u>Cost</u>	
Balance at January 1, 2022	\$ 41,866
Additions	8,013
Reclassification	-
Effects of foreign currency exchange differences	<u>585</u>
Balance at December 31, 2022	<u>\$ 50,464</u>

(Continued)

	<b>Computer Software</b>
<u>Accumulated amortization</u>	
Balance at January 1, 2022	\$ 23,207
Amortization expense	5,247
Effects of foreign currency exchange differences	<u>321</u>
Balance at December 31, 2022	<u>\$ 28,775</u>
Carrying amount at December 31, 2022	<u>\$ 21,689</u>
<u>Cost</u>	
Balance at January 1, 2021	\$ 32,663
Additions	2,501
Reclassification	6,932
Effects of foreign currency exchange differences	<u>(230)</u>
Balance at December 31, 2021	<u>\$ 41,866</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2021	\$ 19,430
Amortization expense	3,917
Effects of foreign currency exchange differences	<u>(140)</u>
Balance at December 31, 2021	<u>\$ 23,207</u>
Carrying amount at December 31, 2021	<u>\$ 18,659</u> (Concluded)

Intangible assets are amortized over the period of 2-10 years on a straight-line basis over their estimated useful lives.

#### 14. OTHER ASSETS

	<u>December 31</u>	
	<b>2022</b>	<b>2021</b>
Prepayments to suppliers	\$ 35,457	\$ 42,046
Prepayments for business facilities	38,535	24,797
Prepaid expenses	11,855	13,844
Other receivables	19,134	45,259
Others	<u>343</u>	<u>1,838</u>
	<u>\$ 105,324</u>	<u>\$ 127,784</u>
Current	\$ 66,789	\$ 102,403
Non-current	<u>38,535</u>	<u>25,381</u>
	<u>\$ 105,324</u>	<u>\$ 127,784</u>

## 15. BORROWINGS

### Short-term Borrowings

	<u>December 31</u>	
	2022	2021
<u>Secured borrowings</u>		
Bank loans	<u>\$ 218,041</u>	<u>\$ 312,794</u>
<u>Interval of interest rate</u>		
Secured borrowings	5.38%-6.03%	0.84%-1.50%

## 16. OTHER LIABILITIES

	<u>December 31</u>	
	2022	2021
<u>Other payables - current</u>		
Payable for insurance and housing funds	\$ 115,994	\$ 114,226
Payable for salary and bonus	72,402	70,936
Payable for tax (Note 1)	8,941	11,438
Payable for compensation to employees and directors	5,480	4,956
Payable for purchase of equipment	2,607	2,488
Others (Note 2)	<u>34,944</u>	<u>41,188</u>
	<u>\$ 240,368</u>	<u>\$ 245,232</u>

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 consumables fee, professional service fee and receipts under custody.

## 17. 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.

## 18. EQUITY

### a. Share capital

#### Ordinary shares

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Numbers of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>68,097</u>	<u>68,097</u>
Shares issued	<u>\$ 680,972</u>	<u>\$ 680,972</u>

The change in the Company's share capital was due to corporate bond convertible into 101 thousand shares and retirement of employees restricted shares 66 thousand shares at NT\$10 par value in 2021.

### b. Capital surplus

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of ordinary shares (including vested employee restricted shares)	\$ 304,883	\$ 293,064
Conversion of bonds	100,492	96,879
Expired share warrants	18,427	18,427
<u>May not be used for any purpose</u>		
Employee restricted shares (2)	-	11,819
	<u>\$ 423,802</u>	<u>\$ 423,802</u>

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 issued restricted shares for employees are disclosed in Note 23.

### 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.

When a special reserve is appropriated for cumulative net debit balance reserves from prior period, the special reserve is only appropriated from the prior unappropriated earnings.

The appropriations of earnings for 2021 and 2020 approved in the shareholders' meetings on April 21, 2022 and on July 29, 2021, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Legal reserve	\$ 20,088	\$ 7,620		
Special reserve	13,964	-		
Reversal special reserve	-	(25,565)		
Cash dividends	122,575	68,058	\$1.8	\$1.0

Note: The cash dividends of the above appropriation of earnings for 2021 and 2020 were calculated based on the 68,097 thousand shares and 68,058 thousand shares since the capital increase in 2021 and 2020.

The appropriations of earnings for 2022 was proposed by the Company's board of directors on March 23, 2023.

	<b>For the Year Ended December 31, 2022</b>
Legal reserve	<u>\$ 25,207</u>
Reversal special reserve	<u>\$ (30,619)</u>
Cash dividends	<u>\$ 149,814</u>
Cash dividends per share (NT\$)	\$ 2.2

The appropriation of earnings for 2022 will be resolved by the shareholders in their meeting to be held on June 15, 2023.

d. Special reserves

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Beginning at January 1	\$ 99,141	\$ 124,706
Appropriations in respect of Debits to other equity items	13,964	-
Reversal in respect of Debits to other equity items	<u>-</u>	<u>(25,565)</u>
Balance at December 31	<u>\$ 113,105</u>	<u>\$ 99,141</u>



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

1) Exchange differences on translation of the financial statements of foreign operations

The exchange differences 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 translation of the financial statements of foreign operations are reclassified to profit or loss on the disposal of the foreign operation.

2) Unearned employee benefits

Restricted shares for employees are issued in 2019 (see Note 23).

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Balance at January 1	\$ -	\$ (4,600)
Share-based payment expenses recognized	-	977
Retirement of employees restricted shares	<u>-</u>	<u>3,623</u>
Balance at December 31	<u>\$ -</u>	<u>\$ -</u>

**19. REVENUE**

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Sewing machine spare parts sales revenue	\$ 1,760,313	\$ 1,695,797
Face mask machine sales revenue	<u>626</u>	<u>27,125</u>
	<u>\$ 1,760,939</u>	<u>\$ 1,722,922</u>

**20. NET INCOME**

a. Interest income

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Bank deposits	\$ 1,661	\$ 1,155
Financial assets at amortized cost	<u>405</u>	<u>606</u>
	<u>\$ 2,066</u>	<u>\$ 1,761</u>

b. Other income

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Others	\$ 6,763	\$ 8,691
Government subsidy income	<u>1,412</u>	<u>3,262</u>
	<u>\$ 8,175</u>	<u>\$ 11,953</u>

c. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Net foreign exchange gains (losses)	\$ 6,785	\$ (1,475)
Loss on disposal of property, plant and equipment	(3,217)	(5,944)
Others	<u>(254)</u>	<u>(2,910)</u>
	<u>\$ 3,314</u>	<u>\$ (10,329)</u>

d. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Interest on bank loans	\$ 8,403	\$ 3,982
Interest on convertible bonds	<u>-</u>	<u>654</u>
	<u>\$ 8,403</u>	<u>\$ 4,636</u>

e. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
An analysis of depreciation by function		
Operating costs	\$ 39,555	\$ 40,846
Operating expenses	<u>19,444</u>	<u>18,692</u>
	<u>\$ 58,999</u>	<u>\$ 59,538</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>5,247</u>	<u>3,917</u>
	<u>\$ 5,247</u>	<u>\$ 3,917</u>

f. Employee benefits expense

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Defined contribution plans of post-employment benefits	\$ 52,335	\$ 44,503
Salary and bonus	568,100	529,212
Other employee benefits	<u>69,726</u>	<u>60,474</u>
	<b><u>\$ 690,161</u></b>	<b><u>\$ 634,189</u></b>
An analysis of employee benefits expense by function		
Operating costs	\$ 498,067	\$ 442,566
Operating expenses	<u>192,094</u>	<u>191,623</u>
	<b><u>\$ 690,161</u></b>	<b><u>\$ 634,189</u></b>

g. Compensation of employees and remuneration of directors and supervisors

The Company accrued compensation of employees at the rates no less than 1% and no higher than 3%, respectively, of net profit before income tax, exclusive of compensation of employees. The compensation of employees and remuneration of directors and supervisors for the years ended December 31, 2022 and 2021 which were approved by the Company's board of directors on March 23, 2023 and March 9, 2022, respectively, were as follows:

Accrual rate

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Compensation of employees	1.00%	1.00%
Remuneration of directors and supervisors	1.00%	1.00%

Amount

	<b><u>For the Year Ended December 31</u></b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
	<b>Cash</b>	<b>Cash</b>
Compensation of employees	\$ 2,574	\$ 2,057
Remuneration of directors and supervisors	2,574	2,057

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 is no difference between the actual amounts of compensation of employees and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2021 and 2020.

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

h. Gain or loss on foreign currency exchange

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Foreign exchange gains	\$ 32,013	\$ 9,960
Foreign exchange losses	<u>(25,228)</u>	<u>(11,435)</u>
	<u>\$ 6,785</u>	<u>\$ (1,475)</u>

## 21. INCOME TAX

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Current tax		
In respect of the current year	\$ 50,028	\$ 37,158
Adjustments for prior years	(838)	(4,043)
Deferred tax		
In respect of the current year	<u>8,256</u>	<u>6,317</u>
Income tax expense recognized in profit or loss	<u>\$ 57,446</u>	<u>\$ 39,432</u>

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2022</b>	<b>2021</b>
Profit before income tax	<u>\$ 309,513</u>	<u>\$ 240,308</u>
Income tax expense calculated at the statutory rate (15%)	\$ 46,427	\$ 36,046
Nondeductible expenses in determining taxable income	7,684	4,273
Effects of deferred tax of earnings of subsidiaries	14,668	12,177
Income tax credit	(10,495)	(9,021)
Adjustments for prior years' tax	<u>(838)</u>	<u>(4,043)</u>
Income tax expense recognized in profit or loss	<u>\$ 57,446</u>	<u>\$ 39,432</u>

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 for Strong H Machinery Technology (Laichou) Corporation was the corporate tax rate of 25%. However, based on the relevant provision of the Income Tax Act of Chinese enterprises and its regulations, there are formulations to identify high-tech enterprises. High-tech enterprises are entitled to a preferential tax rate of 15% for 3 years. Strong H Machinery Technology (Laichou) Corporation obtained the qualification of high-tech enterprise in 2019 and 2022, respectively, and a preferential tax rate of 15% from 2019 to 2021 and 2022 to 2024, respectively. The applicable tax rate of Grand Strong Precision Machines Corporation was the corporate tax rate of 25%. In accordance with the relevant provisions of the Income Tax Act of Chinese enterprises, Vanden and Faith Light shall pay 10% income tax on income derived from the 2008 annual surplus distribution in China and for the subsequent years.

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted to 20% effective in 2018.

b. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Current tax liabilities		
Income tax payable	<u>\$ 13,811</u>	<u>\$ 11,978</u>

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, 2022

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Amounts Paid</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for impairment loss	\$ 4,274	\$ 4,369	\$ -	\$ 46	\$ 8,689
Allowance for inventory write-off	4,900	1,655	-	65	6,620
Payable for insurance	28,557	21	-	421	28,999
Adjustments for foreign exchange valuation of accounts receivable	-	367	-	(1)	366
	<u>\$ 37,731</u>	<u>\$ 6,412</u>	<u>\$ -</u>	<u>\$ 531</u>	<u>\$ 44,674</u>

Deferred tax liabilities

Temporary differences					
Deferred tax effect of earnings of subsidiaries	\$ 59,626	\$ 14,668	\$(14,841)	\$ 880	\$ 60,333
Others	-	-	-	-	-
	<u>\$ 59,626</u>	<u>\$ 14,668</u>	<u>\$(14,841)</u>	<u>\$ 880</u>	<u>\$ 60,333</u>

For the year ended December 31, 2021

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Amounts Paid</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Allowance for impairment loss	\$ 1,593	\$ 2,688	\$ -	\$ (7)	\$ 4,274
Allowance for inventory write-off	3,982	947	-	(29)	4,900
Payable for insurance	29,310	(531)	-	(222)	28,557
	<u>\$ 34,885</u>	<u>\$ 3,104</u>	<u>\$ -</u>	<u>\$ (258)</u>	<u>\$ 37,731</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Amounts Paid	Exchange Differences	Closing Balance
<u>Deferred tax liabilities</u>					
Temporary differences					
Deferred tax effect of earnings of subsidiaries	\$ 77,250	\$ 12,177	\$(29,188)	\$ (613)	\$ 59,626
Others	<u>2,782</u>	<u>(2,756)</u>	-	<u>(26)</u>	-
	<u>\$ 80,032</u>	<u>\$ 9,421</u>	<u>\$(29,188)</u>	<u>\$ (639)</u>	<u>\$ 59,626</u> (Concluded)

d. Income tax assessments

The income tax returns through 2021 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 2020 have been assessed by the tax authorities for the Taiwan branch of the Company in the ROC.

## 22. EARNINGS PER SHARE

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

### Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2022	2021
Earnings used in the computation of basic/diluted earnings per share	<u>\$ 252,067</u>	<u>\$ 200,876</u>

The weighted average number of ordinary shares outstanding (in thousands of shares) is as follows:

	<u>For the Year Ended December 31</u>	
	2022	2021
Weighted average number of ordinary shares in computation of basic earnings per share	68,097	68,153
Effect of potentially dilutive ordinary shares		
Restricted shares for employees	-	257
Compensation of employees	<u>78</u>	<u>71</u>
Weighted average number of ordinary share used for the diluted earnings per share computation	<u>68,175</u>	<u>68,481</u>

The Group may settle bonuses or compensation paid to employees in shares or in cash; therefore, the Group assumes that the entire amount of the bonus or compensation will be settled in shares and the resulting potential shares will be 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.

## 23. SHARE-BASED PAYMENT ARRANGEMENTS

### Restricted Shares for Employees

In the shareholders' meeting on June 12, 2018, the shareholders approved a restricted share plan for employees with a total amount of \$3,600 thousand, consisting of 360 thousand shares, and The FSC declared the effective date of the letter No. 1080311497 on April 18, 2019. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

- a. The employees cannot sell, pledge, transfer, donate or, in any other way, dispose of these shares.
- b. The employees holding these shares are not entitled to receive cash and share dividends.
- c. The employees holding these shares have no voting rights.

If an employee fails to meet the vesting conditions, the Company will recall or buy back and cancel the employee's restricted shares.

The vested conditions are as follows:

- a. Proportion of company performance vested
  - 1) The financial report (after audit) of the previous year prior to the vested year. If the net profit of the company reaches the target performance of 100% (inclusive) or more, the company's performance vesting ratio is calculated to be 100%.
  - 2) The financial report (after audit) of the previous year prior to the vested year. The net profit of the company's target performance for the current period was not higher than 90% (inclusive) or more than 100%, and the company's performance ratio was calculated to be 90%.
  - 3) If the net profit for the current year before the accountant's audit report for the current year does not reach the company's target performance of 80%, the company's performance ratio is calculated to be 0%.
- b. Percentage of individual performance
  - 1) Annual performance appraisal: Since the effective year of the method, the average annual performance appraisal of individuals must be above B level (including B level), and the proportion of those who fail to achieve it is zero.
  - 2) The average annual personal performance reaches A level, and the percentage of personal performance is 100%; the A-level personal performance is 90%; the B + level, personal performance is 80%; the B level, personal performance is proportional 60%.
  - 3) The above personal performance appraisal criteria and assessment are based on the company's employee performance assessment management methods.

c. Percentage of continuing to serve

The vested proportion of the granted employees will be 40% from January 1, 2019, and the remaining proportion will continue to be 30% for another year after January 1, 2019.

Based on the above three products of the company's performance vesting ratio, proportion of company performance, percentage of individual performance, and percentage of continuing to serve, employees calculate the actual vested proportion of each batch in batches. The number of shares acquired is not counted if it is less than one share.

On June 12, 2018, the shareholders held a shareholders' meeting and issued restricted shares for employees. The shares were based on the fair value of \$55.1 per share on April 18, 2019. The estimated amount to be expensed is estimated to be 19,836 thousand according to the estimated vesting rate of the future conditions, and it will be recognized evenly on the basis of the vesting period.

In 2021, the Company recognized that the compensation cost for issuing restricted shares for employees was 977 thousand.

In accordance with the regulations of the restricted share plan for employees, on November 10, 2021, the Company's board of directors approved to recall and cancel employees' restricted shares that fail to meet the vesting conditions. The shares were canceled with a total amount of \$658 thousand, which consisted of 66 thousand shares at NT\$10 par value, and the base date for capital reduction was November 16, 2021.

## 24. NON-CASH TRANSACTION

Since the convertible bonds were converted to ordinary shares in 2021 was a decrease of \$4,184 thousand bonds payables' carrying amount and an increase of \$1,010 thousand share capital and \$3,174 thousand share capital surplus, refer to Note 18.

## 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.

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

The Group did not have any financial assets and financial liabilities measured at fair value in 2022 and 2021. Additionally, there were no transfers between Levels 1 and 2 in the current and prior periods.



c. Categories of financial instruments

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
<u>Financial assets</u>		
Financial assets at amortized cost (1)	\$ 1,095,890	\$ 1,194,611
<u>Financial liabilities</u>		
Amortized cost (2)	440,592	595,003

- 1) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost - current, trade receivables, other receivables.
- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, trade and other payables (excluding payable for salary and bonus, compensation of employees, pension cost, and taxation).

d. Financial risk management objectives and policies

The Group's major financial instruments include 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

	<u>Currency USD Impact</u>	
	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Profit or loss	<u>\$ 1,634*</u>	<u>\$ 1,356*</u>

- \* The result was mainly attributable to the exposure of outstanding cash, receivables and payables in currency USD that were not hedged at the end of the year.

The Group's sensitivity to foreign currency increased during the current year mainly due to the reduction in Currency USD-denominated liabilities.

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:

	<u>December 31</u>	
	2022	2021
Fair value interest rate risk		
Financial assets	\$ 46,249	\$ 101,642
Cash flow interest rate risk		
Financial assets	548,815	403,450
Financial liabilities	218,041	312,794

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, 2022 and 2021 would have increased/decreased by \$3,308 thousand and \$907 thousand, respectively. The Group's sensitivity to interest rates increased during the current year mainly due to the increase in variable rate bank deposits and decrease in variable rate borrowings.

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. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 5% of total monetary assets at any time during the years ended December 31, 2022 and 2021.

### 3) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities.

#### Liquidity and interest risk rate table for non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have 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, 2022

	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>1+ Years</b>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 106,557	\$ 115,994	\$ -
Variable interest rate liabilities	231,189	-	-
Fixed interest rate liabilities	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 337,746</u>	<u>\$ 115,994</u>	<u>\$ -</u>

#### December 31, 2021

	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>1+ Years</b>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 167,983	\$ 114,226	\$ -
Variable interest rate liabilities	314,917	-	-
Fixed interest rate liabilities	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 482,900</u>	<u>\$ 114,226</u>	<u>\$ -</u>

The following table details the Group's expected maturity for some of its non-derivative financial assets. The tables below have 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, 2022

	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>1+ Years</b>
<u>Non-derivative financial assets</u>			
Non-interest bearing	\$ 500,826	\$ -	\$ -
Variable interest rate assets	549,003	-	-
Fixed interest rate assets	<u>47,334</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,097,163</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2021

	<b>1-6 Months</b>	<b>6 Months to 1 Year</b>	<b>1+ Years</b>
<u>Non-derivative financial assets</u>			
Non-interest bearing	\$ 689,519	\$ -	\$ -
Variable interest rate assets	405,467	-	-
Fixed interest rate assets	<u>101,713</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,196,699</u>	<u>\$ -</u>	<u>\$ -</u>

The amounts included above for variable interest rate instruments for non-derivative financial assets 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:

<u>Related Party</u>	<u>Related Party Categories and Relationship with the Group</u>
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 Category	For the Year Ended December 31	
		2022	2021
Sales	Related party in substance	\$ <u>-</u>	\$ <u>179</u>

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 Category	For the Year Ended December 31	
		2022	2021
Purchases	Related party in substance	\$ <u>15,239</u>	\$ <u>11,685</u>

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

### c. Payables to related parties are as below:

Line Items	Related Party Category	December 31	
		2022	2021
Trade payable	Related party in substance	\$ <u>4,401</u>	\$ <u>3,572</u>

The outstanding trade payables to related parties are unsecured.

### d. Endorsements and guarantees

On December 31, 2022, the board of directors approved the credit of bank loans, which were guaranteed by the Company. The endorsement guarantee amount was \$7,000 thousand, with Chi, Ping-Hsin as the guarantor, and the land use rights and building provided by Grand Strong Precision Machines Corporation as collateral for the loan were deregistered on August 25, 2022, and the loan amount and its collateral were released.

On December 31, 2021, the board of directors approved the credit of bank loans, which was guaranteed by the Company. The endorsement guarantee amount was \$7,000 thousand, with Chi, Ping-Hsin as the guarantor, and Grand Strong Precision Machines Corporation as the provider of the land use rights of \$14,621 thousand and the collateral for the loan of the building of \$40,803 thousand.

### e. Compensation of key management personnel

	For the Year Ended December 31	
	2022	2021
Short-term employee benefits	\$ 4,675	\$ 4,578
Post-employment benefits	<u>-</u>	<u>-</u>
	\$ <u>4,675</u>	\$ <u>4,578</u>

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:

	<u>December 31</u>	
	<u>2022</u>	<u>2021</u>
Pledged deposits (classified as financial assets at amortized cost)	\$ 72,443	\$ 101,642
Land use rights (classified as right-of-use assets)	-	14,621
Buildings	<u>-</u>	<u>40,803</u>
	<u>\$ 72,443</u>	<u>\$ 157,066</u>

## 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, 2022

	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,447	6.9646 (USD:RMB)	\$ 290,009
USD	2,978	30.710 (USD:NTD)	<u>91,463</u>
			<u>\$ 381,472</u>
<u>Financial liabilities</u>			
Monetary items			
USD	7,100	30.710 (USD:RMB)	<u>\$ 218,041</u>

December 31, 2021

	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 9,110	6.377 (USD:RMB)	\$ 252,348
USD	7,143	27.447 (USD:NTD)	<u>196,051</u>
			<u>\$ 448,399</u>
<u>Financial liabilities</u>			
Monetary items			
USD	600	6.375 (USD:RMB)	\$ 16,618
USD	10,700	27.68 (USD:NTD)	<u>296,176</u>
			<u>\$ 312,794</u>

The Group is mainly exposed to USD. The significant realized and unrealized foreign exchange gains (losses), refer to Note 20.

### **31. DISCLOSED ITEMS**

a. Information about significant transactions and b. investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (Table 1)
- 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 2)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- 9) Trading in derivative instruments (None)
- 10) Intercompany relationships and significant intercompany transactions (Table 3)

- b. Information on investees (Table 4)
- 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 5)
  - 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)
  - d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 6)

## 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, 2022 and 2021 are the sewing machine spare parts segment and face mask machines segment as the Group's main activities are manufacturing and selling sewing machine spare parts and face mask machines. 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.

	<u>Segment Revenue</u>		<u>Segment Profit</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Sewing machine spare parts segment	\$ 1,760,313	\$ 1,695,797	\$ 295,913	\$ 234,997
Face mask machines segment	<u>626</u>	<u>27,125</u>	<u>45</u>	<u>1,926</u>
	<u>\$ 1,760,939</u>	<u>\$ 1,722,922</u>	295,958	236,923
Interest income			2,066	1,761
Other income			8,175	11,953
Other gains and losses			<u>3,314</u>	<u>(10,329)</u>
Profit before tax			<u>\$ 309,513</u>	<u>\$ 240,308</u>

Segment revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by sewing machine spare parts segment and face mask machines segment without allocation of interest income, 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

	<u>Depreciation and Amortization</u>	
	<u>For the Year Ended December 31</u>	
	<u>2022</u>	<u>2021</u>
Sewing machine spare parts segment	<u>\$ 64,246</u>	<u>\$ 63,455</u>

d. Revenue from major products

The Group's revenue from its major products, 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.

	<b>Revenue from External Customers</b>	
	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
China	\$ 1,743,445	\$ 1,703,871
Taiwan	<u>17,494</u>	<u>19,051</u>
	<u>\$ 1,760,939</u>	<u>\$ 1,722,922</u>

f. Information about major customers

Revenue from direct sales of sewing machine spare parts was \$1,760,313 thousand and \$1,695,797 thousand in 2022 and 2021, respectively, and the revenue from sales to the Group's largest customer was approximately \$95,385 thousand and \$180,401 thousand.

Single customers contributing 10% or more to the Group's revenue were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Customer A (Note 1)	NA (Note 2)	<u>\$ 180,401</u>

Note 1: Revenue from direct sales of sewing machine spare parts.

Note 2: The revenue did not meet 10% of the total revenue of consolidated company.

**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES**

**ENDORSEMENTS/GUARANTEES PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(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											
0	Strong H Machinery Technology (Cayman) Incorporation	Strong H Machinery Technology (Laichou) Corporation	Subsidiary	NT\$ 919,910 (Note 3)	US\$ 7,000 (NT\$ 225,505) (Note 2)	US\$ 7,000 (NT\$ 214,970) (Notes 2 and 7)	US\$ - (NT\$ -) (Note 7)	\$ -	11.68	NT\$ 1,839,820 (Note 5)	Y	N	Y	
1	Grand Strong Precision Machines Corporation	Strong H Machinery Technology (Laichou) Corporation	Fellow subsidiary	RMB 29,379 (NT\$ 129,503) (Note 4)	US\$ 3,000 (NT\$ 91,305) (Note 2)	US\$ - (NT\$ -) (Notes 2 and 7)	-	-	-	RMB 58,758 (NT\$ 259,005) (Note 6)	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 Strong H Machinery Technology (Cayman) Incorporation's net worth.

Note 4: 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 5: The maximum total financing provided should not exceed 100% of Strong H Machinery Technology (Cayman) Incorporation's net worth.

Note 6: The maximum total financing provided should not exceed 100% of Grand Strong Precision Machines Corp.'s net worth.

Note 7: The calculation was based on the exchange rate as of December 31, 2022.

**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Strong H Machinery Technology (Laichou) Corporation	Grand Strong Precision Machines Corporation	Subsidiary	Purchase	RMB 48,206 (NT\$ 213,350)	34.68	Month end 30 days	No significant difference	No significant difference	RMB (7,360) (NT\$ -32,442)	(36.38)	Notes 1 and 2
Grand Strong Precision Machines Corporation	Strong H Machinery Technology (Laichou) Corporation	Subsidiary	Sale	RMB 48,206 (NT\$ 213,350)	91.60	Month end 30 days	No significant difference	No significant difference	RMB 7,360 (NT\$ 32,442)	81.28	Notes 1 and 2

Note 1: Purchase and sale items which are translated at the average exchanged rates for the period, receivable (payable) was based on the exchange rate as of December 31, 2022.

Note 2: The related transactions between investment companies in this table have been fully written off when the consolidated financial statements are prepared.

**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(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)
1	Strong H Machinery Technology (Laichou) Corporation	Grand Strong Precision Machines Corporation	Fellow subsidiary	Purchase	\$ 213,350	General terms	12.12
		"	"	Trade payable	32,442	General terms	1.33
		Strong H Machinery Technology (Cayman) Incorporation	Parent entity	Sales	12,368	General terms	0.70
		"	"	Trade receivable	1,880	General terms	0.08
		"	"	Purchases	37,999	General terms	2.16
		"	"	Trade payable	7,192	General terms	0.29

Note 1: The calculation was based on the exchange rate as of December 31, 2022, except for income and expense items which are translated at the average exchanged rates for the period.

Note 2: For purchase and sale, the amount is shown as a percentage to consolidated total assets as of December 31, 2022, while revenue, costs and expenses are shown as a percentage to consolidated total operating revenue for the year ended December 31, 2022.

Note 3: The amount was eliminated upon consolidation.

**STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES**

**INFORMATION ON INVESTEEES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
(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, 2022			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2022	December 31, 2021	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 352,287 (NT\$ 1,552,883)	RMB 51,808 (NT\$ 229,288)	RMB 51,986 (NT\$ 230,079)	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 87,728 (NT\$ 386,703)	RMB 12,551 (NT\$ 55,546)	RMB 12,594 (NT\$ 55,736)	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.

Note 4: For information on investment in mainland China, refer to Table 5.

## STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2022

(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, 2022	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2022	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, 2022 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2022
					Outward	Inward						
Strong H Machinery Technology (Laichou) Corporation	Manufacturing and sales of industrial sewing machine parts and mask machine	US\$ 37,979	Re-investment in mainland China through the establishment of holding company Vanden International Co., Ltd. and Faith Light International Corporation.	\$ -	\$ -	\$ -	\$ -	RMB 67,548 (NT\$ 298,950)	100	RMB 67,548 (NT\$ 298,950)	RMB 452,911 (NT\$ 1,996,433)	\$ -
Grand Strong Precision Machines Corporation	Manufacturing and sales of industrial sewing machine parts and mask machine	US\$ 8,000	Re-investment in mainland China through the establishment of holding company Vanden International Co., Ltd. and Faith Light International Corporation.	-	-	-	-	RMB 3,314 (NT\$ 14,666)	100	RMB 2,222 (NT\$ 9,836)	RMB 57,006 (NT\$ 251,283)	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2022	Investment Amount Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
(Note 2)	(Note 2)	(Note 2)

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

Note 2: The Company is not applicable for the upper limit on the amount of investment stipulation because it is an offshore company.

Note 3: The calculation was based on the exchange rate as of December 31, 2022, except for income and expense items which are translated at the average exchanged rates for the period.

Note 4: Intercompany balances and transactions between investor and investee have been eliminated upon consolidation.

**TABLE 6****STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION****INFORMATION OF MAJOR SHAREHOLDERS  
DECEMBER 31, 2022**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
IMPERIAL INTER	27,272,000	40.04
PREMIER CHOICE	5,220,000	7.66
Global Sharp Invest	5,220,000	7.66
DOUBLE FAITH	5,220,000	7.66
Joyful Gain	4,060,000	5.96
Regency Star Intern	3,480,000	5.11

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preference shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

Note 2: If a shareholder delivers the shareholdings to the trust, the above information will be disclosed by the individual trustor who opened the trust account. For shareholders who declare insider shareholdings with ownership greater than 10% in accordance with the Security and Exchange Act, the shareholdings include shares held by shareholders and those delivered to the trust over which shareholders have rights to determine the use of trust property. For information relating to insider shareholding declaration, refer to Market Observation Post System.