Stock code
4560

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION

2018 Annual Report

Published May 10, 2019

Annual report URL: http://mops.twse.com.tw

Company website: http://www.strongh.cn

Notice to readers

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

I. The names, titles, telephone numbers and email addresses of the Spokesperson and Deputy Spokesperson:

Name of spokesperson: Hsu, Hsiang-Jen TEL: 0966-214560/(86)535-2292508

Title: CFO, Head of Accounting E-mail: IR@strongh.cn

Name of acting spokesperson: Chi, Tao-Song TEL: (886)3-3198016

Title: Manager of the Company's Taiwan Branch E-mail: IR@strongh.cn

II. Name, designation, contact number, and e-mail of litigation/non-contentious case agents in the Republic of China:

Name of representative: Chi, Tao-Song Title: Manager of the Company's Taiwan Branch

TEL: (886)3-3198016 E-mail: strongh@strongh.tw

III. Address and contact number of head office, branches, subsidiaries and 2nd-tier subsidiaries:

(I) Head office (branch):

Name: Strong H Machinery Technology (Cayman) Incorporation

Website:http://www.strongh.cn

Address:4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands

TEL:(86)535-2292508

Branch: Strong H Machinery Technology (Cayman) Incorporation Taiwan Branch

Address: No. 89, Jianguo East Road, Guishan District, Taoyuan City

TEL:(886)3-3198028

(II) Subsidiary and 2nd-tier subsidiary:

Name:Faith Light International Corporation (Samoa)

Address:Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa

TEL:(86)535-2292508

Name:VANDEN INTERNATIONAL CO .,LTD.(Samoa)

Address:Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa

TEL:(86)535-2292508

Name: Strong H Machinery Technology Co.,Ltd.

Address: No. 1699, Kaiming Road, Development Zone, Laizhou City, Shandong Province, China

TEL: (86)535-2292508

Name: Grand Strong Precision Machines Co., Ltd.

Address: Qiancheng Community, Shangma Street, Chengyang District, Qingdao City, Shandong Province, China

TEL: (86)532-87920085

IV. Name, address, website, and contact number of share administration agency:

Name: Shareholder Service Department of Fubon Securities Co., Ltd. Website: http://www.fubon.com

Address: 2F, No. 17, Xuchang Street, Zhongzheng District, Taipei City TEL: (886)2-23611300

V. The CPA's name and the accounting firm's name, address, telephone number and website for the most recent financial report:

Name of financial statement auditor: CPA Liu, Shuei-En, CPA Yang, Ching-Ting

Accounting firm: Deloitte Taiwan Website: http://www.deloitte.com.tw

Address: 20F, No. 100, Songren Road, Xinyi District, Taipei City TEL: (886)2-27259988

VI. Name of overseas exchange where securities are listed, and methods for inquiring foreign-listed securities: Not applicable.

VII. Company website: http://www.strongh.cn

VIII. List of board members:

Job title	Name	Nationality	Main Education and Working Experiences
Chairman of the Board	IMPERIAL INTERNATIONAL CO.,LTD Representative: Chi, Ping-Hsin	Taiwan, R.O.C	1. Strong H Machinery Technology Co.,Ltd.-Founder 2. Taoyuan Senior High School
Director	IMPERIAL INTERNATIONAL CO.,LTD Representative: Hsu, Hsiang-Jen	Taiwan, R.O.C	1. Deloitte Taiwan - Partner 2. Master of Accounting, Soochow University
Director	Chi, Tao-Song	Taiwan, R.O.C	1. Mean Light Co., Ltd. - Manager 2. Zhong Li Commercial Senior High School
Director	Hsu, Chin-Shan	Taiwan, R.O.C	1. Passion Trading Co., Ltd. - Business Manager 2. Department of Mechanical Engineering, Kun Shan University
Independent Director	Wang, Ching-Hsiang	Taiwan, R.O.C	1. Hua De Alliance - Director 2. Solomon & Co., CPAs 3. Master of Accounting, Soochow University
Independent Director	Tai, Kuo-Cheng	Taiwan, R.O.C	1. Ph.D of Industry, Yokohama National University
Independent Director	Lin, Chin-Chung	Taiwan, R.O.C	1. The Arbitration Association of R.O.C. - Arbitrator 2. Taichung District Court - Judge 3. Taichung Bar Association - Chairman 4. Bachelor of Law, National Chung Hsing University

Content

One. Report to Shareholders

Strong H Machinery Technology (Cayman) Incorporation
2018 Business Report

I. 2018 business report:

(I) Business performance:

The Company generated NT$1,816,136,000 of operating revenues and NT$314,990,000 of net income in 2018.

Unit: NT$ thousand

Item/Year	2018	2017
Operating revenue	1,816,136	1,374,470
Gross profit	745,578	562,603
Operating income	431,486	290,595
Net profit before tax	436,108	293,808
Net income	313,070	203,142
After-tax earnings per share	4.76	3.25

(II) Budget execution: The Company was not required to publish financial forecast for 2018.

(III) Income, expense and profitability analysis:

Unit: NTD thousands;%

<table>
<tr><th colspan="3">Item/Year</th><th>2018</th><th>2017</th><th>Variation %</th></tr>
<tr><td rowspan="3">Profitability analysis</td><td colspan="2">Operating revenue</td><td>1,816,136</td><td>1,374,470</td><td>32.13%</td></tr>
<tr><td colspan="2">Gross profit</td><td>745,578</td><td>562,603</td><td>32.52%</td></tr>
<tr><td colspan="2">Net income</td><td>313,070</td><td>203,142</td><td>54.11%</td></tr>
<tr><td rowspan="6">Profitability</td><td colspan="2">Return on assets (%)</td><td>14.70</td><td>11.13</td><td>32.08%</td></tr>
<tr><td colspan="2">Return on shareholders’ equity (%)</td><td>20.09</td><td>15.58</td><td>28.95%</td></tr>
<tr><td rowspan="2">As a percentage of paid-up capital (%)</td><td>Operating income</td><td>65.23</td><td>44.54</td><td>46.45%</td></tr>
<tr><td>Income before tax</td><td>65.93</td><td>45.03</td><td>46.41%</td></tr>
<tr><td colspan="2">Net profit margin (%)</td><td>17.24</td><td>14.78</td><td>16.64%</td></tr>
<tr><td colspan="2">Basic after-tax earnings per share (NTD)</td><td>4.76</td><td>3.25</td><td>46.46%</td></tr>
</table>

(IV) R&D

Research and development expenses totaling NT$60,742,000 were incurred in 2018, up NT$23,225,000 from the NT$37,517,000 reported in 2017. These expenses were mainly invested into high value-adding technologies such as anti-wear and anti-corrosion treatment, auto thread cutter and multi-purpose blades for the purpose of bringing higher value products to customers.

II. Future strategies

China in year 2018 was characterized by release of new industry policies and transition from "world's factory" to "world's market." The nation's huge population combined with increasing purchase power not only brings immense business opportunities, but also inspires transformation, upgrade and innovation among downstream participants. This strengthened confidence will provide the industry with brighter prospects.

The Company markets products to the world under its proprietary brand - "STRONG H," which is one of the leading brands of machinery parts. In terms of whole products, the Company has been active in the promotion of auto thread cutters and the development of high value-adding blades and needle plates in recent years. The Company has also taken the initiative to produce blades for other purposes, such as gardening and paper-cutting blades.

At the sales end, after-market and repair has been part of the Company's key focus in recent years. Through strategic cooperations with distributors around the world, the Company has been able to develop a comprehensive sales channel that spans across key overseas markets including Turkey, Pakistan, India, Bangladesh, and Vietnam.

In the future, the Company will continue to ensure the stability of business growth on all aspects and aim to improve business performance by enhancing competitiveness in main areas of expertise.

Chairman: Chi, Ping-Hsin Manager: Chi, Ping-Hsin Head of Accounting: Hsu, Hsiang-Jen

Two. Company Profile

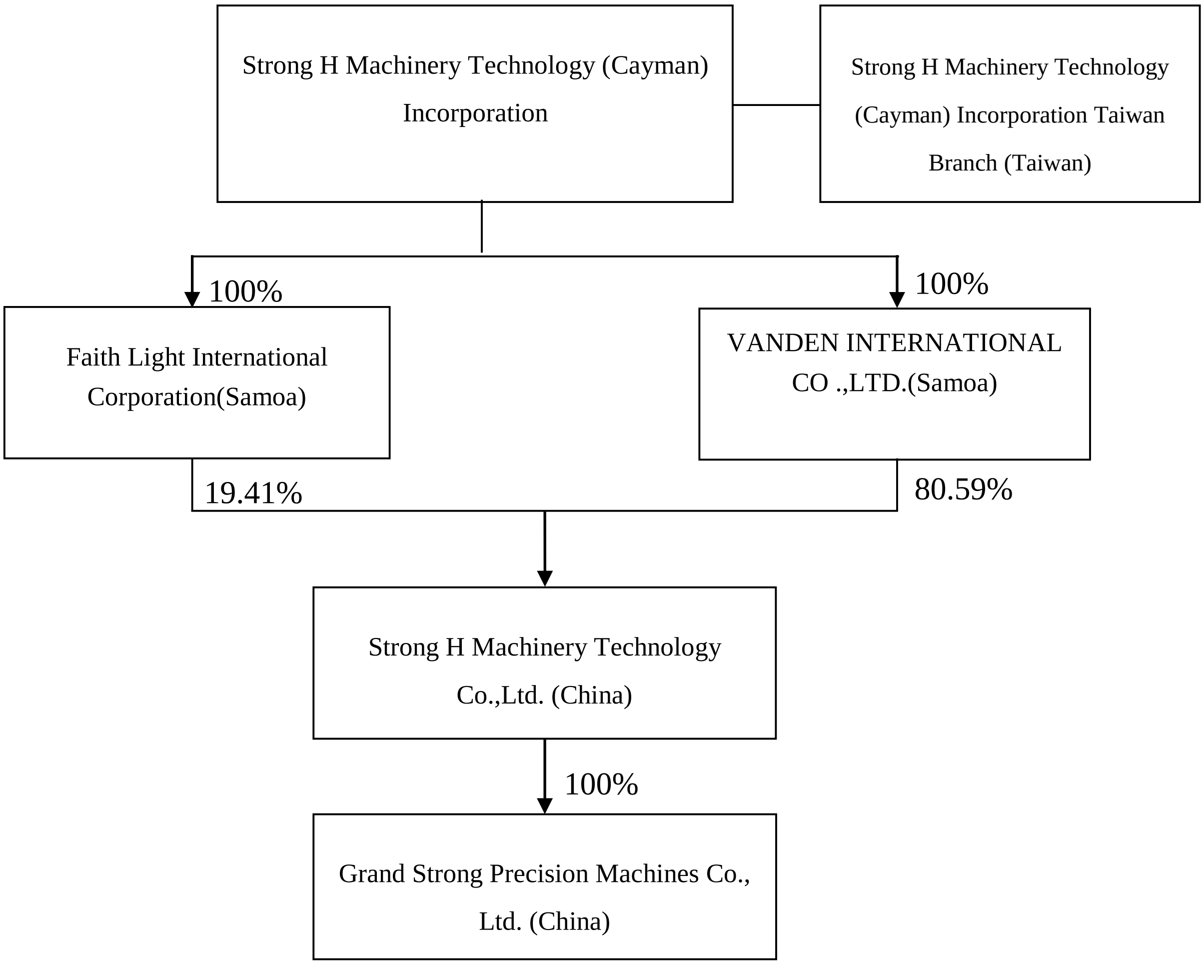
I. Introduction to the company and group

(I) Date of establishment and introduction of group

Strong H Machinery Technology (Cayman) Incorporation (the Company) was founded on October 31, 2014 as an offshore investment holding company registered in the Cayman Islands, which made its first public listing in Taiwan. As at the publication date of this annual report, the Company's 100% directly and indirectly owned subsidiaries (and 2nd-tier subsidiaries) included Faith Light International Corporation (Samoa), VANDEN INTERNATIONAL CO., LTD. (Samoa), Strong H Machinery Technology Co.,Ltd., Grand Strong Precision Machines Co., Ltd. and Strong H Machinery Technology (Cayman) Incorporation Taiwan Branch.

The Company is a manufacturer of precision machinery that currently focuses on the production and sale of industrial sewing machine parts, whole machine assembly, and end user repair service.

(II) Group structure



(III) Address and contact number of head office, branches, subsidiaries and factory sites

1. The Company:STRONG H MACHINERY TECHNOLOGY(CAYMAN) INCORPORATION

   Address:4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands

   TEL:(86)535-2292508

2. Branch: Strong H Machinery Technology (Cayman) Incorporation Taiwan Branch

   Address: No. 89, Jianguo East Road, Guishan District, Taoyuan City

   TEL:(886)3-3198028

3. Subsidiary:

   （1）Faith Light International Corporation (Samoa)

   Address:Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa

   TEL:(86)535-2292508

   （2）VANDEN INTERNATIONAL CO .,LTD. (Samoa)

   Address:Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa

   TEL:(86)535-2292508

   （3）Strong H Machinery Technology Co.,Ltd.

   Address: No. 1699, Kaiming Road, Development Zone, Laizhou City, Shandong Province

   TEL:(86)535-2292508

   （4）Grand Strong Precision Machines Co., Ltd.

   Address: Qiancheng Community, Shangma Street, Chengyang District, Qingdao City, Shandong Province

   TEL:(86)532-87920085

II. Company and group history

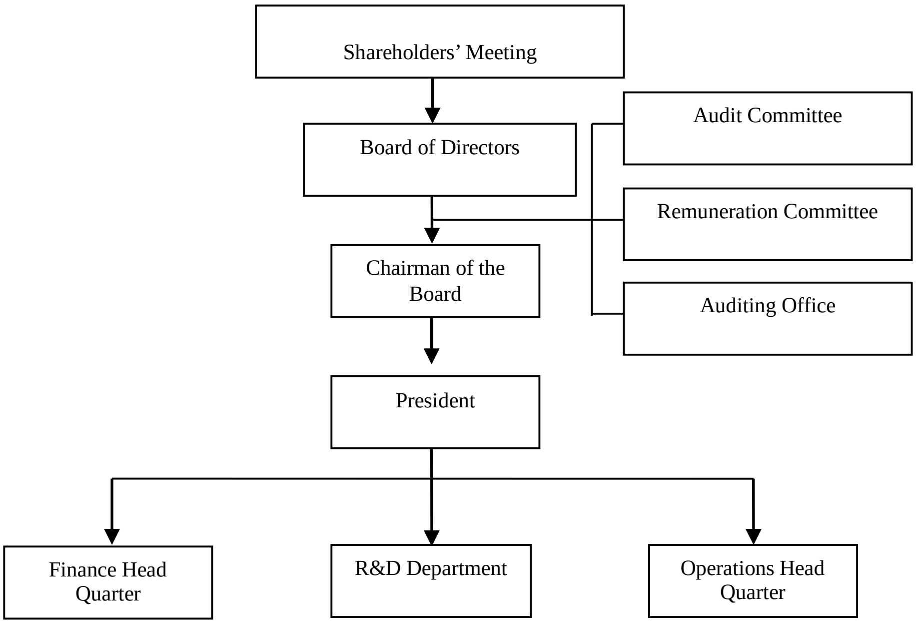
Year	Company and group history
1996	Laizhou Qiangxin Precision Machinery Co., Ltd. was founded in Laizhou City, Shandong Province.
1997	Registered the STRONG H trademark.
	The Company expanded its product category to industrial sewing machine blade\needle plate\teeth\presser foot.
2005	Grand Strong Precision Machines Co., Ltd. (“Qingdao Hao Qiang”) was approved for establishment in Qingdao City, Shandong Province, China.
2006	Strong H Machinery Technology Co.,Ltd. (“Strong H Laizhou”) was approved for establishment in Laizhou City, Shandong Province, China.
2009	STRONG H was recognized as "Shandong Key Trademark."
2010	Strong H Laizhou was named Excellent Partner by Juki (Ningbo) Precision Co. Ltd. in 2010.
	Established Lean Planning Department to introduce lean production model.

Year	Company and group history
2011	Introduced corporate strategy and balanced scorecard management.
2012	Precision casting workshop commenced operation.
	Adopted process management.
	Strong H was awarded the Vice Chairman position at Textile & Garment Chamber of Commerce, All-China Federation of Industry & Commerce
	Strong H Laizhou was recognized "Shandong Grade 2 Safety Standardization Certified Enterprise."
	New precision casting workshop commenced operation.
2013	Strong H Laizhou invested into the construction of modernized dormitory and entertainment room to enrich employees' life after work.
	Adopted ERP system to integrate corporate resources.
	Zhejiang New Jack Sewing Machine Co., Ltd. awarded Strong H the title of "Strategic Partner 2013-2014."
	Strong H Laizhou was awarded Chinese High-tech Enterprise Certification.
	The "Thread-cutting Performance Testing Machine" successfully registered 15 patents.
2014	Strong H Laizhou was named "Users' Top 10 Parts Brands" in Renowned Brands of Garment Manufacturing.
	"Strong H Machinery Technology (Cayman) Incorporation" was founded in the Cayman Islands in October.
	The Company completed its re-organization on December 15, 2014 through a share exchange agreement where 57,850,000 common common shares were issued in exchange for 100% equity ownership in VANDEN and Faith Light, which enabled the Company to acquire 100% indirect equity ownership in Strong H Laizhou and Qingdao Hao Qiang. After the re-organization, Strong H Machinery Technology (Cayman) Incorporation became the investment holding company for the consolidated entity.
	Patent was successfully registered for "Sewing Machine Thread Cutter."
2015	The materials building was completed and commissioned into use.
	Founded “Strong H Machinery Technology (Cayman) Incorporation Taiwan Branch.”
	Strong H Laizhou participated in the "2015 China International Sewing Machinery & Accessories" exhibition. The 270m^2 of exhibition space was the largest in the Company's history.
	Patent was successfully registered for "Interlock Sewing Machine Cutter Presser Foot Driver."
2016	To support business development, the Company invested into Strong H Laizhou in 2016 by contributing US$3,878,700 (100%) of equity interest in Qingdao Hao Qiang that it had held through Faith Light. This arrangement made Qingdao Hao Qiang a subsidiary of Strong H Laizhou.
	Strong H Laizhou held its 2016 Distributor Conference and Commendation Ceremony.
	Shares were offered publicly and registered on Emerging Stock Market.
2017	A cash issue of NT$72,500,000 was organized as part of the public share listing. Share capital increased to NT$652,500,000 after the cash issue.
	The board of directors of Taiwan Stock Exchange Corporation (TWSE) passed the Company's initial listing, and the Company's shares were listed on TWSE on May 26.
	The Company participated in the "2017 China International Sewing Machinery & Accessories" exhibition. The 345 m^2 of exhibition space was the largest in the exhibition.
2018	The Company issued its 1st unsecured convertible bond on February 5 for a sum of NT$300,900,000.

Three. Corporate Governance Report

I. Organization

(I) Organizational structure



(II) Responsibilities of key departments

Key departments	Responsibilities
Board of Directors	Makes the Company's business decisions and policies, sets operational goals, assigns key managers to grow business, and acknowledges decisions that the Chairman is authorized make.
Remuneration Committee	Sets performance evaluation and compensation policies, systems and standards for the Company's directors and managers. Regularly assesses and reviews salary and compensation for directors and managers.
Audit Committee	1. Establishment, amendment and evaluation of the internal control system. 2. Resolutions concerning directors' personal interests. 3. Review and approval of the Company's major decisions. 4. Fair presentation of financial statements.
Auditing Office	Evaluates defect and efficiency of the Company's internal control system, submits audit report, recommends improvements where appropriate, ensures ongoing effectiveness of the internal control system, and assists the management in fulfilling managerial duties.
President	Executes board decisions, oversees internal management, and leads the management in accomplishing business targets.
R&D Department	Responsible for the research and development of new products, improvement of existing products, and refinement of internal processes.
Operations Head Quarter	Determines business model and plans organizational framework based on prevailing product and operating policies to satisfy the needs of customers and consumers, and accomplish the Company's operational targets.
Finance Head Quarter	Responsible for funding and bookkeeping, ensuring financial security, using correct and objective financial and management information to improve decision quality, and monitoring performance statistics.

II. Background information of directors, supervisors, President, vice presidents, assistant managers, and the heads of various departments and branches

(I) Background of directors and supervisors

1. Directors and supervisors (the Company does not have supervisors)

April 8, 2019; unit: thousand shares; %

Job title	Gender	Name	Nationality or place of registration	Date First Elected	Date elected	Term Expires	Number of shares held at the time of election (appointment)		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Main Education and Working Experiences	Current duties in The Company and in other companies	Other Managers, Directors or Supervisors having the Relationship of Spouse or Relatives Within the Second Degree		
							Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Job title	Name	Relationship
Chairman of the Board	Male	Imperial International Co. Ltd) (IMPERIAL INTERNATIONAL CO.,LTD)	British Virgin Islands	2015.2.25	2016.11.24	3	30,250	52.16	27,272	41.14	–	–	–	–	–	–	–	–	–
		Chi, Ping-Hsin	Taiwan, R.O.C	2015.2.25	2016.11.24	3	–	–	81	0.12	–	–	50,472 (Note 1)	76.14(Note 1)	1. Taoyuan Senior High School 2. Strong H Mechanical Technology (Laizhou) Co., Ltd. - Founder	1. Strong H Machinery Technology (Cayman) Incorporation - Chairman and President 2. Faith Light International Corporation (Samoa) - Representative 3. VANDEN INTERNATIONAL CO .,LTD. (Samoa) - Representative 4. Strong H Machinery Technology Co., Ltd. - Director and President 5. Grand Strong Precision Machines Co., Ltd. - Managing Director and President 6. IMPERIAL INTERNATIONAL CO.,LTD - Representative 7. Joyful Gain Investment Limited - Representative 8. Regency Star International Limited - Representative 9. PREMIER CHOICE VENTURES INC. - Representative 10. DOUBLE FAITH HOLDING LIMITED - Representative 11. Global Sharp Investments Limited - Representative	Director	Chi, Tao-Song	Sibling
Director	Male	Imperial International Co. Ltd (IMPERIAL INTERNATIONAL CO.,LTD)	British Virgin Islands	2015.2.25	2016.11.24	3	30,250	52.16	27,272	41.14	–	–	–	–	–	–	–	–	–

Job title	Gender	Name	Nationality or place of registration	Date First Elected	Date elected	Term Expires	Number of shares held at the time of election (appointment)		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Main Education and Working Experiences	Current duties in The Company and in other companies	Other Managers, Directors or Supervisors having the Relationship of Spouse or Relatives Within the Second Degree		
							Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Job title	Name	Relationship
		Hsu, Hsiang-Jen	Taiwan, R.O.C	2015.2.25	2016.11.24	3	–	–	–	–	–	–	–	–	1. Deloitte Taiwan - Partner 2. Master of Accounting, Soochow University	1. Strong H Machinery Technology (Cayman) Incorporation - CFO, CAO 2. Faith Light International Corporation (Samoa) - CFO, CAO 3. VANDEN INTERNATIONAL CO .,LTD. (Samoa) - CFO, CAO 4. Strong H Machinery Technology Co., Ltd. - CFO and CAO 5. Grand Strong Precision Machines Co., Ltd. - CFO, CAO	–	–	–
Director	Female	Chi, Tao-Song	Taiwan, R.O.C	2015.2.25	2016.11.24	3	–	–	–	–	–	–	762	1.15	1. Mean Light Co., Ltd. - Manager 2. Zhong Li Commercial Senior High School	1. Manager of Strong H Machinery Technology (Cayman) Incorporation Taiwan Branch 2. Strong H Machinery Technology Co., Ltd. - Supervisor 3. Grand Strong Precision Machines Co., Ltd. - Supervisor 4. HERO PROMISE LIMITED - Representative	Chairman of the Board	Chi, Ping-Hsin	Sibling
Director	Male	Hsu, Chin-Shan	Taiwan, R.O.C	2016.9.26	2016.11.24	3	–	–	–	–	–	–	–	–	1. Passion Trading Co., Ltd. - Business Manager 2. Department of Mechanical Engineering, Kun Shan University	1. Yi Chang Steel Co., Ltd. - CEO's Assistant	–	–	–
Independent Director	Male	Tai, Kuo-Cheng	Taiwan, R.O.C	2015.2.25	2016.11.24	3	–	–	–	–	–	–	–	–	1. Ph.D of Industry, Yokohama National University	1. Associate Professor of Department of Mechanical and Computer Aided Engineering, Feng Chia University 2. Head of Bachelor's Program in Precision System Design, Feng Chia University	–	–	–
Independent Director	Male	Wang, Ching-Hsiang	Taiwan, R.O.C	2015.2.25	2016.11.24	3	–	–	–	–	–	–	–	–	1. Hua De Alliance - Director 2. Solomon & Co., CPAs 3. Master of Accounting, Soochow University	1. Yangtze CPAs and Co. - Director 2. Hua De Alliance - Chairman 3. United Orthopedic Corporation - Supervisor 4. Full Wang International Development Co., Ltd. - Independent Director 5. Ying Chuan Technology Co., Ltd. - Supervisor 6. Dowton Patents Co., Ltd. - Representative	–	–	–
Independent Director	Male	Lin, Chin-Chung	Taiwan, R.O.C	2015.2.25	2016.11.24	3	–	–	–	–	–	–	–	–	1. The Arbitration Association of R.O.C. -	1. Covenant Law Firm - Director	–	–	–

Job title	Gender	Name	Nationality or place of registration	Date First Elected	Date elected	Term Expires	Number of shares held at the time of election (appointment)		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Main Education and Working Experiences	Current duties in The Company and in other companies	Other Managers, Directors or Supervisors having the Relationship of Spouse or Relatives Within the Second Degree		
							Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Job title	Name	Relationship
															Arbitrator 2. Taichung District Court - Judge 3. Taichung Bar Association - Chairman 4. Bachelor of Law, National Chung Hsing University				

Note 1: Includes shares held through IMPERIAL INTERNATIONAL CO.,LTD and Joyful Gain Investment Limited, etc.

2. Major shareholders of corporate shareholders

April 8, 2019

Name of corporate shareholder	Corporate shareholders' main shareholders
IMPERIAL INTERNATIONAL CO.,LTD (Imperial International Co. Ltd)	Chi, Ping-Hsin (100%)

3. Major shareholders of corporate shareholders

Corporate shareholders	Major shareholders of corporate shareholders
Not applicable	Not applicable

4. Directors’/supervisors’ professionalism and independence (the Company does not have supervisors)

Qualification / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Compliance of independence (Note)										Number of the other public companies where the person holds the title as independent director concurrently
	Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities	Judge, public prosecutor, attorney-at-law, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company.	Required work experience in commerce, law, finance, accounting or others required by The Company	1	2	3	4	5	6	7	8	9	10	
IMPERIAL INTERNATIONAL CO.,LTD Representative: CHI, PING-HSIN	–	–	✓	–	–	✓	–	–	✓	✓	–	✓	–	–
IMPERIAL INTERNATIONAL CO.,LTD Representative: Hsu, Hsiang-Jen	–	✓	✓	–	✓	✓	✓	–	✓	✓	✓	✓	✓	–
Chi, Tao-Song	–	–	✓	–	–	✓	–	–	–	✓	–	✓	–	–
Hsu, Chin-Shan	–	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Tai, Kuo-Cheng	✓	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Wang, Ching-Hsiang	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Lin, Chin-Chung	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–

Note: place a "✓" in the box below if the Director or Supervisor met the following conditions during the time of active duty and two years prior to the elected date.

(1) Not an employee of The Company or its affiliates;

(2) Not a director or supervisor of any of the company's related companies (this restriction does not apply to independent director positions in the company, its parent company or subsidiary, which have been appointed in accordance with local laws or laws of the registered country).

(3) Not a natural person, spouse, underage child, or under the title of a third party who holds more than 1% of the outstanding shares issued by The Company or among the top 10 natural person shareholders.

(4) Not a spouse, a relative of second degree or closer, or a direct kin of third degree or closer to anyone listed in the three preceding criteria.

(5) Not a director, supervisor or employee of an institutional shareholder who holds more than 5% of the outstanding shares issued by The Company, or a director, supervisor or employee of an institutional shareholder who is among the top 5 shareholders.

(6) Is neither a director, supervisor, manager, nor a shareholder holding more than 5% of the outstanding shares, of a certain company or organization that has a financial or business relationship with the company.

(7) Not a professional who provides commercial, legal, financial, accounting, or consulting services to the company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the company or its affiliated companies. Except the members of the Remuneration Committee performing their duties pursuant to Article 7 of the Regulation Governing the Establishment of Remuneration Committee and the Performance of Authority of Companies trading their stocks in TWSE/GTSM.

(8) Not a spouse to or kin at the second pillar under the Civil Code to any other director.

(9) Not under any of the categories stated in Article 30 of The Company Law.

(10) No Government Apparatus agency, juristic person or its representative is elected under Article 27 of The Company Law.

(II) President, vice presidents, assistant vice presidents, and heads of departments and branches

April 8, 2019; unit: thousand shares; %

Job title	Name	Gender	Nationality	Date onboard (Note 1)	Shareholding		Number of shares held by their spouse and underage children		Shares held in the names of others		Main Education and Working Experiences	Positions held concurrently in any other companies	a spouse or relative within two degrees of consanguinity serving as a manager			Manager's entitlement to employee warrants
					Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Job title	Name	Relationship	
President	Chi, Ping-Hsin	Male	Taiwan, R.O.C	2006.12.14	–	–	81	0.12	50,472 ((Note 2))	76.14((Note 2))	1. Taoyuan Senior High School 2. Strong H Mechanical Technology (Laizhou) Co., Ltd. - Founder	1. Faith Light International Corporation (Samoa) - Representative 2. VANDEN INTERNATIONAL CO .,LTD. (Samoa) - Representative 3. Strong H Machinery Technology Co., Ltd. - Director and President 4. Grand Strong Precision Machines Co., Ltd. - Managing Director and President 5. IMPERIAL INTERNATIONAL CO.,LTD - Representative 6. Joyful Gain Investment Limited - Representative 7. Regency Star International Limited - Representative 8. PREMIER CHOICE VENTURES INC. - Representative 9. DOUBLE FAITH HOLDING LIMITED - Representative 10. Global Sharp Investments Limited - Representative	–	–	–	–
Vice Executive President	Qi, Yu-Bin	Male	People's Republic of China	2006.12.14	–	–	–	–	249	0.38	1. Nanshilizhen Junior High School, Laizhou City	1. Strong H Machinery Technology Co., Ltd. - Assistant Vice President 2. Win Honor International Limited - Representative	–	–	–	–
Business Manager	Guo, Jun-Zhu	Male	People's Republic of China	2006.12.14	–	–	–	–	194	0.29	1. Department of Electrical Engineering, Dalian Railway Institute	1. Strong H Machinery Technology Co., Ltd. - Manager	–	–	–	–
CFO and CAO	Hsu, Hsiang-Jen	Male	Taiwan, R.O.C	2014.02.01	–	–	–	–	–	–	1. Deloitte Taiwan - Partner 2. Master of Accounting, Soochow University	1. Faith Light International Corporation (Samoa) - CFO, CAO 2. VANDEN INTERNATIONAL CO .,LTD. (Samoa) - CFO, CAO 3. Strong H Machinery Technology Co., Ltd. - CFO and CAO 4. Grand Strong Precision Machines Co., Ltd. - CFO, CAO	–	–	–	–
Auditing manager	Tung, Shang-Ju	Male	Taiwan, R.O.C	2016.12.13	–	–	–	–	–	–	1. Asia Pacific Telecom Co.,Ltd. - Chief Auditor 2. Chien Kuo Construction Co., Ltd. - Manager 3. Chien Yeh Law Offices - Director 4. Department of Accounting, National Tamkang University	–	–	–	–	–

Note 1: Refers to the earlier between the date onboard the Company or subsidiary.
Note 2: Includes shares held through IMPERIAL INTERNATIONAL CO.,LTD and Joyful Gain Investment Limited,etc.

III. Remuneration to Directors, Supervisors, President and Vice Presidents in the most recent year

(I) Director remuneration paid in the most recent year (2018)

1. Directors' remuneration (including independent directors)

December 31, 2018; unit: NTD thousands

Job title	Name	Remuneration to directors								Sum of A, B, C and D as a percentage of net income (Note 7)		Remuneration in the capacity as employees								Sum of A, B, C, D, E, F and G as a percentage of net income (Note 2)		Whether receiving remuneration from invested companies other than subsidiaries
		Remuneration (A)		Pension (B)		Profit sharing (C)		For Services (D)				Salaries, bonuses and special allowances, etc. (E)		Pension (F)		Employee remuneration (G)						
																the Company		All companies included in the consolidated statements				
		the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	Cash dividend	Amount of stock	Cash dividend	Amount of stock	the Company	All companies included in the consolidated statements	
Chairman of the Board	Representative of IMPERIAL INTERNATIONAL CO.,LTD: Chi, Ping-Hsin (Note 1)	–	–	–	–	–	3,193	–	123	–	1.06	–	6,480	–	–	–	–	3,193	–	–	4.15	–
Director	Representative of IMPERIAL INTERNATIONAL CO., LTD.: Hsu, Hsiang-Jen (Note 1)																					
Director	Chi, Tao-Song (Note 1)																					
Director	Hsu, Chin-Shan (Note 1)																					
Independent Director	Tai, Kuo-Cheng (Note 1)																					
Independent Director	Wang, Ching-Hsiang (Note 1)																					
Independent Director	Lin, Chin-Chung (Note 1)																					
Compensation received by director for providing service to any company included in the financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: None.																						

Note 1: The Company held an extraordinary shareholder meeting on 2016.11.24 to re-elect directors. The list of elected directors included IMPERIAL INTERNATIONAL CO., LTD. representatives: Chi, Ping-Hsin, Hsu, Hsiang-Jen, Chi, Tao-Song, Hsu, Chin-Shan, Tai, Kuo-Cheng, Wang, Ching-Hsiang and Lin, Chin-Chung.

Note 2: The Company delivered consolidated net income of 2018NT$313,070,000 in 2018.

Breakdown of Remuneration

Remunerations to individual directors in respective brackets along the salaries scale	Name of director			
	Total remuneration (A+B+C+D)		Total remuneration (A+B+C+D+E+F+G)	
	the Company	All companies in the financial statements	the Company	All companies in the financial statements
Below NT$2,000,000	–	Chi, Ping-Hsin, Chi, Tao-Song, Hsu, Hsiang-Jen, Hsu, Chin-	–	Hsu, Hsiang-Jen. Hsu,Chin-Shan. Tai,Kuo-Cheng.

		Shan, Tai,Kuo-Cheng, Wang, Ching-Hsiang. Lin, Chin-Chung		Wang,Ching-Hsiang. Lin,Chin-Chung
NT$2,000,000 ~ NT$5,000,000	–	–	–	Chi, Tao-Song
NT$5,000,000 ~ NT$10,000,000	–	–	–	Chi, Ping-Hsin
NT$10,000,000 ~ NT$15,000,000	–	–	–	–
NT$15,000,000 ~ NT$30,000,000	–	–	–	–
NT$30000,000 ~ NT$50,000,000	–	–	–	–
NT$50,000,000 ~ NT$100,000,000	–	–	–	–
> NT$100,000,000	–	–	–	–
Total	–	7	–	7

2. Supervisors’ remuneration: The Company has Audit Committee in place of supervisors, hence not applicable.

3. Remuneration to President and vice presidents in the last year

December 31, 2018; unit: NTD thousands; shares

Job title	Name	Salary (A)		Pension (B)		Bonuses and allowances (C)		Employee remuneration (D)				Sum of A, B, C and D as a percentage of net income (%)		Whether receiving remuneration from invested companies other than subsidiaries
		the Company	All companies in the financial statements	the Company	All companies in the financial statements	the Company	All companies in the financial statements	the Company		All companies in the financial statements		the Company	All companies in the financial statements	
								Cash dividend	Amount of stock	Cash dividend	Amount of stock			
President	Chi, Ping-Hsin	-	5,555	-	-	-	-	-	-	2,634	-	-	2.62	-
CFO and CAO	Hsu, Hsiang-Jen													

Note: The Company delivered consolidated net income of NT$313,070,000 in 2018.

Breakdown of Remuneration

The brackets of remunerations to all Presidents and Vice Presidents of the Company	Names of the Presidents and the Vice Presidents	
	the Company	All companies in the financial statements
Below NT$2,000,000	—	Hsu, Hsiang-Jen
NT$2,000,000 ~ NT$5,000,000	—	—
NT$5,000,000 ~ NT$10,000,000	—	Chi, Ping-Hsin
NT$10,000,000 ~ NT$15,000,000	—	—
NT$15,000,000 ~ NT$30,000,000	—	—
NT$30000,000 ~ NT$50,000,000	—	—
NT$50,000,000 ~ NT$100,000,000	—	—
> NT$100,000,000	—	—
Total	—	2

4. Names of managers who received employee remuneration:

December 31, 2018; unit: NTD thousands; shares

	Job title	Name	Amount of stock	Cash dividend	Total	As a percentage of net profit after tax (%)
Manager	President	Chi, Ping-Hsin	–	3,193	3,193	1.02
	CFO and CAO	Hsu, Hsiang-Jen				
	Branch manager	Chi, Tao-Song				

Note: The Company delivered consolidated net income of NT$313,070,000 in 2018.

(II) Comparison and disclosure of remuneration in the most recent 2 years paid by the company and all companies included in the consolidated financial statements to the company's directors, supervisors, President and vice presidents as a percentage of after-tax net profit. Describe the remuneration policy, standards, and packages, the procedures for determining remuneration and link to business performance and future risks

1. Amount of remuneration paid to directors, supervisors, the President and vice presidents of the Company and all companies included in the consolidated financial statements in the last 2 years, and as a percentage of net income

Unit: NTD thousand; %

Title	2017				2018			
	Amount of remuneration		As a percentage of net income (%)(Note)		Amount of remuneration		As a percentage of net income (%)(Note)	
	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements	the Company	All companies included in the consolidated statements
Director	–	10,286	–	5.06	–	12,988	–	4.15
President and CFO/CAO	–	6,683	–	3.29	–	8,189	–	2.62

Note: The Company delivered consolidated net income of NT$203,142,000 in 2017 and NT$313,070,000 in 2018.

2. Remuneration policies, standards, packages and procedures, and association with future risks and business performance

The Company has assembled a Remuneration Committee consisting entirely of independent directors that is responsible for determining directors' and managers' compensation policy based on the duties assumed, contribution to the Company's operations, peer levels and the personnel policy. This compensation policy is reviewed on a regular basis and compensation is paid once approved by the committee. The compensation assessment process takes into account business performance and risks.

IV. Status of corporate governance

(I) Functionality of the board of directors

The board of directors held 7 meetings (A) by March 31, 2019, and up till the publication date of annual report. Attendance records are as follows:

Job title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) 【B/A】	Remarks
Chairman of the Board	IMPERIAL INTERNATIONAL CO.,LTD Representative: Chi, Ping-Hsin	7	0	100.00	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.
Director	IMPERIAL INTERNATIONAL CO.,LTD Representative: Hsu, Hsiang-Jen	7	0	100.00	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.
Director	Chi, Tao-Song	7	0	100.00	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.
Director	Hsu, Chin-Shan	7	0	100.00	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.
Independent Director	Wang, Ching-Hsiang	7	0	100.00	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.
Independent Director	Lin, Chin-Chung	7	0	100.00	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.
Independent Director	Tai, Kuo-Cheng	6	1	85.71	Director of the 3rd board, elected during the extraordinary shareholder meeting held on 2016.11.24.

Other notes:

I. For board of directors meetings that meet any of the following descriptions, state the date, session, the discussed motions, independent directors' opinions and how the company has responded to such opinions:

(I) Issues listed in Article 14-3 of the Securities and Exchange Act:

Date of board meeting	Session	Motion	Independent directors' opinions	Company's action to independent directors' opinions	Whether at least one independent director had attended in person
2018/03/12	8th meeting of the 3rd board	Amendment to the Company's "Articles of Incorporation"	No opinion	Not applicable	Yes
		Loan to Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
		Proposal to issue employee restricted shares.	Independent Director Lin, Chin-Chung made suggestion to assemble a project team.	To proceed as suggested	Yes
2018/05/10	9th meeting of the 3rd board	Application for banking facility and endorsement/guarantee for Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	No opinion	Not applicable	Yes
2018/08/10	11th meeting of the 3rd board	Distribution of 2017 director remuneration.	No opinion	Not applicable	Yes
		Distribution of 2017 employee remuneration.	No opinion	Not applicable	Yes
2018/11/08	12th meeting of the 3rd board	Land acquisition and factory of 2nd-tier subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
		Loan to Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
2018/12/20	13th meeting of the 3rd board	Distribution of 2018 year-end bonus for the Company's managers.	No opinion	Not applicable	Yes
2019/03/14	14th meeting of the 3rd board	Amendment to the Company's "Articles of Incorporation."	No opinion	Not applicable	Yes
		Amendment to the Company's "Procedure for the Acquisition or Disposal of Assets"	No opinion	Not applicable	Yes

(II) Any other documented objections or qualified opinions raised by independent director against board resolution in relation to matters other than those described above: None.

II. Avoidance of involvements in interest-conflicting discussions by directors; state the names of concerned directors, the discussions, the nature of conflicting interests, and the voting process:

Board meeting date/session	Motion	Name of concerned director	Reason for avoidance	Participation in voting
2018/08/09 11th meeting of the 3rd board	Distribution of 2017 director remuneration.	Chi, Ping-Hsin Chi, Tao-Song Hsu, Hsiang-Jen Hsu, Chin-Shan	Avoidance of directors' conflicting interest	The above directors had personal stake in the discussed motion, and took turns to be absent from the discussion without exercising voting rights. The motion was passed as proposed without

				objection from the remaining directors.
	Distribution of 2017 employee remuneration.	Chi, Ping-Hsin Chi, Tao-Song Hsu, Hsiang-Jen HSU, CHIN-SHAN	Avoidance of directors' conflicting interest	The above directors had personal stake in the discussed motion, and took turns to be absent from the discussion without exercising voting rights. The motion was passed as proposed without objection from the remaining directors.
2018/12/20 13th meeting of the 3rd board	Distribution of 2018 year-end bonus for the Company's managers.	Chi, Ping-Hsin Chi, Tao-Song Hsu, Hsiang-Jen	Avoidance of directors' conflicting interest	The above directors had personal stake in the discussed motion, and were absent from the discussion without exercising voting rights. The motion was passed as proposed without objection from the remaining directors.

III. Enhancements to the functionality of the board of directors in the current and the most recent year (e.g. establishment of an Audit Committee, improvement of information transparency etc), and the progress of such enhancements:

The board of directors passed a resolution on February 25, 2015 to assemble the Audit Committee for enhanced information transparency.

(II) Functionality of the Audit Committee

The Audit Committee held 6 meetings (A) by March 31, 2019, and up till the publication date of annual report. Attendance records are as follows:

Title	Name	tendance in Person (B)	endance by proxy	Actual attendance rate (%) (B/A)(Note)	Remarks
Independent Director	Wang, Ching-Hsiang	6	0	100.00	–
Independent Director	Lin, Chin-Chung	6	0	100.00	–
Independent Director	Tai, Kuo-Cheng	6	0	100.00	–

Other notes:

I. For Audit Committee meetings that meet any of the following descriptions, state the date and session of board of directors meeting held, the discussed topics, the Audit Committee's resolution, and how the company has responded to Audit Committee's opinions:

(I) Matters listed in Article 14-5 of the Securities and Exchange Act:

Date of Audit Committee Meeting	Session	Motion	Audit Committee's resolution	Company's action to Audit Committee's opinions	Whether at least one independent director had attended in person
2018/03/12	8th meeting of the 2nd board	The 2017 financial statements and business report.	No opinion	Not applicable	Yes
		2017 internal control system self-examination.	No opinion	Not applicable	Yes
		Amendment to the Company's "Articles of Incorporation"	No opinion	Not applicable	Yes
		Loan to Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
		Proposal to issue employee restricted shares.	No opinion	Not applicable	Yes
2018/05/10	9th meeting of the 2nd board	Application for banking facility and endorsement/guarantee for Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	No opinion	Not applicable	Yes
2018/08/09	10th meeting of the 2nd board	The Company's 2018 2nd-quarter consolidated financial statements.	No opinion	Not applicable	Yes
2018/11/08	11th meeting of the 2nd board	Land acquisition of 2nd-tier subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
		Loan to Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
		Earnings capitalization of 2nd-tier subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	Not applicable	Yes
2018/12/20	12th meeting of the 2nd board	2019 audit plan of the Company.	No opinion	Not applicable	Yes
2019/03/14	13th meeting of the 2nd board	2018 financial statements and business report.	No opinion	Not applicable	Yes
		2018 internal control system self-examination.	No opinion	Not applicable	Yes
		Amendment to the Company's "Articles of Incorporation."	No opinion	Not applicable	Yes
		Amendment to the Company's "Procedure for the Acquisition or Disposal of Assets"	No opinion	Not applicable	Yes

(II) Other than those described above, any resolutions unapproved by the Audit Committee but passed by more

than two-thirds of directors: None. II. Avoidance of involvements in interest-conflicting discussions by independent directors; state the names of concerned independent directors, the discussions, the nature of conflicting interests, and the voting process: None. III. Communication between independent directors and internal/external auditors; state the matters discussed (e.g. the Company's financial and business affairs), the methods and outcome of communication: The Company has an internal audit office that regularly provides independent directors with internal audit reports and updates the Audit Committee and the board of directors on the latest audit progress. Independent directors are able to make inquiries concerning the Company's financial and business performance at any time, and communicate with heads of relevant departments to discuss improvements on operation-related issues. Furthermore, independent directors may communicate with the CPAs at any time regarding any queries they may have on the financial or business aspects of the Company's operations, and instruct internal departments to review and improve existing practices.

(III) Status of Corporate Governance, and any nonconformity to the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof

Item	Implementation Status			Difference from the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary	
I. Whether The Company establishes and discloses its rules of corporate governance in accordance with the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies?	✓		The Company has established “Corporate Governance Code of Conduct” in accordance with “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies,” and there was no significant deviation between corporate governance practices and the code of conduct.	No material deterioration was found.
II. Equity structure and shareholders’ equity (I) Has the company implemented a set of internal procedures to handle shareholders' suggestions, queries, disputes and litigations? (II)Will the Company possess the list of the Company’s major shareholders and the list of the ultimate controllers of the major shareholders? (III) Will the Company establish and implement the risk control and firewall mechanisms with the related parties? (IV) Will the Company set up internal norms to prohibit insiders from utilizing the undisclosed information to trade securities?	 ✓ ✓ ✓ ✓		(I) The Company has a spokesperson available to address shareholders' suggestions and queries. Any dispute, litigation or legal issue associated with the Company's operations are handled by lawyers. (II) The Company establishes the identities of its major shareholders and the ultimate controller based on the shareholder registry provided by the share administration agency. (III) This issue has been addressed in the Company's internal control system. (IV) The Company has "Business Integrity Code of Conduct" in place to prevent insiders from trading securities against non-public information, and thereby protect the interests of investors and the Company.	No material nonconformity
III. The organization of Board of Directors (I) Will the Board of Directors have diversified policies regulated and implemented substantively according to the composition of the members? (II) Apart from the Remuneration Committee and Audit Committee, has the company assembled other functional committees at its own discretion? (III) Will the Company have the performance evaluation rules and methods for the Board of Directors regulated and have the performance evaluation performed regularly every year? (IV) Will the Company have the independence of	 ✓ ✓ ✓ ✓		(I) There was one female director among the members of the 3rd board. In addition to corporate director representatives and natural-person directors, the board also has 3 independent directors from different fields of expertise who are actively involved in decision-making. (II) The Company's Remuneration Committee was founded on February 25, 2015 with committee members selected under the resolution of the board of directors. During the board of directors meeting dated February 25, 2015, a resolution was also passed to assemble an Audit Committee as a means to enhance corporate governance. Other functional committees will be established in the future as deemed necessary. (III) The Company will establish board performance evaluation policies and procedures in the future, and will be evaluating directors' performance annually based on self-assessments performed by the board, functional committees and individual directors, peer evaluation, external evaluation and other sources as deemed appropriate. (IV) Financial statement auditors have been instructed to disassociate themselves from tasks that pose direct	No material nonconformity

Item	Implementation Status			Difference from the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary	
the public accountant evaluated regularly?			or indirect conflict with their own interests. Furthermore, financial statement auditors' independence is evaluated by the board of directors on a regular basis. Refer to the footnote for CPA independence assessment standards 1.	
IV. Have the listed companies had the corporate governance unit (full time or part time) setup or personnel designated to handle the corporate governance related matters (including but not limited to providing necessary data to directors and supervisors for business operation, lawfully handling the Board meeting and shareholders' meeting related matters, processing the company registration and change registration, and preparing the minutes of Board meeting and shareholders' meeting)?	✓		The Company has assigned dedicated personnel to oversee corporate governance affairs .	No material nonconformity
V. Has the Company provided proper communication channels and created dedicated sections on its website to address corporate social responsibility issues that are of significant concern to stakeholders (including but not limited to shareholders, employees, customers and suppliers)?	✓		The Company has a spokesperson in place to handle external relationships and stakeholder affairs. Corporate social responsibility issues that are of material concern to stakeholders are addressed in an appropriate manner. A stakeholder section will be created on the Company's website specifically to facilitate this communication.	No material deterioration was found.
VI. Has the company appointed a professional shareholders service agent to process the affairs related to shareholders' meetings?	✓		The Company commissions the Shareholder Service Department of Fubon Securities Co., Ltd. to handle matters relating to shareholder meetings.	No material nonconformity
VII. Information disclosure (I) Has the company established a website that discloses financial, business, and corporate governance-related information? (II) Has the company adopted other means to disclose information (e.g. English website, assignment of dedicated personnel to collect and disclose corporate information, implementation of a spokesperson system, broadcasting of investor conferences via the company website)?	 ✓ ✓		 (I) The Company has established its own website and will continue using it as a means to disclose information. (II) Queries concerning the Company's operations are addressed by the spokesperson or acting spokesperson. Dedicated business departments have been assigned to gather and disclose relevant information.	No material nonconformity
VIII. Does the company have other information that enables a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee care, investor relations, supplier relations, stakeholders' interests, continuing education of directors/supervisors, implementation of risk management policies and risk measurements, implementation of customer policy, and insuring against liabilities of company directors and supervisors)?	✓		(I) The Company recruits employees without discrimination, whether in terms of gender, ethnicity or nationality, and is committed to protecting employees' rights and providing good working environment. (II) The Company uses contracts to outline rights and obligations with its suppliers and customers. (III) With respect to investor relations and protection of stakeholders' rights, the Company maintains open communication at all times and implements a spokesperson system to disclose public information and protect investors and stakeholders in the utmost integrity. (IV) All of the Company's directors possess relevant professional knowledge and are subjected to ongoing education. Progress of ongoing education:	No material deterioration was found.

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Difference from the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and the reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td></td><td></td><td></td><td>
<table>
<tr><th>Job title</th><th>Name</th><th>Course name</th><th>Hours</th></tr>
<tr><td rowspan="6">Representative of corporate director</td><td rowspan="6">Hsu, Hsiang-Jen</td><td>Financial Impacts of Cross-strait Anti-tax Evasion Laws and Response Strategies</td><td>3</td></tr>
<tr><td>Supply Chain Management and IoT Application</td><td>3</td></tr>
<tr><td>Compliance Issues and Legal Responsibilities Concerning Corporate M&A</td><td>3</td></tr>
<tr><td>Analysis of IFRS 16 - Leases</td><td>3</td></tr>
<tr><td>Self-assessment Practices</td><td>6</td></tr>
<tr><td>Introduction and Audit Focus on IFRS16 - Leasing and IFRS 9 - Financial Instruments</td><td>6</td></tr>
<tr><td rowspan="5">Independent Director</td><td rowspan="5">Wang, Ching-Hsiang</td><td>Overseas Capital and Equity Arrangements</td><td>4</td></tr>
<tr><td>Key Amendments of The Company Act Amendments - 1</td><td>3</td></tr>
<tr><td>Key Amendments of The Company Act Amendments - 2</td><td>3</td></tr>
<tr><td>IFRS 16 - Accounting for Leases</td><td>3</td></tr>
<tr><td>Valuation of Unlisted Shares</td><td>3</td></tr>
</table>
(V) Avoidance of directors' involvement in conflicting interest discussions has been outlined in the Company's Board of Directors Conference Rules. These requirements will be duly enforced in the future.
(VI) Risk management policies, practices, and risk assessment standards: The Company has established internal policies and performs risk management and evaluation accordingly.
(VII) Customer policy: The Company has established credit management practices and internal control procedures to regulate transactions with customers.
(VIII) Insurance against directors' and supervisors' liabilities: The Company has insured itself against the liabilities of all its directors. No supervisor is present within the Company.
</td><td></td></tr>
<tr><td colspan="5">IX. Please state the corrective actions already taken and also propose the matters to be improved as the first priority and countermeasures against them, based on the corporate governance evaluation results released by the Corporate Governance Center of TWSE in the most recent year. (Not required if the Company is not one of the evaluated subjects): The company participated in the corporate governance evaluation for the first time in 2018. After the results of the corporate governance evaluation were announced, the improvement plan was formulated based on the results of the corporate governance self-assessment report, in order to achieve the goal of corporate governance in corporate culture.</td></tr>
</table>

Note 1: CPAs' independence assessment criteria

Assessment criteria	Assessment outcome	Compliance of independence
1. CPAs were reappointed at least once every 7 years as of the most recent audit.	■Yes □No	Yes
2. CPAs were free of any direct and indirect financial interest with the Company.	■Yes □No	Yes
3. CPAs were free of any inappropriate relationship with their clients.	■Yes □No	Yes
4. CPAs have instructed their assistants to be honest, fair and independent.	■Yes □No	Yes
5. Not involved in the auditing of financial statements of former employers 2 years prior to practice.	■Yes □No	Yes
6. CPA’s name is not used by another party.	■Yes □No	Yes
7. Does not own shares in the Company or affiliated enterprises.	■Yes □No	Yes
8. Not in any borrowing arrangement with the Company and its affiliated enterprises.	■Yes □No	Yes
9. Does not engage the Company or affiliated enterprises in joint investment or profit-sharing arrangement.	■Yes □No	Yes

10. Does not undertake regular work duty at the Company or affiliated enterprises, or receive fixed salary or undertake director or supervisor roles.	■Yes □No	Yes
11. Not involved in decision-making within the Company or affiliated enterprises.	■Yes □No	Yes
12. Not involved in any other businesses that may compromise independence.	■Yes □No	Yes
13. Free of any relationship with the Company's management personnel that is characterized as spouse, direct blood relative, relative by affinity, or relative of 4th degree or closer.	■Yes □No	Yes
14. Does not receive commission on business-related activities.	■Yes □No	Yes
15. Free of penalties and occurrences that may compromise independence.	■Yes □No	Yes

(IV) Describe the composition, duties and operations of the remuneration committee:

1. Composition of the Remuneration Committee

Identity	Qualification / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Compliance of independence								Number of public companies where the person holds the title as a member of Remuneration Committee	Remarks
		Lecturer or above in commerce, law, finance, accounting or subjects required by the business of the Company in public or private colleges or universities	Judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Required work experience in commerce, law, finance, accounting or others required by the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Wang, Ching-Hsiang	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	N/A
Independent Director	Lin, Chin-Chung	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–	N/A
Independent Director	Tai, Kuo-Cheng	✓	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	–	N/A

Members who meet the following conditions at any time during active duty and two years prior to the date of appointment will have a "✓" placed in the corresponding boxes.

(1) Not an employee of the Company or any of its affiliates;

(2) Not a director or supervisor of the company or any of its affiliates. Except for the independent directors that are appointed by the Company or the parent company and subsidiaries in accordance with this Law or the local law.

(3) Not a natural-person shareholder or holder of shares, together with those held by a spouse, minor children, or held by the person under other names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranking within the top 10 in holdings;

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons mentioned in the above three paragraphs;

(5) Not a director, supervisor, or employee of a corporate/institutional shareholder that indirectly holds five percent or more of the total number of issued shares of the Company or ranks as its top five shareholders;

(6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the Company;

(7) Not a professional who provides commercial, legal, financial, accounting, or consulting services to the company or its affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the above, of a sole proprietorship, partnership, company, or organization that provides such services to the company or its affiliated companies.

(8) Not under any circumstances as noted in Article 30 of Company Law.

2. Responsibilities of the Remuneration Committee

The Remuneration Committee shall exercise the care of a prudent manager to fulfill the following duties, and offer recommendations for discussion by the board of directors:

(1) Regular review of Remuneration Committee foundation principles and recommendation of changes.

(2) Establish and review regularly the annual and long-term performance targets outlined for the Company's directors and managers, and the policies, systems, standards, and structures of their remuneration.

(3) Evaluate on a regular basis the accomplishment of performance targets by the Company's directors and managers, and determine the details and amounts of individual compensation.

3. Functionality of the Remuneration Committee

(1) The Remuneration Committee of the Company is consisted of 3 persons.

(2) Duration of service of the current board: from November 24, 2016 to November 23, 2019. The Remuneration Committee held 4 meetings (A) between 2018 and March 31, 2019; details of members' eligibility and attendance are shown below:

Job title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A) (Note)	Remarks
Convener	Wang, Ching-Hsiang	4	–	100.00	
Member	Lin, Chin-Chung	4	–	100.00	
Member	Tai, Kuo-Cheng	4	–	100.00	

Other notes:
I. In the event where the Remuneration Committee's proposal is rejected or amended in a board of directors meeting, please describe the date and session of the meeting, details of the topics discussed, the board's resolution, and how the company had handled the Remuneration Committee's proposals (describe the differences and reasons, if any, should the board of directors approve a solution that was more favorable than the one proposed by the Salary and Remuneration Committee): None.
II. Should any member object or express qualified opinions to the resolution made by the Remuneration Committee, whether on-record or in writing, please describe the date and session of the meeting, details of the motion, the entire members' opinions, and how their opinions were addressed: None.

(V) Fulfillment of social responsibilities

Item	Implementation Status: Yes	No	Summary	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
I. Implementation of sound corporate governance (I) Does the company have the CSR policies or systems established and the implementation effect reviewed?	✓		(I) The Company has a corporate social responsibility code of conduct in place to promote corporate governance, sustainable environment, publish welfare and disclosure of CSR information, and guide the Company towards fulfilling duties as a corporate citizen and giving back to the society.	No material nonconformity
(II) Does the company have the CSR education and training arranged on a regular basis?	✓		(II) The Company promotes social responsibility awareness in morning meetings and through internal training courses.	
(III) Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?	✓		(III) The Company has an Administrative Department that budgets annual donations and reviews donees.	
(IV) Does the company have a reasonable salary and remuneration policy set-up, have the employee performance evaluation system been combined with the corporate social responsibility policies and have a clear and effective reward and punishment system been established?	✓		(IV) 1. All new recruits are subjected to training courses such as corporate ethics and behavior guidelines upon arrival. The Company also utilizes various channels to promote awareness among employees from time to time 2. The Company has employee manual that outlines the Company's disciplinary actions and performance rewards.	
II. Development of a sustainable environment (I) Is the company committed to enhance the utilization efficiency of resources and use renewable materials that are with low impact on the environmental?	✓		(I) The Company advocates resource reuse and promotes awareness through internal channels. The Administrative Department is responsible for the management of office environment.	No material nonconformity
(II) Does the company have an appropriate	✓		(II) The Company's Administrative Department has specialists assigned to maintain and enforce	

Item	Implementation Status			Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary	
environmental management system established in accordance with its industrial character?			safety and health of the work environment. The Company also adopts the following environmental policies: 1. The design department is required to comply with ROHS when choosing materials. 2. The Company enforces a green supplier policy and inspects suppliers' production facilities for hazardous substances on a regular basis. 3. Suppliers that fail to meet requirements will have eligibility revoked. 4. Products that violate ROHS are properly isolated and monitored.	
(III) Does the company pay attention to the impact of climate change on the operational activities, implement greenhouse gas check, and form an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy?	✓		(III) The concept of energy and carbon reduction has been incorporated into daily business activities. The Company saves energy by reminding employees to turn off light and air conditioning where appropriate. Meanwhile, fluorescent lamps are being replaced with LED and more energy-efficient lighting to help reduce greenhouse gas.	
III. Social welfare (I) Has the Company developed its policies and procedures in accordance with laws and International Bill of Human Rights?	✓		(I) Protection of human rights and employees' rights has been stated in the Company's internal policies and enforced in accordance with relevant laws and regulations. Welfare measures are being offered to promote the concept of "mutual prosperity" between workers and the management.	No material nonconformity
(II) Whether the Company has established any employee complaint mechanism and channel, and taken care of the complaint adequately?	✓		(II) The Company has open internal communication channels that employers may use to express concerns or complaints, whether through line managers or directly to the management.	
(III) Does the company provide employees with a safe and healthy work environment, and provide safety and health education to employees regularly?	✓		(III) The Company places great emphasis on employees' safety and health. Not only are employees subjected to pre-job and on-job training, disaster prevention drills and health checkups on a regular basis, the Company also provides appropriate and adequate gears to protect them from hazard.	
(IV) Does the company develop the mechanism for the routine communication with the employees, and informed the employees of the changes in operation that may cause significant influence on the employees through reasonable means?	✓		(IV) The Company convenes regular meetings to communicate with employees regarding future operations and strategies.	
(V) Whether the Company has established some effective career development training plan for employees?	✓		(V) The Company has a specialized unit that is responsible for arranging employees' training, education and skill development. It is also the responsibility of department heads to provide counseling and training on the technical level.	
(VI) Has the company implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?	✓		(VI) The Company is committed to protecting customers' interests. In addition to offering high quality and high value-adding products, the Company places great emphasis on customers' opinions and complaints, and has specialized units assigned to resolve issues in the shortest time possible.	
(VII) Whether the Company markets and labels products and services in accordance with the related laws and international practices?	✓		(VII) All products and services of the Company are marketed and labeled in compliance with laws and international standards.	
(VIII) Has the company assessed whether the suppliers had a record of affecting the environment and	✓		(VIII) All new suppliers will have previous conducts evaluated before establishing relationship.	
	✓		(IX) Contracts with main suppliers currently do not contain the aforementioned clauses. However, the Company would re-evaluate its suppliers	

Item	Implementation Status			Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary	
society in advance? (IX) Whether the contract between the Company and its main supplier includes the provision stating that where the supplier is suspected of violating its corporate social responsibility policies or renders remarkable effect to the environment and society adversely, the Company may terminate or rescind the contract at any time?			upon learning any severe violation against policy or any significant impact caused to the environment or the society. In the future, the Company will share its CSR concepts and practices with suppliers and engage them in the protection of our environment and improvement of employees' health and safety.	
IV. Strengthening information disclosure (I) Whether the Company has disclosed relevant and reliable information relating to corporate social responsibility on its website or MOPS?	✓		(I) The Company discloses corporate social responsibility information through annual reports or prospectus. Information is also disclosed over the website.	No material nonconformity
V. For companies who had established corporate responsibility code of conducts in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies", please describe the current practice and any deviations from the code of conduct: The Company has established a set of "corporate social responsibility code of conduct" and implemented accordingly. No significant deviation from the Best Practice Principles was observed.				
VI. Other important information that help understand the CSR operation: (I) The Company supports community activities and is actively involved in neighborhood programs. (II) The Company has communication channels that employees may utilize to express opinions. In addition, meetings are convened from time to time to gather opinions from personnel of all levels and departments. (III) The Company pays social insurance premiums (which covers healthcare, childbirth, pension, work injury and unemployment benefits) and housing provident funds for employees according to national regulations. The portions borne between the Company and individual employees are split according to relevant rules. (IV) The Company organizes internal courses as a form of on-job training; employees may also be subsidized for external training if deemed necessary.				
VII. Verification of the Company products or Corporate Social Responsibility Report according to the standards of relevant certifying organizations, if any: N/A.				

(VI) Corporate observance of ethical corporate management practices and adopted measures

Evaluation Item	Status (Note 1)			Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof:
	Yes	No	Summary	
I. Enactment of ethical management policy and program (I) Has the company stated in its Memorandum or external correspondence about the polices and practices it implements to maintain business integrity? Are the board of directors and the management committed in fulfilling this commitment? (II) Does the company have any measures in place against dishonest conducts? Are these measures supported by proper procedures, behavioral guidelines, disciplinary actions and complaint systems? (III) Whether the Company takes any prevention measures against the operating activities involving high unethical conduct under Paragraph 2 of Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" or within other operating areas?	✓ ✓ ✓		(I) The Company complies with the Securities Exchange Act of the Republic of China and various laws that it is bound to comply for its initial public listing. These regulations provide the basis for the Company's integrity management. (II) The Company has a set of "Ethical Behavior Guidelines" available to serve as behavior principles for all circumstances. (III) The Company has internal control and internal audit systems in place, and an Auditing Office that specializes in audit tasks. The audit focuses on key business activities such as sales and procurement, and any major fraud or inappropriate conduct discovered will be handled according to the disciplinary policy.	No material nonconformity
II. Proper enforcement of business integrity (I) Whether the Company assesses a trading counterpart's ethical management record, and expressly state the ethical management clause in the contract to be signed with the trading counterpart? (II) Does the company have a unit that specializes (or is involved) in business integrity? Does this unit report its progress to the board of directors on a regular basis? (III) Whether the Company defines any policy against conflict of interest, provides adequate channel thereof, and fulfill the same precisely? (IV) Has the company established effective accounting systems and internal control systems to substantiate corporate management; also, have audits performed by the internal audit unit on a regular basis or by the commission CPAs? (V) Whether the Company organizes internal/external education training program for ethical management periodically?	✓ ✓ ✓ ✓ ✓		(I) All key customers are subject to credit investigation before commencement of business dealing. This practice helps avoid transaction with counterparties that exhibit undesirable record. (II) The Company has an Auditing Office established directly under the board of directors. The Auditing Office conducts regular and random audits each year and reports its findings to the Audit Committee and the board of directors. Corrective actions are taken based on these findings to enforce business integrity. (III) The Company has "Ethical Behavior Guidelines" and "Business Integrity Code of Conduct" available to provide governance. (IV) The Company has an accounting system in place to guide the practices of its accounting staff. Internal control measures have been implemented according to laws and the prevailing circumstances, and are audited regularly with reports submitted to the Audit Committee and the board of directors. (V) The Company organizes training for directors, managers and employees. All business departments are required to communicate with their business counterparties about the Company's values, integrity commitment, policies, and consequences of dishonest conduct.	No material nonconformity
III. The operations of the Company's Report System (I) Whether the Company has defined a specific complaints and rewards system, and established some convenient complaint channel, and assigned competent dedicated personnel to deal with the situation? (II) Has the company implemented any standard procedures or confidentiality measures for handling reported misconducts? (III) Whether the Company has adopted any measures to prevent complainants from being abused after filing complaints?	✓ ✓ ✓		The Company has a complaint mailbox available for employees to report any violation against laws, policies or the Ethical Behavior Guidelines. All employees may submit complaints through the mailbox and have their claims handled by dedicated personnel in the utmost secrecy. The Company protects whistleblowers from retaliation that may arise as a result of their claims.	No material deterioration was found.
IV. Strengthening information disclosure (I) Whether the Company has disclosed its rules of ethical corporate management and effect of implementation thereof on its website and MOPS?	✓		The Company has established a public website and will create separate sections as needed to disclose business-related information to investors.	No material deterioration was found.
V. Where the company may have establish its own business integrity best-practice principles in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies", and shall elaborate the practice of business integrity and the variations from the				

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Status (Note 1)</th><th rowspan="2">Nonconformity to the Ethical Corporate Management Best Practice Principles for TSEC/GTSM Listed Companies, and reasons thereof:</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td colspan="5">aforementioned regulation:
The Company has implemented “Business Integrity Code of Conduct” along with 3 independent directors, an internal audit unit and an Audit Committee. No significant violation of business integrity has occurred to date.</td></tr>
<tr><td colspan="5">VI. Other information relevant to understanding the Company's business integrity (e.g. reviews of business integrity principles)
The Company has associated its business integrity policy with employee performance evaluation and the human resource policy, and clearly outlined its disciplinary actions and rewards.</td></tr>
</table>

(VII) If the Company has established corporate governance principles or other relevant guidelines, references to such principles must be disclosed

The Company has implemented internal policies including Corporate Governance Code of Conduct, Business Integrity Code of Conduct, Director Ethical Behavior Guidelines, Corporate Social Responsibility Code of Conduct, Independent Director Responsibility Policy, Business Integrity Procedures and Behavior Guidelines, Shareholder Conference Rules, Board of Directors Meeting Rules, Audit Committee Foundation Principles, and Director Election Policy. These policies are being enforced with the utmost corporate governance spirit and have been disclosed on the Company’s website: http://www.strongh.cn.

(VIII) Other important information material to the understanding of corporate governance within the company:

None.

(IX) Enforcement of internal control system

1. Declaration of Internal Control System

Strong H Machinery Technology (Cayman) Incorporation

Declaration of Internal Control

Date: March 14, 2019

The following declaration regarding the internal control system of the Company and subsidiaries has been made based on a self-assessment performed in 2018:

I. The Company and subsidiaries acknowledge and understand that establishment, implementation and maintenance of the internal control system are the responsibility of the board and managers, and that such a system has been implemented within the Company. The Company has the internal control system established to provide a reasonable assurance for the realization of operating effect and efficiency (including profits, performance, and assets safety), the reliability of financial report, and the obedience of relevant regulations.

II. There are inherent limitations to even the most well-designed internal control system. As such, an effective internal control system can only reasonably assure achievement of the three goals mentioned above. Furthermore, changes in the environment and circumstances may all affect the effectiveness of the internal control system. However, the internal control system of the Company and subsidiaries features a self-monitoring mechanism that rectifies any deficiencies immediately upon discovery.

III. The Company and subsidiaries evaluate the design and execution of its internal control system based on the criteria specified in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "The Governing Principles") to determine whether the existing system continues to be effective. The criteria introduced by “The Governing Principles” consisted of five major elements, each representing a different stage of internal control: 1. Control environment, 2. Risk evaluation and response, 3. Procedural control, 4. Information and communication, 5. Supervision. Each element further contains several items. Please refer to the “Governing Rules” for the details of the said items.

IV. The Company and subsidiaries have adopted the abovementioned criteria to validate the effectiveness of its internal control system design and execution.

V. Based on the assessments described above, the Company and subsidiaries consider the design and execution of its internal control system to be effective as at December 31, 2018. This system (including the supervision and management of subsidiaries) has provided assurance with regards to the Company's and subsidiaries’ business results, target accomplishments, reliability, timeliness and transparency of reported financial information, and its compliance with relevant laws.

VI. The Company and subsidiaries have followed Article 25 of “The Governing Principles” and engaged CPAs to review the reliability of financial reporting for the abovementioned period and internal control system relevant to ensuring the safety of its assets (thereby preventing assets against unauthorized acquisition, utilization and disposal). As mentioned in the above paragraph, design and execution of such a system have been deemed effective and no significant defect was found with respect to the recording, processing and consolidation of financial information, reliability of the reported information, or safety of the assets in question. Overall, the internal control system exhibited no significant defect that would lead to the unauthorized acquisition, utilization or disposal of assets.

VII. This declaration constitutes part of the Company's annual report and prospectus, and shall be disclosed to the public. For any forgery and concealment of the aforementioned information to the public, we will be held responsible by law in accordance with Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.

VIII. This declaration was approved during the board of directors meeting held on March 14, 2019; all 7 attending directors had concurred with the context of this declaration.

Strong H Machinery Technology (Cayman) Incorporation

Chairman: Chi, Ping-Hsin

President: Chi, Ping-Hsin

2. If the internal control system was reviewed by an external CPA, the result of such review must be disclosed

Internal Control System Review Report

Strong H Machinery Technology (Cayman) INC. and its subsidiaries, March 14, 2019, said that the internal control system, which was assessed to be related to external financial reporting and asset security protection, was effectively designed and implemented on December 31, 2018. Declaration, after reviewing the accountant. Maintaining an effective internal control system and assessing its effectiveness are the responsibility of the company's management. The accountant's responsibility is to express an opinion on the effectiveness of the company's internal control system and the company's internal control system statement based on the results of the review.

The accountant plans and performs the review in accordance with the “Standards for Publicly Held Companies to Internal Control Systems” and generally accepted auditing standards to ensure that the company's internal control system remains effective in all material aspects. The review included understanding the company's internal control system, assessing the process by which management assesses the effectiveness of the overall internal control system, testing and evaluating the effectiveness of the design and implementation of the internal control system, and other review procedures that the accountant deems necessary. The accountant believes that this review can provide a reasonable basis for the opinions expressed.

Any internal control system has its inherent limitations. Therefore, the above internal control system of Strong H Machinery Technology (Cayman) INC. and its subsidiaries may still fail to prevent or detect any errors or frauds that have occurred. In addition, the future environment may change, and the degree of compliance with the internal control system may also be reduced. Therefore, the effective internal control system in this period does not mean that it will be effective in the future.

Based on the opinions of the accountant, the internal control effectiveness judgment system of Strong H Machinery Technology (Cayman) INC. and its subsidiaries is related to external financial reports and asset security protection in accordance with the internal control effectiveness judgment project of the “Standards for Publicly Held Companies to Internal Control Systems”. Designed and implemented on December 31, 2018, maintaining effectiveness in all major aspects; Strong H Machinery Technology (Cayman) INC. and its subsidiaries issued on March 14, 2019, the statement that the internal control system related to external financial reporting and asset security protection is considered to be effective design and implementation, major aspects are permitted.

Deloitte & Touche

Accountant Liu, Shui-En

Accountant Yang, Jing-Ting

March 22, 2019

(X) Penalties imposed against the company for regulatory violation, or penalties against employees for violation of internal control system in the most recent year up till the publication date of this annual report; describe areas of weakness and any corrective actions taken: None.

(XI) Resolutions reached in the shareholder's meeting or by the board of directors during the most recent year and up to the date of publication of this annual report:

1. Key shareholder meeting resolutions and execution

Item No.	Time of meeting	Key resolutions and execution progress
2018 annual general meeting	2018/06/12	Acknowledgments: ● 2017 business report and financial statements. Execution progress: Acknowledged during the annual general meeting. ● 2017 earnings appropriation of the Company. Execution progress: Acknowledged during the annual general meeting. Discussions: ● Passed distribution of the Company's capital reserve in cash. Execution progress: Decision executed as resolved. ● Passed amendments to the Company's "Articles of Incorporation.". Execution progress: Decision executed as resolved. ● Passed amendments to the Company's "Procedure for the Acquisition or Disposal of Assets" Execution progress: Decision executed as resolved. ● Passed amendments to the Company's "Third Party Lending Procedures." Execution progress: Decision executed as resolved. ● Passed issuance of employee restricted shares. Execution progress: Securities not yet issued. Special motion: None.

2. Major board of directors resolutions

Meeting date	Important resolution contents
2018/3/12	● Passed the 2017 financial statements and business report. ● Passed the 2017 director and employee remuneration. ● Passed the 2017 earnings appropriation. ● Passed the 2017 internal control system self-examination. ● Passed amendments to the Company's "Articles of Incorporation." ● Loan to Strong H Mechanical Technology (Laizhou) Co., Ltd. ● Passed issuance of employee restricted shares. ● Passed rules for the 2018 1st employee restricted share issue. ● Passed convention of the Company's 2018 annual general meeting.
2018/5/10	● Passed application for banking facility and endorsement/guarantee for Hao Qiang Precision Machinery (Qingdao) Co., Ltd.
2018/06/12	● Set baseline dates for 2018 cash dividend and cash distribution of capital reserve.
2018/08/09	● Passed distribution of 2017 director remuneration. ● Passed distribution of 2017 employee remuneration. ● Passed amendments to the 2018 1st employee restricted share issue. ● Passed application for banking facility.
2018/11/08	● Passed independence assessment of the financial statement auditor. ● Passed amendments to the Company's "Independent Director Responsibility Guidelines." ● Passed account opening at "securities custodian bank." ● Land acquisition and factory construction of 2nd-tier subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd. ● Loan to Strong H Mechanical Technology (Laizhou) Co., Ltd.

Meeting date	Important resolution contents
	● Passed earnings capitalization of 2nd-tier subsidiary Strong H Mechanical Technology (Laizh Co., Ltd.
2018/12/20	● Passed amendments to the Company's "Remuneration Committee Foundation Principles." ● Passed amendments to the Company's "Remuneration Committee Management Policy." ● Passed performance evaluation and review of compensation policy, system, standards and structure for directors, independent directs and managers. ● Passed distribution of 2018 year-end bonus for the Company's managers. ● Passed 2019 audit plan of the Company. ● Passed 2019 operating plan and budget of the Company.
2019/03/14	● Passed 2018 financial statements and business report. ● Passed the Company's 2018 earnings appropriation. ● Passed distribution of the Company's capital reserve in cash. ● Passed the 2018 director and employee remuneration. ● Passed the 2018 internal control system self-examination. ● Passed amendments to the Company's "Articles of Incorporation." ● Passed amendments to the Company's "Procedure for the Acquisition or Disposal of Assets" ● Passed the Company's "Corporate Governance Code of Conduct." ● Passed total re-election of the Company's directors. ● Passed the removal of restrictions imposed against new directors and representatives for comp business involvements. ● Passed convention of the Company's 2019 annual general meeting.
2019/04/01	● Restricting the distribution of employee rights by the company ● Candidates for the nomination of directors and independent directors and qualification examinations through the board of directors of the company.

(XII) Documented opinions or written declarations made by directors or supervisors against board resolutions: None.

(XIII) Resignation or dismissal of the Chairman, President, head of accounting, head of finance, chief internal auditor, or head of R&D in the most recent year up till the publication date of this annual report: None

V. Information About CPA Professional Fee

Firm Name	Name of CPA	Audit period	Remarks
Deloitte & Touche	Liu, Shuei-En	2018/1/1~ 2018/12/31	N/A
Deloitte & Touche	Yang, Ching-Ting		N/A

Unit: NT$ thousands

Amount range	Fee category	Audit fees	Non-Audit fees	Total
1	Below NT$2,000,000	—	√	—
2	NT$2,000,000 (inclusive) ~ NT$4,000,000	—	—	—
3	NT$4,000,000 (inclusive) ~ NT$6,000,000	√	—	—
4	NT$6,000,000 (inclusive) ~ NT$8,000,000	—	—	√
5	NT$8,000,000 (inclusive) ~ NT$10,000,000	—	—	—
6	NT$ 10,000,000 and more	—	—	—

(I) Non-audit fees paid to the CPA, CPA firm and their affiliates exceeded the audit fees in excess of twenty-five percent, if any.

Unit: NT$ thousands

Firm Name	Name of CPA	Audit fees	Non-Audit fees					CAP's Audit Period	Remarks
			System design	Company registration	Human resource	Others	Subtotal		
Deloitte & Touche	Liu, Shuei-En	5,370	—	—	—	1,430	1,430	2018/01/01~2018/12/31	Others refer to the review of internal control system.
	Yang, Ching-Ting								

(II) Change of accounting firm that resulted in the reduction of audit remuneration from the previous year; disclose audit remuneration before and after the change and the cause of such change: None.

(III) Any reduction in audit remuneration by more than 50% compared to the previous year; state the amount, the percentage and reason of such variation: None.

VI. Change of CPA

Change of CPA in the last 2 years and after: None.

VII. The Company's Chairman, President, or any managers involved in financial or accounting affairs being employed by the accounting firm or any of its affiliated company in the last year: None.

VIII. Any transfer of equity interests and pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent in the most recent year and until to the date of publication of the annual report

(I) Change of shareholding of directors, supervisors, managers and major shareholders

Job title	Name	2018		Year-to-date as at April 8	
		Net Change in Shareholding	Increase (decrease) in shares collateralized	Net Change in Shareholding	Increase (decrease) in shares collateralized
Director	IMPERIAL INTERNATIONAL CO.,LTD	—	230,000	—	—

(II) Disclosure of shares transferred to related parties: None.

(III) Disclosure of shares pledged to related parties: None.

IX. Information on top 10 shareholders in proportion of shareholdings and are stakeholders, spouses, or related to one another or kin at the second pillar under the Civil Code to one another

Name	Shares Held In Own Name		Number of shares held by their spouse and underage children		Total shares held by proxy		Disclosure of information on related parties, spousal relationship or relations within second degree of kinship, among the top ten shareholders, including their names and relationships		Remarks
	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding Percentage	Number of shares	Ratio of Shareholding	Name	Relationship	
IMPERIAL INTERNATIONAL CO.,LTD (Representative: Chi, Ping-Hsin)	27,272,000	41.14	–	–	–	–	PREMIER CHOICE VENTURES INC DOUBLE FAITH HOLDING LIMITED Global Sharp Investments Limited Joyful Gain Investment Limited Regency Star International Limited (Regency Star International Limited) HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The same person as the representative The same person as the representative The same person as the representative The same person as the representative The same person as the representative Second degree of kinship with the representative	–
PREMIER CHOICE VENTURES INC (Representative: Chi, Ping-Hsin)	5,220,000	7.87	–	–	–	–	IMPERIAL INTERNATIONAL CO.,LTD DOUBLE FAITH HOLDING LIMITED Global Sharp Investments Limited Joyful Gain Investment Limited Regency Star International Limited (Regency Star International Limited) HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The same person as the representative The same person as the representative The same person as the representative The same person as the representative The same person as the representative Second degree of kinship with the representative	–
DOUBLE FAITH HOLDING LIMITED (Representative: Chi, Ping-Hsin)	5,220,000	7.87	–	–	–	–	IMPERIAL INTERNATIONAL CO.,LTD PREMIER CHOICE VENTURES INC Global Sharp Investments Limited Joyful Gain Investment Limited Regency Star International Limited (Regency Star International Limited) HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The same person as the representative The same person as the representative The same person as the representative The same person as the representative The same person as the representative Second degree of kinship with the representative	–
Global Sharp Investments Limited (Representative: Chi, Ping-Hsin)	5,220,000	7.87	–	–	–	–	IMPERIAL INTERNATIONAL CO.,LTD PREMIER CHOICE VENTURES INC DOUBLE FAITH HOLDING LIMITED Joyful Gain Investment Limited Regency Star International Limited (Regency Star International Limited) HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The same person as the representative The same person as the representative The same person as the representative The same person as the representative The same person as the representative Second degree of kinship with the representative	–
Joyful Gain Investment Limited (Representative: Chi, Ping-Hsin)	4,060,000	6.12	–	–	–	–	IMPERIAL INTERNATIONAL CO.,LTD PREMIER CHOICE VENTURES INC DOUBLE FAITH HOLDING LIMITED Global Sharp Investments Limited Regency Star International Limited (Regency Star International Limited) HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The same person as the representative The same person as the representative The same person as the representative The same person as the representative The same person as the representative Second degree of kinship with the representative	–
Regency Star International Limited (Regency Star International Limited) (Representative: Chi, Ping-Hsin)	3,480,000	5.25	–	–	–	–	IMPERIAL INTERNATIONAL CO.,LTD PREMIER CHOICE VENTURES INC DOUBLE FAITH HOLDING LIMITED Global Sharp Investments Limited Joyful Gain Investment Limited HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The same person as the representative The same person as the representative The same person as the representative The same person as the representative The same person as the representative Second degree of kinship with the representative	–
HERO PROMISE LIMITED (HERO PROMISE LIMITED) (Representative: Chi, Tao-Song)	762,000	1.15	–	–	–	–	IMPERIAL INTERNATIONAL CO.,LTD PREMIER CHOICE VENTURES INC DOUBLE FAITH HOLDING LIMITED Global Sharp Investments Limited Joyful Gain Investment Limited Regency Star International Limited (Regency Star International Limited)	Second degree of kinship with the representative Second degree of kinship with the representative Second degree of kinship with the representative Second degree of kinship with the representative Second degree of kinship with the representative	–

Name	Shares Held In Own Name		Number of shares held by their spouse and underage children		Total shares held by proxy		Disclosure of information on related parties, spousal relationship or relations within second degree of kinship, among the top ten shareholders, including their names and relationships		Remarks
	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding Percentage	Number of shares	Ratio of Shareholding	Name	Relationship	
								Second degree of kinship with the representative	
Win Honor International Limited (Representative: QI, YU-BIN)	622,000	0.94	–	–	–	–	–	–	–
HSBC Bank Hosted Core Pacific - Yamaichi International (HK) Ltd	600,000	0.91	–	–	–	–	–	–	–
TransGlobe Life Insurance Inc.	500,000	0.75	–	–	–	–	–	–	–

X. Shareholding ratio of the re-invested business of the company, the company's directors, supervisors, managers and corporations directly or indirectly controlled by the company, and the comprehensive shareholding ratio

December 31, 2018; unit: thousand shares

Investee	Invested by the Company		Held by directors, supervisors, managers, and directly or indirectly controlled enterprises		Combined Investment	
	Number of shares	Ratio of Shareholding (%)	Number of shares	Shareholding percentage	Number of shares	Ratio of Shareholding (%)
Faith Light International Corporation.(Samoa)	6,000	100	–	–	6,000	100
VANDEN INTERNATIONAL CO .,LTD.(Samoa)	1,000	100	–	–	1,000	100
Grand Strong Precision Machines Co., Ltd.	(Note)	100	–	–	(Note)	100
Strong H Machinery Technology Co.,Ltd.	(Note)	100	–	–	(Note)	100

Note: Limited liability company; no shares were issued.

Four. Capital Overview

I. Capital Stock and Shares

(I) Source of Capital Stock

1. Share category

April 8, 2019; unit: shares

Share Types	Authorized capital stock			Remarks
	Outstanding shares	Unissued shares	Total	
Common shares	66,289,563	33,710,437	100,000,000	

2. Changes in share capital

April 8, 2019; unit: NTD/shares

Year/Month	Issuing price (NTD)	Authorized capital stock		Paid-up capital		Remarks		
		Number of shares	Amount	Number of shares	Amount	Source of capital	Paid in properties other than cash	Others
October 2014	10	1	10	1	10	Date of incorporation	－	－
November 2014	10	150,000	1,500,000	150,000	1,500,000	IMPERIAL INTERNATIONAL subscribed 149,999 shares (totaling NT$1,499,990) of the cash issue	－	－
December 2014	10	58,000,000	580,000,000	58,000,000	580,000,000	Exchanged shares with shareholders of Faith Light and VANDEN for NT$578,500,000 in capital contribution	－	－
Year 2016 September	10	100,000,000	1,000,000,000	58,000,000	580,000,000	Authorized capital was raised to NT$1,000,000,000 during the extraordinary shareholder meeting held on September 26, 2016.	－	－
May 2017	10	100,000,000	1,000,000,000	65,250,000	652,500,000	Note 1	－	－
June 2018	10	100,000,000	1,000,000,000	65,894,950	658,949,500	Conversion of convertible bond	－	－
July 2018	10	100,000,000	1,000,000,000	65,921,809	659,218,090	Conversion of convertible bond	－	－
August 2018	10	100,000,000	1,000,000,000	66,151,141	661,511,410	Conversion of convertible bond	－	－
March 2019	10	100,000,000	1,000,000,000	66,285,431	662,854,310	Conversion of convertible bond	－	－
April 8, 2019	10	100,000,000	1,000,000,000	66,289,563	662,895,630	Conversion of convertible bond	－	－

Note 1: A cash issue of 7,250,000 new shares (totaling NT$72,500,000) was made as part of the Company's initial listing. This transaction was approved by the authority on April 27, 2017 under correspondence No. Tai-Cheng-Shang-2-1061701448.

3. Offering and issuance of securities subject to aggregate reporting: None.

(II) Composition of Shareholders

April 8, 2019; unit: shares

Composition of Shareholders / Volume	Government institutions	Financial institution	Other corporations	Individual	Foreign Institutions and Natural Persons	Total
Number of persons	－	－	17	1,494	25	1,536
Current shareholding	－	－	2,525,000	9,846,563	53,918,000	66,289,563
Ratio of Shareholding (%)	－	－	3.81	14.85	81.34	100.00

Note 1: Aggregate shareholding percentage of Mainland residents, entities, organizations, institutions and companies of alternative locations, as defined in Article 3 of Regulations Governing Investment Licensing for Mainland Residents in Taiwan, is 1.06%.

Note 2: Common shares of the Company have a face value of NT$10 per share.

(III) Diversification of equity

April 8, 2019; unit: shares

Shareholding range	Number of Shareholders	Current shareholding	Shareholding percentage
1 to 999	76	8,111	0.01
1,000 to 5,000	1,126	2,153,060	3.25
5,001 to 10,000	141	1,146,362	1.73
10,001 to 15,000	55	734,000	1.11
15,001 to 20,000	31	584,000	0.88
20,001 to 30,000	29	746,000	1.13
30,001 to 50,000	23	903,030	1.36
50,001 to 100,000	22	1,576,000	2.38
100,001 to 200,000	12	1,795,000	2.71
200,001 to 400,000	8	2,306,000	3.48
400,001 to 600,000	5	2,482,000	3.74
600,001 to 800,000	2	1,384.000	2.09
800,001 to 1,000,000	0	0	0
1,000,001 to 5,000,000	2	7,540,000	11.37
5,000,001 to 10,000,000	3	15,660,000	23.62
10,000,001 and above	1	27,272,000	41.14
Total	1,536	66,289,563	100

Note: Common shares of the Company have a face value of NT$10 per share.

(IV) Roster of Major Shareholders

The names of shareholders with more than 5% ownership interest, names of top-10 shareholders, and the actual number and percentage of shares held:

April 8, 2019; unit: shares

Type of share / Name of Major Shareholders	Nationality or place of registration	Current shareholding	Ratio of Shareholding (%)
IMPERIAL INTERNATIONAL CO.,LTD (Imperial International Co. Ltd)	The Independent State of Samoa	27,272,000	41.14
PREMIER CHOICE VENTURES INC	The Independent State of Samoa	5,220,000	7.87
DOUBLE FAITH HOLDING LIMITED	The Independent State of Samoa	5,220,000	7.87
Global Sharp Investments Limited	The Independent State of Samoa	5,220,000	7.87
Joyful Gain Investment Limited	The Independent State of Samoa	4,060,000	6.12
Regency Star International Limited (Regency Star International Limited)	The Independent State of Samoa	3,480,000	5.25
HERO PROMISE LIMITED (HERO PROMISE LIMITED)	The Independent State of Samoa	762,000	1.15
Win Honor International Limited	The Independent State of Samoa	622,000	0.94
HSBC Bank Hosted Core Pacific - Yamaichi International (HK) Ltd	Hong kong	600,000	0.91
TransGlobe Life Insurance Inc.	Taiwan, R.O.C	500,000	0.75

(V) Information relating to market price, net worth, earnings, and dividends per share for the last 2 years

Unit: NTD; thousand shares

Title \ Year			2017	2018	Year-to-date as at March 31
Market price per share	Highest		51.40	86.30	57,60
	Lowest		36.70	42.80	48.40
	Average		42.67	56.59	53.77
Net worth per share	Before dividend distribution		22.45	24.97	—
	After distribution		19.95	Not yet distributed	—
EPS	Weighted average shares		62,410	65,708	—
	EPS		3.25	4.76	—
Stock dividend	Cash dividend		2.50	Not yet distributed	—
	Free-Gratis dividends	From earnings	—	—	—
		From capital reserves	—	—	—
	Retained Dividends		—	—	—
Return on investment analysis	P/E ratio		13.13	13.13	—
	Price to dividends ratio		17.07	—	—
	Cash dividend yield (%)		5.86	—	—

Note: The Company held the 14th Board of Directors on March 14, 2019, and issued a cash dividend of NT$2.8 per share, proposed cash distribution from capital surplus of NT$0.7 per share, it is expected to issue NT$231,529,000 (based on the current number of shares of 66,151 shares), which is yet to be acknowledged and discussed at the shareholders' meeting of 2019.

(VI) Dividend Policy and the Status of Implementation

1. Dividend policy stated in the Company's Articles of Incorporation

(1) Without violating the Cayman Islands Companies Act, the Articles of Incorporation or any instructions made during the shareholder meeting, the board of directors may propose cash distribution of dividends and capital reserves to shareholders, subject to resolution during a shareholder meeting. Shareholders may authorize the board of directors to pay dividend or capital reserve in cash from legally available capital.

(2) Without violating any laws of The Cayman Islands or any rights vested in shares, the Company shall distribute cash on a particular category of shares or capital reserve according to the Articles of Incorporation based on the number of fully-paid preferred shares and available capital reserves as at the baseline date.

(3) Before distributing dividends or capital in cash, the board of directors may retain an appropriate portion as reserves. This reserve can be utilized by the Company for any purpose relating to its business activities.

(4) Except otherwise regulated in the Cayman Islands Companies Act, amounts that do not originate from the Company’s profits or share premium accounts can not be distributed as dividend or other form of capital.

The Company’s dividend policy is as follows:

A. In the event that the Company's shares are listed on any securities exchange in The Republic of China, any future profits (i.e. pre-tax profit before employee and director remuneration; refers to "Annual Profit" below) shall be subject to provision for employee and director remuneration in the following amounts. However, profits must first be taken to offset against cumulative losses if any.

(A) Directors are entitled to remuneration at no more than 3% of "Annual Profit," which can only be paid in cash.

(B) Employees of the Company and subsidiaries are entitled to annual remuneration at no less than 1% of "Annual Profit," which can be paid in cash, shares or any combination of the above.

B. In the event that the Company's shares are listed on any securities exchange in The Republic of China, any earnings concluded from a financial year shall be distributed after deducting (i) taxation, (ii) reimbursement of previous loss, (iii) 10% provision for legal reserve ("Legal Reserve") according to laws applicable to public companies, unless the balance of Legal Reserve has accumulated to the paid-up capital, and (iv) special reserves according to the authority of The Republic of China (including but not limited to Financial Supervisory Commission and securities markets of The Republic of China), unless otherwise regulated by the laws of The Cayman Islands. The amount of earnings net of the above deductions shall be referred to as "Current Distributable Earnings" below. Shareholders' dividends and profit-sharing can be paid from Current Distributable Earnings or undistributed earnings carried from previous periods (referred to as "Cumulative Distributable Earnings" below).

C. The Company may distribute cash dividend and/or shareholder bonus based on future budget and capital requirements to support capital spending, business expansion and growth, even if the decision contradicts any prevailing rules. The board of directors shall present a dividend/profit-sharing plan for resolution at shareholder meeting if a proposal is raised to make distribution out of Cumulative Distributable Earnings:

(A) Cumulative Distributable Earnings can be distributed to existing shareholders in the form of dividend, and paid either in cash or new shares. The sum of dividends paid to existing shareholders shall not be less than 10% of Current Distributable Earnings.

D. No interest shall accrue on the distribution of dividends or profits.

E. During the shareholder meeting, shareholders may, subject to board of directors' recommendation, reach a supermajority resolution to capitalize dividends and bonuses against issuance of new shares. However, no less than 10% of dividends and bonuses shall be paid in cash.

2. Dividend distribution proposed for the next shareholder meeting:

The Company's 2018 annual disposition of net income case was approved by the 14th Board of Directors on March 14, 2019, with a cash dividend of NT$2.8 per share. It is also proposed to issue cash in excess of the capital reserve of the issue of shares exceeding the face value, the amount of NT$0.7 per share is expected to be NT$231,529,000, the total amount of NT$231,529,000 is expected to be accepted and discussed at the shareholders' meeting on June 6, 2019.

The company's 2018 annual disposition of net income, please see the following table:

Unit: New Taiwan Dollar

Item	Amount
Retained earnings	253,388,194
2018 profit after tax	313,070,171
Legal Earned Surplus Reserve(10%)	(31,307,017)
Special Surplus Reserve	(33,909,277)
Current Surplus Available	501,242,071
Assignment Project	
Dividend dividends to shareholders (NT$2.8 each)	(185,223,195)
Retained Earnings	316,018,876
2018 Annual Disposition of Net Income The Company's 2018 annual surplus distribution was approved by the 14th meeting of the 3rd Board of Directors on March 14, 2019, the cash dividend per share was NT$2.8, and the proposed capital reserve was issued in excess of the excess amount of shares issued. Cash of NT$0.7 per share, estimated to be NT$231,529,000, and will be recognized and discussed at the shareholders' meeting on June 6, 2019.	

(VII) Impacts of proposed stock dividends on the Company’s business performance and earnings per share

No public financial forecast was made and no distribution of stock dividend was proposed during shareholder meeting in the current year, hence not applicable.

(VIII) Employee/director/supervisor remuneration (the Company does not have supervisors)

1. Percentage and range of employee/director/supervisor remuneration stated in the Articles of Incorporation

In the event that the Company's shares are listed on any securities exchange in The Republic of China, any future profits (i.e. pre-tax profit before employee and director remuneration; refers to "Annual Profit" below) shall be subject to provision for employee and director remuneration in the following amounts. However, profits must first be taken to offset against cumulative losses if any.

(1) Directors are entitled to annual remuneration at no more than 3% of "Annual Profit," which can only be paid in cash.

(2) Employees of the Company and subsidiaries are entitled to annual remuneration at no less than 1% of "Annual Profit," which can be paid in cash, shares or any combination of the above.

2. Basis of calculation for employee/director/supervisor remuneration and share-based compensations; and accounting treatments for any discrepancies between the amounts estimated and the amounts paid.

If the amount changes after the financial statements are approved and announced to the public, the difference will be treated as a change in accounting estimate and recognized as a gain or loss in the following year.

3. Remuneration passed by the board of directors

(1) Employees' compensation and directors'/supervisors' remuneration, in cash or in shares. Disclose the amount, causes and treatments of any differences between the amount paid and the amount estimated in the year the expense was recognized:

The Board resolved to paid the Directors the 2018 amount of NT$3,193,000 and the employees the amount of NT$3,193,000 as remunerations payable in cash in the session dated March 14 2019. The difference amount is NT$193,000, which is mainly due to the remuneration of directors. The estimated number of accounts differs from the number of resolutions of the board of directors. Adjusting the profit and loss of the next year by Accounting estimate.

(2) Percentage of employees' remuneration paid in shares, relative to current net income and total employees' remuneration

: The Company did not distribute stock dividends in 2018, hence not applicable.

4. Actual payment of employee/director/supervisor remuneration in the previous year (including the number of shares allocated, the sum of cash paid, and the price at which shares were issued), and any differences from the figures estimated (explain the amount, the cause, and treatment of such discrepancies): There was no difference between the amount of director/employee remuneration paid in 2018 and the amount recognized in 2017, hence not applicable.

5. Remuneration reported by the board of directors

The distribution resolution of employee compensation approved by the board. The appropriation of 2017 earnings had been approved by the shareholders during their meeting on June 12, 2018 and distribution of bonus to employees and remuneration to directors and supervisors are as follows:

(1) Employee remuneration NT$2,100,000 , all paid in case.

(2) Directors remuneration NT$2,400,000, all paid in case.

(3) Cash dividend to the shareholders NT$ 130,500,000.

(4) Cash distributed with capital reserve to shareholders NT$ 32,625,000.

There is no difference between the reported remuneration issued by the board of directors.

(IX) Buyback of company shares: None.

II. Issuance of corporate bonds:

(I) Corporate bonds

<table>
<tr><td colspan="2">Corporate bond category</td><td>1st domestic unsecured convertible bond</td></tr>
<tr><td colspan="2">Issue date</td><td>February 5, 2018</td></tr>
<tr><td colspan="2">Face value</td><td>One Hundred Thousand New Taiwan Dollars</td></tr>
<tr><td colspan="2">Place of Issue and Trading</td><td>Not applicable</td></tr>
<tr><td colspan="2">Issuing price</td><td>Issued at 100.3% of face value</td></tr>
<tr><td colspan="2">Total amount</td><td>Three Hundred Million New Taiwan Dollars</td></tr>
<tr><td colspan="2">Interest</td><td>0%</td></tr>
<tr><td colspan="2">Tenor</td><td>3 years Maturity date: February 5, 2021</td></tr>
<tr><td colspan="2">Guarantor</td><td>Not applicable</td></tr>
<tr><td colspan="2">Trustee</td><td>Trust Department of Bank SinoPac Company Limited</td></tr>
<tr><td colspan="2">Underwriter</td><td>Fubon Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certifying lawyer</td><td>KPMG Law Firm
Kelvin Chung</td></tr>
<tr><td colspan="2">CPA name</td><td>Deloitte & Touche
CPA Liu, Shuei-En, CPA Yang, Ching-Ting</td></tr>
<tr><td colspan="2">Method of repayment</td><td>This convertible bond is repayable in cash at face value in one lump-sum upon maturity, except for the following circumstances:
(a) Bondholders exercise their rights to convert bonds into common shares.
(b) The Company exercises redemption rights (see Article 21 of the terms and conditions).
(c) Bondholders exercise sell-back rights (see Article 22 of the terms and conditions).
(d) The Company buys back shares from the secondary market for retirement.</td></tr>
<tr><td colspan="2">Outstanding principal</td><td>Three Hundred Million New Taiwan Dollars</td></tr>
<tr><td colspan="2">Terms and conditions for early redemption or repayment</td><td>To proceeding according to Article 21- Early Redemption of the terms and conditions of the current convertible bond issue.</td></tr>
<tr><td colspan="2">Restrict clauses</td><td>N/A</td></tr>
<tr><td colspan="2">Name of the credit rating agency, rating date, and rating results</td><td>Not applicable</td></tr>
<tr><td rowspan="2">Other equity attached</td><td>Amount of common shares, global depository receipts, or other securities converted (exchanged or subscribed) up till the publication date of this annual report</td><td>1,039,563 common shares have been converted to date.</td></tr>
<tr><td>Rules for issuing and conversion (either by exchange or purchase)</td><td>Please refer to the terms and conditions of the first domestic unsecured convertible bond issue.</td></tr>
<tr><td colspan="2">Rules for issuing, conversion, exchange or purchase, possible dilutions of equity from the issuing conditions, and the impacts on the rights of the existing shareholders</td><td>1. Holders of this convertible bond issue may exercise conversion rights at anytime during the conversion period that they consider to be favorable, therefore the dilutive effect on equity can be deferred and mitigated to avoid sudden and significant impact.
2. Issuance of this convertible bond not only produces lower dilutive effect on earnings per share, the conversion of which also increases net worth per share,</td></tr>
</table>

	and is therefore favorable to shareholders' equity overall.
Custody Agency Name for the Exchange Target	Not applicable

(II) Information of convertible corporate bonds

Corporate bond category		1st domestic unsecured convertible bond	
Item \ Year		2018	Year-to-date as at March 31
Market price of the convertible bond	High	156.00	118.00
	Low	104.00	106.00
	Average	120.76	113.67
Conversion price		NT$50.70 Adjusted to NT$48.40 since 2018/7/24	NT$48.40
Issue date and conversion price		February 5, 2018 NT$50.70	February 5, 2018 NT$50.70
Ways of fulfilling conversion obligation		Delivery through issuance of new shares	Delivery through issuance of new shares

III. Preferred shares: None.

IV. Global depository receipt: None.

V. Employee stock warrants: None.

VI. Issuance of new employee restricted shares: None.

VII. New shares issued for merger, acquisition or share exchange: None.

VIII. Implementation of fund utilization plan:

Uncompleted securities offering or private securities placement, or details, progress and comparison of any capital plans completed in the last three years that have yet to yield the desired outcome:

The Company issued its first domestic unsecured convertible bond in February 2018 mainly to purchase production equipment, repay bank borrowings and provide working capital. Details and progress of the capital plan are explained below:

(I) Contents of the Plan

The capital plan was intended to raise NT$300,900,000, which was fully completed on February 1, 2018. The funds were scheduled to be used to repay bank borrowing in 2018 Q1, provide additional working capital in 2018 Q2, and purchase production equipment in 2018 Q4.

(II) Progress and yield analysis:

1. Progress

As of 2019 Q1, the most recent equipment purchase was scheduled to be paid in 2018 Q4 for a sum of NT$87,507,000, representing 100% progress completion. Actual amounts paid as of 2019 Q1 totaled NT$87,507,000, representing 100% progress completion. The use of capital had fallen behind the initial schedule primarily because equipment purchase and installation were able to reach the desired outcome given the amount spent as of 2019 Q1. Although the Company was behind on capital spending, the deferral posed no material impact on business target accomplishment and requires no change in plan.

As of 2019 Q1, the most recent bank loan repayment was scheduled to be paid in 2018 Q1 for a sum of NT$114,520,000, representing 100% progress completion. Actual amounts paid as of 2018 Q1 totaled NT$114,520,000, representing 100% progress completion. This use of capital has been completed as scheduled.

As of 2019 Q1, the most recent reimbursement of working capital was scheduled to take place in 2018 Q2 for a sum of NT$98,873,000, representing 100% progress completion. Actual amounts reimbursed as of 2018 Q2 totaled NT$98,873,000, representing 100% progress completion. This use of capital has been completed as scheduled.

Unit: NTD thousands

<table>
<tr><th rowspan="2">Item/project</th><th rowspan="2">Scheduled completion date</th><th rowspan="2">Required capital Total amount</th><th rowspan="2" colspan="2">Execution status</th><th colspan="2">Capital utilization progress</th></tr>
<tr><th>2019 Q1</th><th>Cumulative amount as of 2019 Q1</th></tr>
<tr><td rowspan="4">Purchase of production equipment</td><td rowspan="4">2018 Q4</td><td rowspan="4">87,507</td><td rowspan="2">Expenditure amount</td><td>Scheduled</td><td>0</td><td>87,507</td></tr>
<tr><td>Actual</td><td>5,808</td><td>87,507</td></tr>
<tr><td rowspan="2">Progress</td><td>Scheduled</td><td>0%</td><td>100,00%</td></tr>
<tr><td>Actual</td><td>6.64%</td><td>100.00%</td></tr>
<tr><td rowspan="4">Repayment of bank borrowings</td><td rowspan="4">2018 Q1</td><td rowspan="4">114,520</td><td rowspan="2">Expenditure amount</td><td>Scheduled</td><td>0</td><td>114,520</td></tr>
<tr><td>Actual</td><td>0</td><td>114,520</td></tr>
<tr><td rowspan="2">Progress</td><td>Scheduled</td><td>0%</td><td>100%</td></tr>
<tr><td>Actual</td><td>0%</td><td>100%</td></tr>
<tr><td rowspan="4">Replenishing operating fund</td><td rowspan="4">2018 Q2</td><td rowspan="4">98,873</td><td rowspan="2">Expenditure amount</td><td>Scheduled</td><td>0</td><td>98,873</td></tr>
<tr><td>Actual</td><td>0</td><td>98,873</td></tr>
<tr><td rowspan="2">Progress</td><td>Scheduled</td><td>0%</td><td>100%</td></tr>
<tr><td>Actual</td><td>0%</td><td>100%</td></tr>
<tr><td rowspan="4" colspan="2">Total</td><td rowspan="4">300,900</td><td rowspan="2">Expenditure amount</td><td>Scheduled</td><td>0</td><td>300,900</td></tr>
<tr><td>Actual</td><td>5,808</td><td>300,900</td></tr>
<tr><td rowspan="2">Progress</td><td>Scheduled</td><td>0%</td><td>100.00%</td></tr>
<tr><td>Actual</td><td>6.64%</td><td>100.00%</td></tr>
</table>

Source: Compiled by the Company.

2. Yield analysis and improvements

Judging by the actual progress of capital raised and used as of 2019 Q1, the Company was behind on the purchase of production equipment, the completion of the first quarter of 2019, which was mainly due to the growth in the performance of the original products, which delayed the development of a few new products, but did not have a significant impact on the company's performance and operational benefits. Meanwhile, the Company has repaid bank borrowings as planned and reimbursed working capital ahead of schedule, meaning that there is no material difference between the planned and actual use of capital.

Five. Operational Profile

I. Operations

(I) Scope of business

1. Main business activities

The Company is mainly involved in the production and sale of industrial sewing machine parts.

2. Main products and revenue weight

Unit: NTD$ thousand

Product \ Year	2017		2018	
	Amount	Revenue weight (%)	Amount	Revenue weight (%)
Industrial sewing machine parts	1,374,470	100	1,816,136	100
Total	1,374,470	100	1,816,136	100

3. Existing products (services)

The Company's products comprise 4 main categories: industrial sewing machine blades, needle plates, thread cutters and others.

4. Planned products (services)

A. Automatic thread cutter for overlock sewing machine.
B. 2-in-1 interlock sewing machine.
C. 4-needle 6-thread automatic thread cutter.
D. Non-garment blades such as carpet blade.
E. Multi-needle automatic thread cutter.
F. Other automatic devices (patented, high-level integration).
G. Hooks, moving/stationary blades, needle plates.
H. Genuine quality moving/stationary blades.
I. High value-adding needle plates: such as 4-needle 6-thread array, dual needle plate etc.
J. Blades made from new materials, such as ceramics and aluminum.

(II) Overview of business

1. State of the current industry and prospects

(1) State of the current industry

According to statistics published by China Sewing Machinery Association (CSMA), China's sewing machine industry produced an aggregate output value of RMB 19.162 billion between January and November 2018, up 21.20 % year-on-year; meanwhile, 6,906,100 sewing machines were manufactured during this period, representing a 17.23 % growth year-on-year.

The above figures included the production of 4,984,900 industrial sewing machines, which represented a 24.37 % year-on-year growth.

Between January and November 2018, China's sewing machine industry generated operating revenues totaling RMB 19.615 billion, up 15.52 % year-on-year; meanwhile, 6,555,900 industrial sewing machines were sold during this period, representing 94.93 % of the units produced and a 12.42 % growth year-on-year. The above figures included the sale of 4,670,100 industrial sewing machines, which represented 93.68 % of the units produced and a 18.13 % growth year-on-year.

Between January and November 2018, China's sewing machine industry generated US$2.244 billion in exports, representing a 6.72% growth year-on-year. Export of industrial sewing machines totaled 3,744,300 units and US$1.109 billion, up 11.31% and 20.18%, respectively, year-on-year; export of consumer sewing machines totaled 6,370,100 units (including 2,618,800 manual sewing machines), down 2.07% year-on-year, and amounted to US$209 million, up 0.27% year-on-year; export of pre-sewing and after-sewing equipment totaled 940,600 units and US$296 million, up 6.22% and 16.99%, respective, year-on-year; export of machine parts amounted to US$337 million, down 6.68% year-on-year; lastly, export of embroidery machines totaled 32,900 units and US$292 million, down 24.62% and 18.03%, respectively, year-on-year.

Successful examples of business transformation have made the industry more confident and able towards new commercial practices. Meanwhile, ongoing investments from backbone businesses bring quality enhancements and innovations to the industry, which ultimately contributed to the industry's ever-expanding production capacity and technological advancements. Several backbone businesses including Jack, ZOJE, MAQI, Lejiang, Hikari and Zhejiang Xinsheng have committed investments into the expansion, automation and innovation of production line equipment and are actively adopting new technologies through hiring of research specialists, installation of intelligent equipment, trial production of new products, and purchase of R&D equipment.

As growth of the global economy recovers, businesses are presented with sound market prospects that raise their confidence towards more innovative investments and higher inventory levels. Meanwhile, sale of smart equipment is expected to remain popular in the future. The shortage of labor, now a common reality, has significantly undermined production activities. This limitation will help inspire downstream businesses to make more active purchase of smart and highly efficient sewing equipment to replace manual labor. As smart sewing equipment evolve in terms of quality, technology and affordability, they are now ready to be mass-produced and mass-marketed to downstream businesses. It is reasonable to expect 2-digit growth from smart sewing equipment in the future.

Integration of industry resources is also progressing at a much faster rate. In recent years, backbone businesses led by SGGEMSY and Jack initiated a series of M&A, re-organization and strategic coordination that set good examples of how the industry should progress. This complement of marketing network, organization experience, production capacity, capital, technology, brand value and resources among peers is believed to occur at a faster rate, and will become a key determinant of competitiveness in the future.

Given the increasing level of globalization, sewing equipment manufacturers will be shifting competitive focus towards the international market. Japanese sewing machine manufacturers, for example, are eager to turn focus towards Southeast Asian countries such as Vietnam for the establishment of international production facilities and regional supply system as a means to improve competitiveness. Chinese sewing equipment manufacturers, on the other hand, are targeting emerging markets, small/medium-sized garment brands and demands of the mid-end and high-end markets. Through expansion of international marketing network, enhancement of local service capacity, foreign M&A, and investment in R&D and service institutions, Chinese manufacturers seek to address their shortcomings in terms of market exposure, service, brand awareness and quality, and develop the advantage needed to compete worldwide

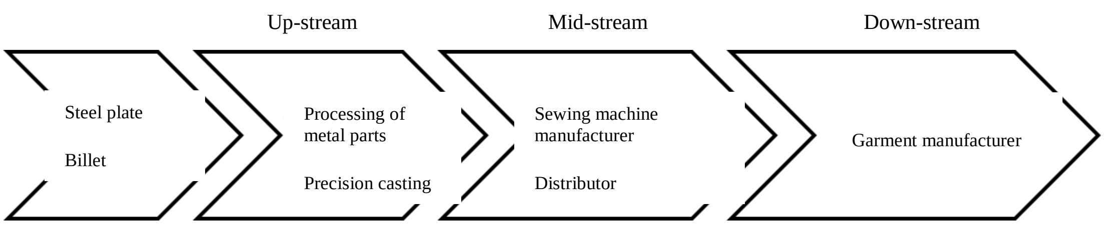
(2) Industry prospect

China has entered a new era, and the economy has also shifted from a high-speed growth stage to a high-quality development stage. It is in the midst of changing the development mode, optimizing the economic structure, and transforming the growth momentum. With the deepening of the supply-side structural reform and the further expansion of domestic demand, the domestic business environment will continue to improve, and various industrial policies will be concentrated, which will provide important support for the steady development and transformation of the real economy. It is expected that economic kinetic energy conversion and tenacity will be enhanced. The steady situation will continue. In general, a good internal and external economic situation and development environment will provide favorable support for the stable growth of China's sewing machinery industry.

The trend of "two-eight differentiation" in the sewing equipment industry is gradually becoming obvious, the industry will enter a new stage of competition, the industrial concentration will be further expanded, the medium and high-end demand will be further released, the product structure will be continuously upgraded, and the product quality and grade will continue to improve. Forced industry enterprises to transform and upgrade.

2. Connection between upstream, midstream and downstream industry participants

The Company is a producer and seller of industrial sewing machine parts, which places it in the upstream of the industry chain. The mid-stream participants comprise industrial sewing machine manufacturers and parts distributors, whereas downstream participants comprise manufactures of garments, bedding accessories and textile products.



3. Industry and product trends

(1) Automation is the key industrial adjustment and development

Through introduction of digitally controlled equipment, a processing center and automation of existing equipment, businesses may yield significant benefits including reduced work force, simplified process, increased production capacity, lower wastage, improved efficiency and higher quality assurance. In recent years, sewing machine parts manufacturers have invested extensively into renewing production equipment and improving technologies. As a result, production capacity and the level of automation have advanced substantially across the industry in recent years. Currently, it is common for businesses to have 1 worker operate 2 production equipment, and some businesses with high level of automation may even have 1 worker operating 3-4 equipment at one time. Due to increased yields of replacing manual labor with machinery, businesses have been able to reduce the size of production labor while at the same time increase production efficiency by a significant extent in recent years. As a result, sewing machine parts manufacturing is quickly transforming from a labor-intensive industry into a technology and labor-intensive industry.

Manufacturing of sewing machine parts is characterized by a number of challenges including wide product variety, low volume per category, multiple procedures, and complex craftsmanship. Some of the production procedures have been successfully automated in recent years, and certain critical procedures or parts that can not be mass-produced still require the presence of highly experienced technicians to ensure the quality of goods produced. Although businesses will still focus largely on equipment upgrade and automation for the next 2-3 years, the benefits of equipment automation are diminishing over time, and the industry will soon find its growth bottlenecked. Through adoption of new materials, new process and smarter technologies, the sewing machine parts industry may be able to regain its growth momentum.

(2) Transformation towards intensive and micro-management

As technology evolves and competition intensifies within the industry, sewing machine parts manufacturers have taken steps to develop modern management practices in recent years by shifting from a general to more intensified micro-management approach.

Through the adoption of new business administration philosophy and advanced management practices, sewing machine parts manufacturers are able to incorporate standards into daily management and embrace new values such as "professionalism, specialization, and customization."

(3) Product focus, specialization, adjustment and positioning of the parts manufacturing business

In recent years, sewing machine parts manufacturers have seen their profits dwindle due to intensified competition, which they responded by removing low-margin or less competitive items from their product portfolios so that resources can be concentrated to the items they have an advantage of and build a professional and specialized reputation. In the meantime, businesses are seeking to introduce parts and components of higher complexity and precision as means to improve profitability and expand growth prospects.

(4) Innovative manufacturing and support of product diversity offer transformation opportunities for parts manufacturers

Following the 2008 global financial crisis, the sewing machine industry underwent a series of changes that shifted the industry's demand towards all-in-one and intelligent machinery. The need for product upgrades lessened and parts manufacturers were faced with volatile or inadequate demands. Many manufacturers that relied on single sewing machine parts were presented with increased business risk, while few struggled to survive from the substantial loss of purchase orders. For this reason, many manufacturers have sought to expand market exposure by producing parts for electric tools, medical machinery, electromechanical systems, pumps, automobiles and hydraulic components in recent years. This diversified approach did reduce business risk and enabled manufacturers to maintain business activities, production and employee size relatively stable.

4. Competition

The industry has undergone structural adjustment at such a rapid rate in recent years that sewing machine parts manufacturers have responded with different competitive strategies, causing the industry divide to widen further in the following ways:

(1) Large players grow stronger. Renowned parts manufacturers including Strong H, Deying,Wangong, Yingong, Sage, Huajie, Huayi, Shunda and Wangye have invested persistently into equipment, technology, management and quality over many years that they were able to improve product quality and brand awareness over time. As a result, they attract purchase orders and grow against the declining industry, which in turn enables them to make higher investments. These additional investments will undoubtedly compound their competitive advantage.

(2) Mid-size businesses diversify from sewing machine into other industries. Lower demand for sewing machine combined with reduced profit margin has limited the industry's growth potentials, causing mid-size parts manufacturers (with annual production value between RMB

15 million and RMB 30 million) to adjust product portfolio on a more active scale. While they continue to develop high value-adding products for the sewing machine industry, they also explore ways to utilize existing production equipment for other manufacturing activities, and find growth opportunities in alternative products and industries.

(3) Small-size parts manufacturers facing difficulties. Loss of purchase orders in a declining industry presents survival challenge to manufacturers that only employ a few dozen employees and produce several million dollars of goods a year. Their lack of production advantage and capital also makes diversification and transformation a nearly impossible task. These businesses tend to exhibit higher loss of revenue when the industry is in decline.

(III) Overview of the Company's technologies and R&D

1. Technical complexity and R&D

The Company produces a wide variety of industrial sewing machine parts including blades, needle plates, thread cutters and others, and therefore has the ability to satisfy customers' diverse needs. The Company's current R&D efforts are focused toward patent application, development of automated and digital devices, high-quality and high value-adding blades and needle plates.

2. Academic and career background of R&D personnel

Unit: persons

Year / Personnel	2015	2016	2017	2018
Doctor	–	–	–	–
Master	–	–	–	–
Bachelor	5	13	9	10
Diploma (and below)	40	48	53	61
Total	45	61	62	71

3. Annual R&D expenses in the last 5 years

Unit: NTD$ thousand

Year / Item	2014	2015	2016	2017	2018
R&D expenditures	15,134	21,312	35,777	37,517	60,742
Net revenues	1,181,042	1,244,747	1,176,155	1,374,470	1,816,136
As a percentage of net revenues (%)	1.28	1.71	3.04	2.73	3.34

4. Technologies or products successfully developed

In addition to designing customized blades, hooks and thread-cutting devices for customers, the Company has also developed high value-adding technologies such as anti-wear and anti-corrosion treatment, auto thread cutter and multi-purpose blades for the purpose of bringing higher value products to customers.

In terms of production technology, improvements to metal polishing, cold stamping, quench test etc combined with the development of automated equipment enables production of better quality products at higher efficiency.

Category	Major R&D results
Product	Thread-cutting components, hooks, thread cutters, blades… Anti-wear and anti-corrosion stamped blades, durable anti-wear blades, automated thread-cutting system, multi-purpose thread-cutting blades, multi-purpose rag cutters etc. Overlock, interlock, anti-bird nest, belt cutting device etc.
Technology	Anti-wear thermal treatment, high-efficiency welding, surface strength enhancement, cold stamping, belt blanking mold etc.
Equipment	Semi-auto weld strength test equipment, semi-auto drawing equipment, auto controlled Thread-cutting Performance Testing Machine, auto controlled cleaning equipment, high-precision digitally controlled surface grinding machine, multi-operator hi-frequency

Category	Major R&D results
	welding machine, automated high-frequency selective quenching test equipment, fully digital automatic needle plate slotting machine etc.
Patent	High-efficiency steel belt blanking mold, weld strength test equipment, Thread-cutting Performance Testing Machine, digitally controlled surface grinding machine, automated selective quenching test equipment, sewing machine parts drawing device, durable stationary blade etc.

(IV) Long and short-term business plans

1. Short-term business plan
   A. Expand export markets.
   B. Shorten product development cycle.
   C. Enhance strategic cooperation with peers.
2. Long-term business plan
   A. Establish regional warehouses.
   B. Apply the Company's manufacturing expertise to other relevant fields.
   C. Commercialize the Company's equipment upgrade capabilities.

II. Overview of market, and production and marketing

(I) Market analysis

1. Locations where products are primarily sold

Unit: NTD$ thousand

Year / Geographic areas where the main products are provided	2016		2017		2018	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
China	816,655	69.43	1,051,307	76.49	1,469,803	80.93
Asia - others	298,115	25.35	257,117	18.70	259,941	14.31
America	21,271	1.81	23,999	1.75	44,225	2.44
Europe	31,354	2.67	30,229	2.20	25,326	1.39
Others	8,760	0.74	11,818	0.86	16,841	0.93
Total	1,176,155	100.00	1,374,470	100.00	1,816,136	100.00

2. Market share

The Company is one of the largest industrial sewing machine parts manufacturers and sellers in the world. It currently produces more than 10,000 different parts for industrial sewing machines classified between 5 main categories: blade, needle plate, teeth, presser foot and needle clamp. The Company operates more than 400 pieces (sets) of advanced equipment to supply products of exceptional quality and craftsmanship to China and the rest of the world.

The Company's key customers comprise renowned sewing machine brands including: JUKI, SiRUBA, Brother, TYPICAL, ZOJE, Protex, SGGEMSY, Jack, Feiyue, Golden Wheel, Pegasus, Yamato, Kansai, Sunstar, PFAFF, Highlead, Kingtex, SewQ, Shing Ling, Feiya, and Tianniao. Strong H products are sold to more than 40 countries worldwide and is one of the market's leading brands.

3. Future market supply, demand and growth

(1)The trend of restorative growth continues, and structural excesses appear Affected by strong market demand, low inventory and shortage of parts, the company's increased production and strong willingness to expand, in the case of rapid domestic market demand saturation, the inventory of single-machine products increased significantly, and showed a rapid expansion; Products such as high-efficiency automatic sewing units are still in short supply, and structural overcapacity and development imbalances in the industry are highlighted.

(2)Insufficient supply of spare parts, industry competition extended to supplyDue to the high-speed growth demand, the development of high-quality parts is often under the influence of the upstream part of the blank casting, heat treatment, blackening and other operations, and the difficulty in recruiting workers, the effective supply capacity of the industry parts is far from meeting the requirements of the whole machine. The competition of the whole machine enterprise is rushed from the distribution level to grab the order and gradually extend to the production and supply links.

(3)Key enterprises accelerate adjustment and focus on high-efficiency sewing unit products.The production capacity of leading products such as flat seaming machine is quickly concentrated in leading enterprises, and the signs of industry reshuffle are becoming increasingly clear. In order to avoid competition and transform and upgrade to high value-added products, key enterprises have adjusted their structure, focused on advantages, highlighted differences, developed automation, intelligent model machines and automatic sewing units and other related products, and high-efficiency sewing unit products are gradually mass-produced. According to preliminary statistics, the total output of automatic model machines in the first half of 2018 was close to 20,000 units, which was doubled compared with the same period of last year; The demand for automatic sewing unit products broke out, and the output exceeded 2,000 units, with a year-on-year growth rate exceeding 30%.

(4)Increase the expansion and layout of overseas markets due to the efforts of the international market

Enterprises have adjusted the structure to meet the needs of the international market, and accelerated the expansion, layout and production capacity of the international market. First, actively participate in various international professional sewing equipment exhibitions, secondly, increase technical training for foreign dealers, improve marketing and service capabilities in the international market, and third, respond to the “The Belt and Road Initiative” strategy and strengthen the expansion of the African sewing equipment market. The industry's exports to Africa showed a significant growth trend.

(5)New progress in high quality developmentFirst, the quality improvement continued to deepen. Second, the demand for high value-added and high-quality products increased substantially. The third was the in-depth advancement of smart manufacturing. The fourth was significant progress in mergers and acquisitions.

4. Competitive advantage

A. The Company markets products to the world under its proprietary brand - "STRONG H," which is one of the leading brands of machinery parts.

B. Strong business management and quality assurance system.

C. Competent product R&D team and capacity.

D. Flexible solutions and ability to design products to customers' needs.

E. Robust human resource system and talented management team.

F. Experienced frontline employees; 40% of the Company’s employees have contributed more than 10 years of service.

G. Complete supply chain of supporting partners.

H. High-efficiency production model and scale.

I. Excellent corporate culture that aligns employees' growth with business growth and emphasizes on customers' satisfaction.

5. Opportunities, threats and response strategies

A. Positive factors

(A) Ability to materialize precision, speed and new technologies in manufacturing equipment

The industry is demanding increasing level of precision in mechanical parts of all shapes and sizes in recent years. The conventional mechanical manufacturing industry has responded to this trend by developing the ability to perform precision/high-speed/composite machining, so that they may improve the precision, performance and quality of products produced. The sewing machine industry is currently undergoing rapid structural adjustment and technological upgrade, with products being designed with high-speed and intelligent features. The shape and complexity of specialized parts have also increased continuously, which requires greater level of precision from parts manufacturers. 5-axis machining, for example, makes it possible to produce mechanical parts of complex shape and curvature, and creates opportunities for structural innovation and optimization. Composite machining, on the other hand, allows complex parts to be produced on a single machine, and therefore eliminates the need to move, load and unload between different machines for more simplified process and higher work quality. The Company will be able to accommodate the sewing machine industry's ever-growing needs with improved production quality and efficiency if it follows the machining trends and invests into advanced technologies and equipment.

(B) Develop new products and strategic alliances in line with structural adjustment and industry migration

Due to increasing level of competition, sewing machines with customized features and proprietary intellectual property rights will begin to surface, giving rise to the need for new parts. Sewing machine production in China has improved in quality that it is no longer feasible for renowned Japanese enterprises to produce specialized, complex automation parts in wide variety, low volume and high cost back home. As a result, there has been a shift of production activity towards China in the last two years. This movement will provide new business opportunities if responded appropriately. The sewing machine industry is progressing in two extremes where large players grow even larger and specialized manufacturers become more focused in their areas of expertise. As the number of industry participants dwindle, the industry will resemble more of an oligopolistic competition. For parts suppliers, it is essential to engage machine manufacturers in strategic alliance to secure the supply of parts and ensure future growth.

B. Threats and response strategies

(A) Industrial sewing machines are susceptible to changes in the economic cycle. The Chinese market has saturated with business participants exhibiting slow growth and declined profitability

Due to poor performance of the sewing machine industry, parts manufacturers experienced a general decline in sales volume throughout 2014. Although sales remained relatively stable in the first half, industry participants generally experienced a 30% to 50% decline in the second half, forcing parts manufacturers to increase the amount sold on credit in an attempt to retain customers. It was common for receivables balance to reach 15-20% of annual production value, and some businesses even had receivables exceeding RMB 10 million and averaging a collection period of more than 5 months. The buildup of receivables risk is evident within the industry. Furthermore, rising wages and social insurance premiums in China are starting to impose additional cost and burden to businesses. The general decline in business profitability was largely attributed to the above factors.

Countermeasures

The Company has been planning ahead of time in response to these changes, targeting not only to serve existing customers, but expand new sales channels as well. In addition to designing customized blades, hooks and thread-cutting devices for customers, the Company has also developed high value-adding technologies such as anti-wear and anti-corrosion treatment, auto thread cutter and multi-purpose blades for the purpose of bringing higher value products to customers. In the meantime, progressive changes are being made to the management team, the funding structure and production equipment to improve overall efficiency and competitiveness in the manufacturing of sewing machine parts.

(B) Shortage and high attrition rate of labor undermine business growth

The Company is a conventional mechanical manufacturer that is unlikely to grow out of its labor-intensive nature in the short term. Having well-experienced technicians on the production line is still key to the Company's growth. Due to the undesirable work environment and complex craftsmanship involved, technicians tend to request for higher compensation, which increase personnel cost over time. New employees tend to lack loyalty and exhibit high attrition rate in response to work environment, workload, salary, and career prospect. Instability among employees eventually affect the quality and consistency of products produced. According to surveys conducted by the CSMA Parts Committee, issues such as hiring of technician, employee attrition and aging workforce are common among businesses. This reality is even more severe in coastal areas including Ningbo, which has significant adverse effects on business stability and growth.

Countermeasures

The Company will aim to improve its production environment and dormitory, and implement a fair, reasonable compensation system supported by training programs that employees may find accommodating. Employees with more than 10 years of service history currently account for over 40% of total employees, which is indicative of employees' loyalty towards the Company.

(C) Rising labor and operating costs

The Company's main production sites are located in Shandong Provice (Qingdao City and Laizhou City), China. As the Chinese economy grows, salary and social insurance premiums rise, causing businesses to incur additional personnel costs over time. According to CSMA's survey on the nation's top-30 parts manufacturers, 1/3 of businesses generated annual profits less than RMB 1 million and less than 1/2 of them had gross profit margin exceeding 18%.

Countermeasures

The Company will aim to implement fair and reasonable compensations supported by a robust training system to speed up automation and thereby reduce the need for manual labor. Meanwhile, refined management practices and models will be adopted to improve production efficiency. Reduce personnel costs.

(II) Key purpose and manufacturing processes for the Company's main products

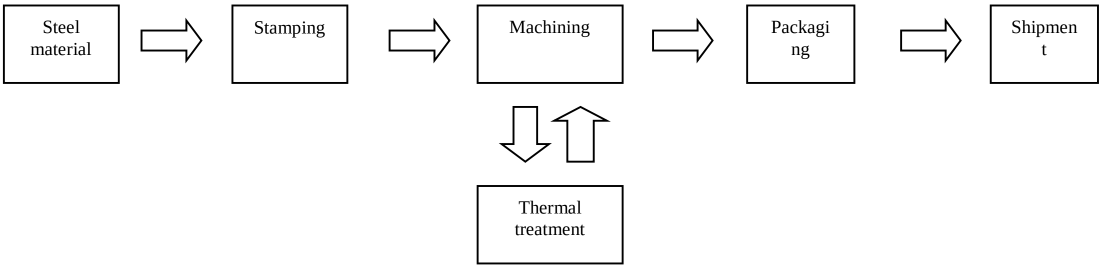
1. Purposes of main products

The Company is mainly involved in the production and sale of industrial sewing machine parts and automation devices. Its products are used for the assembly and repair of industrial sewing machines.

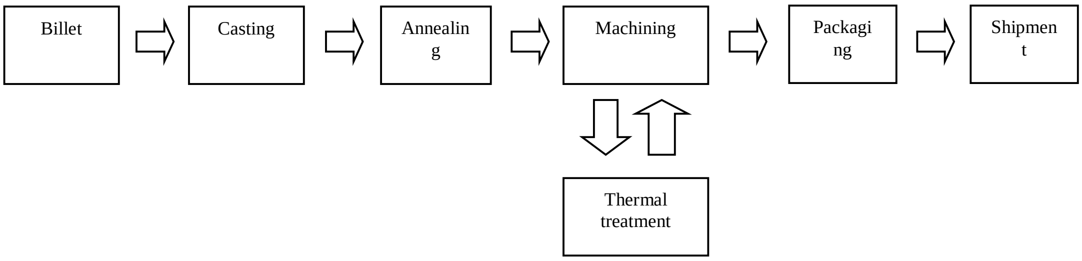
Main product categories include industrial sewing machine blades, needle plates, thread cutters and others.

2. Production process of main products

A. Stamped items



B. Cast items



(III) Supply of main materials

The Company is mainly involved in the production and sale of industrial sewing machine parts, where steel is the key raw material. All primary suppliers are long-time business partners, and the Company also maintains sound relationship with secondary suppliers
. For this reason, the Company has been able to secure the supply of key materials.

Key materials	Key suppliers	Supply status
Steel material	Qun Chun Enterprise Co., Ltd.	Satisfactory
Boring head	Zhuzhou Gingte Cemented Carbide Co., Ltd. Zhuzhou Lihua Cemented Carbide Co., Ltd	Satisfactory
Billet	Jiangxi Ruiguan Precision Casting Co., Ltd	Satisfactory
Electromagnet	Qingdao New Jingyide Precision Electromagnet Co. Ltd. Qingdao Haiying New Materials Co., Ltd	Satisfactory
Electrical Control	Jiju Electronics	Satisfactory

(IV) Name of trade partner representing more than 10% of total purchases (sales) in any of the previous two years, and the amount and percentage of purchase (sale). Describe the cause of any variation

1. Name of supplier representing more than 10% of total purchases in any of the previous two years, and the amount and percentage of purchases made. Describe the cause of any variation:

The Company produces a wide range of products and therefore requires a broad variety of materials from diversified sources. No single supplier had represented more than 10% of total purchases in any of the last 2 years.

2. Name of customer representing more than 10% of total sales in any of the previous two years, and the amount and percentage of sales made. Describe the cause of any variation:

The Company has a diversified source of customers due to its distinctive industry characteristics. No single customer had accounted for more than 10% of total sales.

(V) Output volume for the most recent two years

1. Production volume and value in the last two years

Unit: thousand bars; thousand pieces; NTD thousands

Year / Main product	2017			2018		
	Productivity	Production volume	Production value	Productivity	Production volume	Production value
Industrial sewing machine parts	87,264	55,234	1,557,397	90,299	62,275	1,846,184
Total	87,264	55,234	1,557,397	90,299	62,275	1,846,184

2. Analysis of variations

With the improvement of internal equipment automation, the company's annual production capacity in 2018 is slightly higher than that in 2017, and the output is up 12.75% over the same period of last year.

(VI) Sale volume for the most recent two years

1. Sales volume and value for the last 2 years

Unit: thousand piecesl NTD thousands

Year / Sale volume / Major Products	2017				2018			
	Domestic sale		Exports		Domestic sale		Exports	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Industrial sewing machine parts	38,817	1,051,307	16,177	323,163	44,453	1,494,133	10,917	322,003
Total	38,817	1,051,307	16,177	323,163	44,453	1,494,133	10,917	322,003

2. Analysis of variations

Due to the overall market factors in 2018, the turnover of products increased by 32.13% compared with 2017.

III. Employee size, average years of service, average age, and academic background in the last 2 years up till the publication date of this annual report

Item		2017	2018	Year-to-date as at March 31
Number of employees	Direct labor	963	957	1,015
	Indirect labor	455	399	326
	Managerial staff	182	226	224
	Total	1,600	1,582	1,565
Average age		32.4	32.6	32.8
Average tenure (year)		7.7	7.9	7.9
Education distribution ratio (%)	Doctor	-	-	-
	Master	0.16	0.07	0.07
	College	23.34	24.00	24.08
	Senior high school	59.95	59.94	60.28
	Below senior high school	16.55	15.99	15.57
	Total	100	100	100

IV. Information about expenditure on environmental protection

The Company is mainly involved in the production and sale of industrial sewing machine parts, which is not considered a pollutive industry. Although the Company uses electroplating equipment, it produces limited volume of pollution and no treatment facility is implemented. Instead, the Company engages legally licensed environmental service providers to collect and treat the hazardous waste produced and therefore poses no pollution concern.

(I) Any losses (including compensations) or fines incurred due to pollution in the last year up till the publication date of this annual report. Describe future responsive strategies (including improvement measures) and possible expenses (including possible losses due to absence of responsive strategy, estimated amount of penalties and compensations etc; provide explanation if amounts can not be reasonably estimated):

The Company and subsidiaries (including 2nd-tier subsidiaries) did not incur any losses or fines due to pollution in the last year and up till the publication date of annual report.

(II) Major environmental protection spending planned for the next 2 years: None.

V. Labor-Management Relations

(I) Availability and execution of employee welfare, education, training and retirement policies. Elaborate on the agreements between employers and employees, and protection of employees' rights:

1. Employee welfare measures and implementation

The Company provides the 5 insurance coverage, contributes to the housing provident fund, and offers employee benefits such as Chinese New Year/Mid-autumn gifts, annual health checkup, childbirth gifts, annual banquet and prize draws.

2. Employee education and training

A. The Company organizes pre-job and on-job training courses and invites participation from employees in need.

B. Employees may participate in external training courses where necessary and have expenses subsidized by the Company.

3. Retirement system and implementation

The Company pays retirement insurance premiums on behalf of employees in compliance with local laws, and thereby contributes to the security of employees' lifestyle after retirement. Retirement insurance has been included as part of the social insurance scheme (which covers medical, childbirth, retirement, work injury and unemployment insurance) under the local regulation. The Company begins fulfillment of its retirement insurance obligations as soon as an employee is placed onto the social insurance list.

4. Enforcement of labor agreements and employee rights

The Company places great emphasis on labor-management relations and enables employees to reflect opinions through meetings, e-mail or the grievance hotline. This open communication helps maintain harmonic labor-management relations and no significant employment dispute has occurred to date.

(II) Losses arising as a result of employment disputes in the last year up until the publication date of this annual report. Please quantify the estimated losses and state any responsive actions, and state the reasons if losses can not be reasonably estimated:

The Company has always maintained harmonic labor-management relations, and no loss had incurred as a result of employment dispute in the last 2 years up till the publication date of the prospectus.

VI. Major agreements

Contracts signed between the Company's main operating entities, namely Hao Qiang Precision Machinery (Qingdao) Co., Ltd. and Strong H Mechanical Technology (Laizhou) Co., Ltd., with main customers and suppliers are as follows:

Nature	Participants	Contract start and end dates	Main contents	Restrict clauses
Sale	Strong H Machinery Technology (Laizhou) INC. Jack Sewing Machine Co., Ltd.	2017.1.1-Long Term	Sales Agreement	-
	Strong H Machinery Technology (Laizhou) INC . Zoje Sewing Machine Co., Ltd.	2019.1.1-2019.12.31		-
	Strong H Machinery Technology (Laizhou) INC . Kaulin Mfg. Co., Ltd.	2013.1.1- Long Term		-
	Huzhou Guanjiong Electrical and Mechanical Technology Co., Ltd.	2017.6.16-2020.6.15		-
	Hudong Heavy Machinery Co., Ltd.	2015.4.22- Long Term		-
Purchase	Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	2019.1.1-2019.12.31	Purchase agreement	-
	Qingdao Haiying New Materials Co., Ltd	2019.1.1-2019.12.31		-
	Jiju Electronics	2019.1.1-2019.12.31		-

Nature	Participants	Contract start and end dates	Main contents	Restrict clauses
Loan Contract	Strong H Machinery Technology (Laizhou) INC . Cathay United Bank (China) Co., Ltd. Qingdao Branch	2018.4.28-2019.4.28 Borrowing period from the first day of the transfer-2017.4.28	The credit line is RMB 19 million and the land and buildings of Qingfang Land Rights No. 20103976 are used as collateral.	-
	Strong H Machinery Technology (Cayman) INC /Mega International Commercial Bank Pateh Branch	2017.05.25-2018.05.24	The credit line is 300 million US dollars, and 10% of the time deposits are provided by IMPERIAL INTERNATIONAL CO., LTD.	-
Guarantee contract	Strong H Machinery Technology (Laizhou) INC . Cathay United Bank (China) Co., Ltd. Qingdao Branch	From 2018.08.24, the guarantee period starts from the date of signing of the single credit business to two years after the expiration of the debtor's debt performance period under the single credit business.	The guarantee amount is USD 3 million, and Strong H Machinery Technology (Qingdao) provides the highest guarantee for Strong H Machinery.	-
Lease Contract	Strong H Machinery Technology (Cayman) INC/ Huang, Chen, Meishi	2017.5.1-2019.4.30	A rental office in Taoyuan City, with a monthly rent of NT$21,500, and the board of directors, Chi, Tao-Song, as the joint guarantor	-

Six. Financial overview

I. Summary balance sheet, statement of comprehensive income, auditors and audit opinions for the last 5 years

(I) Summary balance sheet and statement of comprehensive income (IFRS)

1. Summary balance sheet

Unit: NTD$ thousand

Item \ Year		Financial information for the last 5 years					Year-to-date as at March 31, 2019
		2014 (Pro-forma)	2015	2016	2017	2018	
Current assets		1,111,023	1,203,214	1,095,950	1,443,173	1,601,327	1,694,379
Property , plant, and equipment		466,911	520,238	464,308	492,970	524,520	533,649
Intangible assets		10,432	8,512	6,608	6,091	7,414	7,022
Other assets		136,151	101,757	100,466	108,464	200,486	195,460
Total assets		1,724,517	1,833,721	1,667,332	2,050,698	2,333,747	2,430,510
Current liabilities	Before dividend distribution	737,660	799,779	462,162		357,418	335,995
	After distribution	778,260	799,779	566,562	673,484	Note 2	Unassigned
Non-current liabilities		49,908	62,028	61,548	75,428	324,297	329,120
Total liabilities	Before dividend distribution	787,568	861,807	523,710	585,787	681,715	665,115
	After distribution	828,168	861,807	628,110	748,912	Note 2	Unassigned
Equity attributable to owners of the parent		936,949	971,914	1,143,622	1,464,911	1,652,032	1,765,395
Share capital		580,000	580,000	580,000	652,500	661,511	662,854
Capital reserve		212,334	136,934	212,334	371,995	401,444	406,029
Retained earnings	Before dividend distribution	45,232	173,570	362,134	460,876	643,446	711,305
	After distribution	4,632	173,570	257,734	330,376	Note 2	Unassigned
Other equity items		99,383	81,410	(10,846)	(20,460)	(54,369)	(14,793)
Treasury stock		-	-	-	-	-	-
Non-controlling equity		-	-	-	-	-	-
Equity Total	Before dividend distribution	936,949	971,914	1,143,622	1,464,911	1,652,032	1,765,395
	After distribution	896,349	971,914	1,039,222	1,301,786	Note 2	Unassigned

Note 1: The company was established in October 2014 as the holding company that applied for the first listing of Taiwan, and was audited by the accountant in accordance with the regulations of the Taiwan Securities Authority in 2014 (proposed), financial reports audited or verified by accountants in the 2015~2017 and the third quarter of 2019.

Note 2: The Company held the 14th Board of Directors on March 14, 2019, and issued a cash dividend of NT$2.8 per share, it is expected to issue NT$185,223,000, it is also proposed to issue a cash dividend of NT$ 0.7 per share in capital reserve, it is expected to issue NT$46,306 thousand (based on the current number of shares of 66,151 shares), which is yet to be acknowledged and discussed at the shareholders' meeting of 2019.

2. Summary statement of comprehensive income

Unit: NTD thousands

Item \ Year	Financial information for the last 5 years					Year-to-date March 31, 2019
	2014 (pro-forma)	2015	2016	2017	2018	
Operating revenue	1,181,042	1,244,747	1,176,155	1,374,470	1,816,136	429,885
Gross profit	473,090	502,208	470,067	562,603	745,578	175,194
Operating gains and losses	269,235	260,035	231,854	290,595	431,486	96,149
Non-operating revenues and expenses	3,542	(7,752)	(6,919)	3,213	4,622	(833)
Net profit before tax	272,777	252,283	224,935	293,808	436,108	95,316
Continued business unit Net profit in the current period	—	—	—	—	—	—
Loss of discontinuing operations	—	—	—	—	—	—
Net profit (loss) in current period	183,782	168,938	147,964	203,142	313,070	67,859
Other comprehensive income for the current period (net, after-tax)	24,187	(17,973)	(92,256)	(9,614)	(33,909)	39,576
Total comprehensive income in the current period	207,969	150,965	55,708	193,528	279,161	107,435
Net income attributable to owners of the parent company	—	—	—	—	—	—
Net income attributable to non-controlling interests	—	—	—	—	—	—
Total comprehensive income attributable to owners of the parent company	—	—	—	—	—	—
Total comprehensive income attributable to non-controlling interests	—	—	—	—	—	—
EPS (Note 3)	3.17	2.91	2.55	3.25	4.76	1.03

Note 1: The company was established in October 2014 as the holding company that applied for the first listing of Taiwan, and was audited by the accountant in accordance with the regulations of the Taiwan Securities Authority in 2014 (proposed), financial reports audited or verified by accountants in the 2015~2017 and the third quarter of 2019.

(II) Name of financial statement auditor and audit opinions for the last 5 years

Year	Accounting firm	Name of auditor	Opinion
2014	Deloitte & Touche	Liu, Shuei-En, Yang, Ching-Ting	Unqualified opinions
2015	Deloitte & Touche	Liu, Shuei-En, Yang, Ching-Ting	Unqualified opinions
2016	Deloitte & Touche	Liu, Shuei-En, Yang, Ching-Ting	Unqualified opinions
2017	Deloitte & Touche	Liu, Shuei-En, Yang, Ching-Ting	Unqualified opinions
2018	Deloitte & Touche	Liu, Shuei-En, Yang, Ching-Ting	Unqualified opinions

II. Financial analysis for the last 5 years

(I) Financial analysis - IFRS

Item of analysis	Year	2014 (Pro-forma)	2015	Year 2016	2017	2018	Year-to-date as at March 31, 2019
		Analysis of financial information for the most recent five years					
Financial structure (%)	Liabilities to total assets	45.67	47.00	31.41	28.57	29.21	27.37
	Long term fund to fixed assets ratio	211.36	198.74	259.56	312.46	376.79	392.49
Liquidity analysis%	Current ratio	150.61	150.44	237.14	282.78	448.03	504.29
	Quick ratio	90.07	94.06	139.48	174.93	297.55	338.68
	Interest coverage	74.68	37.36	27.55	60.34	34.35	29.81
Operating efficiency	Account receivable turnover (times)	2.76	2.18	2.06	2.30	2.81	2.54
	Average collection days	133	168	178	158.69	129.93	143.84
	Inventory turnover (times)	1.77	1.71	1.68	1.81	2.23	2.17
	Account payable turnover (times)	7.34	9.41	9.88	10.68	13.28	15.17
	Average days in sales	206	214	235	201.65	164.02	168.42
	Property, plant, and equipment turnover (times)	2.66	2.52	2.46	2.87	3.57	3.25
	Total assets turnover (times)	0.76	0.70	0.68	0.74	0.83	0.72
Profitability	ROA (%)	12.08	9.79	8.88	11.13	14.73	2.96
	ROE (%)	19.52	17.70	13.65	15.58	20.09	3.98
	Pre-tax profit as a percentage of paid-up capital (%)	47.03	43.50	38.78	45.03	65.93	14.38
	Net profit margin (%)	15.56	13.57	12.58	14.78	17.24	15.81
	Earnings per share ($) (Note 1)	3.17	2.91	2.55	3.25	4.76	1.03
Cash flow	Cash flow ratio (%)	4.78	11.95	41.38	28.52	80.95	18.91
	Cash flow adequacy ratio (%)	55.88	60.10	93.65	79.12	88.82	61.76
	Cash reinvestment ratio (%)	Note 2	4.53	13.46	2.29	7.32	Note 2
Leverage	Operating leverage	1.19	1.23	1.35	2.20	1.12	Note 2
	Financial leverage	1.01	1.03	1.04	1.02	1.03	1.04

Please explain the reasons for the changes in the financial ratios in the last two years: (If the increase or decrease is less than 20%, the analysis can be exempted)

1. Long-term funds accounted for the ratio of real estate, plant and equipment: total equity increased by 187,121,000 Dollars Only compared with 2017, and long-term liabilities incurred by issuing corporate bonds increased by 248,869,000 Dollars Only.
2. Current ratio: mainly issued corporate bonds of 300,900,000 Dollars Only, cash increase and repayment of bank loans of 114,300,000 Dollars Only.
3. Quick ratio: mainly issued corporate bonds of 300,900,000 Dollars Only, cash increase and repayment of bank loans

of 114,300,000 Dollars Only.
4. Times interest earned ratio: 2018 annual corporate bond issuance of 300,900,000 Dollars Only, so that the interest expense in 2018 is higher than that in 2017.
5. Receivables turnover rate (times): 2018 annual turnover increased by 32%, resulting in an increase in the ending balance of receivables.
6. Payable turnover rate (times): 2018 annual turnover increased by 32%, net inventory decreased by 17,785,000 Dollars Only, resulting in a decrease of payables of 16,487,000 Dollars Only, compared with 2017.
7. Inventory turnover rate (times): 2018 annual turnover increased by 32%, but due to effective control of inventory, inventory decreased by 17,785,000 Dollars Only.
8. Real estate, plant and equipment turnover rate (times): Mainly due to an increase of 32% in 2018 annual turnover.
9. Return on assets (%): Mainly due to an increase of 109,928,000 Dollars Only, in 2018, an increase of 54% over the previous year.
10. Return on equity: Mainly distributed surplus of 163,125,000 Dollars Only, and 2018 annual profit increased by 109,928,000 Dollars Only, an increase of 54% over the previous year.
11. Pre-tax net profit as a percentage of paid-up capital (%): 2018 annual profit increased by 109,928,000 Dollars Only, an increase of 54% over the previous year.
12. Earnings per share: 2018 turnover increased by 32%, net profit after tax increased by 109,928,000 Dollars Only, from the previous year, and convertible corporate debt increased by 9,011,000 Dollars Only.
13. Cash flow ratio: 2018 annual profit increased by 55%, inventory decreased by 17,785,000 Dollars Only, and corporate bonds issued amounted to 300,900,000 Dollars Only.
14. Cash reinvestment ratio (%): The profit growth in 2018 was 55% and the inventory was reduced, as a result, the net cash inflow from operating activities increased by 143,776,000 Dollars Only, compared with 2017, and the amount of fixed assets investment increased by only 10,309,000 Dollars Only, compared with 2017.

Note 1: Each year is expressed in retrospective adjustment.
Note 2: The ratio is negative and is not calculated, so it is not listed.
Note 3: Formulas of the above calculations are shown below

1. Financial structure
   (1) Liabilities to total assets =Total liabilities/total assets
   (2) Long-term capital to property, plants and equipment = (total equity + non-current liabilities) / net property, plant and equipment.
2. Solvency
   (1) Current ratio = Current assets / Current liability
   (2) Quick ratio = (Current Assets - Inventories - Prepaid expenses) / Current liability
   (3) Interest coverage ratio = Profit before income tax and interest expense / Current interest expense
3. Utility
   (1) Accounts receivable turnover (including bills receivable resulting from accounts receivable and business operations)＝ Net sales / Average accounts receivable in various periods (including bills receivable resulting from accounts receivable and business operations).
   (2) Average number of days receivable outstanding = 365 /accounts receivable turnover
   (3) Inventory turnover=sale cost/average inventory
   (4) Accounts payable turnover (including bills payable resulting from accounts payable and business operations)＝ Cost of goods sold／Average accounts payable in various periods (including bills payable resulting from accounts payable and business operations).
   (5) Average number of days of sales=365/inventory turnover
   (6) Property, plant and equipment turnover = Sales / Average property, plant and equipment, net
   (7) Total assets turnover = Sales / Average total assets
4. Profitability
   (1) Return on assets (ROA) = [Gain (loss) after tax + Interest expenses × (1 – interest rates)] / Average total asset value.
   (2) ROE = Income after income tax/average total equity
   (3) Profit to sales = Profit / Sales
   (4) Earnings per share = (Equity attributable to owners of parent - Dividend-preferred stock) / Weighted average outstanding shares
5. Cash flow
   (1) Cash flow ratio = Net cash flow from operating activities / Current liability
   (2) Cash flow adequacy ratio = 5-year net cash provided by operating activities / 5-year (Capital expense + Increase in inventories + Cash dividend)
   (3) Cash flow reinvestment ratio = (Net cash provided by operating activities - Cash dividend) - (Property, plant and equipment, net + Long-term investments + Other non-current assets + Operating Capital)
6. Leverage:

(1) Degree of operating leverage = (net operating revenues - variable operating costs and expenses) / operating profit.
(2) Degree of financial leverage = operating income / (operating income - interest expense).

III. Audit Committee's report on the review of the latest financial report

Strong H Machinery Technology (Cayman) Incorporation
Report of the Audit Committee.

We have reviewed the Company's 2018 business report, financial statements and earnings appropriation proposal prepared by the board of directors. The financial statements have been audited by Deloitte Taiwan, to which the firm issued an independent auditor's report. The Audit Committee found no misstatement in the above business report, financial statements or earnings appropriation, and has issued its report as presented above in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of The Company Act.
For your approval.

To:

Strong H Machinery Technology (Cayman) Incorporation 2019 Annual General Meeting

Strong H Machinery Technology (Cayman) Incorporation

Audit Committee convener: Wang, Ching-Hsiang

2019/03/14

IV. Latest financial report, including independent auditor's report, comparative balance sheets, statements of comprehensive income, statements of changes in equity, cash flow statements, and notes or attachments thereof: Please refer to Appendix One.

V. Latest audited standalone financial report:

The Company is only required to prepare consolidated financial statements, hence not applicable.

VI. Any financial distress experienced by the Company or affiliated enterprise and impacts on the Company's financial position in the last year up till the publication date of this annual report: None.

Seven. Review, analysis and risk of the financial status and management result

I. Financial position

(I) Financial information for the last 2 years

Unit: NTD$ thousand

Year / Item	2017	2018	Variance	
			Amount	(%)
Current assets	1,443,173	1,601,327	158,154	10.96%
Property , plant, and equipment	492,970	524,520	31,550	6.40%
Intangible assets	6,091	7,414	1,323	21.72%
Other assets	108,464	200,486	92,022	84.84%
Total assets	2,050,698	2,333,747	283,049	13.80%
Current liabilities	510,359	357,418	(152,941)	(29.97%)
Other liabilities	75,428	324,297	248,869	329.94%
Total liabilities	585,787	681,715	95,928	16.38%
Capital stock	652,500	661,511	9,011	1.38%
Capital surplus	371,995	401,444	29,449	7.92%
Undistributed earnings	413,817	566,459	152,642	36.89%
Other equity	(20,460)	(54,369)	(33,909)	165.73%
Total shareholders' equity	1,464,911	1,652,032	187,121	12.77%

The main reasons for the significant changes in assets, liabilities and shareholders' equity in the last two years (more than 10% in the previous period and the absolute change amounted to NT$100,000) and their impact and future response plans:

1. Current assets: Mainly due to an increase of 32% in 2018 annual turnover and 300,900,000 Dollars Only, in corporate bonds, cash and accounts receivable increased.
2. Other assets: Mainly refers to the company's acquisition of land use rights in 2018, resulting in an increase of 100,774,000 Dollars Only, in prepaid lease payments.
3. Current liabilities: mainly repaying short-term loans of 114,300,000 Dollars Only, and payables decreased by ,16,874,000 Dollars Only.
4. Other liabilities: mainly due to the unconverted amount of convertible corporate bonds issued in 2018 of 234,663,000 Dollars Only.
5. Undistributed surplus: mainly due to the profit of 313,070,000 Dollars Only in 2018 and the surplus reserve and surplus distribution of 160,428,000 Dollars Only.
6. Other interests: The functional currency of the Company is RMB. The decrease in the exchange difference expressed in New Taiwan Dollars is due to the decrease in the exchange rate of RMB against the New Taiwan Dollar.

II. Financial performance

(I) Financial performance analysis for the previous 2 years

Unit: NTD$ thousand

Year / Item	2017	2018	Variance	
			Amount	(%)
Total operating revenue, net	1,374,470	1,816,136	441,666	32.13%
Operating cost	811,867	1,070,558	258,691	31.86%
Gross profit	562,603	745,578	182,975	32.52%
Total operating expenses	272,008	314,092	42,084	15.47%
Operating income	290,595	431,486	140,891	48.48%
Total non-operating revenue and expenditure	3,213	4,622	1,387	43.17%
Income before tax	293,808	436,108	142,300	48.43%
Income tax expenses	90,666	123,038	32,372	35.70%
Net profit in the current period	203,142	313,070	109,928	54.11%

The main reason for major changes:

The increase or decrease ratio has changed by more than 20%, and the amount of change has reached NT$10 million. The analysis is as follows:

1. Net operating income: mainly due to increased market demand and increased sales of equipment products.

Item \ Year	2017	2018	Variance	
			Amount	(%)
2. Operating costs: mainly due to a 32% increase in turnover. 3. Operating margin: Gross profit margin for the biennium was remained constant, mainly due to a 32% increase in turnover. 4. Operating profit: Mainly due to a 32% increase in turnover and an increase of 15% in operating expenses. 5. Total non-operating income and expenses: mainly due to other losses of 10,565,000 Dollars Only in 2017, and financial expenses increased by 8,126,000 Dollars Only due to the issuance of corporate bonds in 2018. 6. Income tax expenses: mainly due to the increase in turnover of 32% and the increase in net profit before tax.				

(II) Sales forecast and basis

The Company has secured its place as the industry leader for many years. Based on assessment of market demand and sales/supply to customers, the Company expects sales volume and value to grow in the coming year. With the mass production of newly developed products and strengthened relationship with new and existing customers, the Company is optimistic about its profit growth.

(III) Possible financial impacts and response plans

The Company has been able to maintain sound financial structure and rational control of operating costs. They provide the basis for future business growth.

III. Cash flow

(I) Analysis of cash flow variations in the last year

Unit: NTD$ thousand

Item \ Year	2017	2018	Variance	
			Amount	(%)
Operating activities	145,554	289,330	143,776	98.78%
Investing activities	(101,387)	(250,519)	(149,132)	147.09%
Financing activities	139,528	22,887	(116,641)	(83.60%)
Analysis of Capital Changes: 1. Cash flow: The main department's 2018 annual turnover increased by 32%, and the net inventory decreased by 17,785,000 Dollars Only. 2. Cash flow from investing activities: The main subsidiary obtained land use rights in 2018, resulting in an increase of 100,774,000 Dollars Only in prepaid lease payments and 44,720,000 Dollars Only in short-term investment financial assets. 3. Cash flow from financing activities: mainly due to corporate bonds of 300,900,000 Dollars Only, cash increase and repayment of bank loans of 114,300,000 Dollars Only.				

(II) Improvements for lack of liquidity

Inadequacy

(III) Analysis of variance in cash flows for the future year:

Unit: NTD$ thousand

Cash equivalents, beginning of year	Expected net cash flow from operating activities for the year	Projected cash flow from investing and financing activities	Expected cash surplus (deficit)	Financing of projected cash deficits	
				Investment plans	Financing plans
351,561	336,980	(455,314)	233,227	—	-
Change situation analysis: 1. Business activities: The market share of the Company's continuous development of new products and equipment products continued to increase. It is expected that the business scale will continue to grow in 2019, and the net cash inflow from operating activities is expected to be 336,980,000 Dollars Only. 2. Investment and financing activities: In order to expand the scale of operations, the Company will obtain the first phase of land use rights in 2018, and will continue to acquire the second phase of land use rights in 2019, and will start construction of the plant, and purchase production equipment for business growth. The net cash outflow from investment and financing activities is expected to be 455,314,000 Dollars Only.					

IV. Material capital expenditures in the last year and impact on business performance:

The Company did not incur any major capital expenditure in the last year.

V. Direct investment policy, the main reasons for profit or loss, and corrective action plan for the most recent year, and investment plan in the next year

(I) Direct investment policy in the most recent year:

The Company manages its investments according to the investment cycle outlined in the internal control system. Furthermore, the Company follows its "Policy on Financial and Business Dealings with Specific Entities, Group Enterprises and Related Parties" and "Subsidiary Monitoring Policy" and helps investees establish appropriate internal control systems given the prevailing local regulations and applicable practices. With respect to the organizational structure, all investees have had director positions created according to local laws and assigned by the parent company. Presidents of all investees are uniformly appointed by the parent company, whereas other managerial staff are assigned or recruited under the authority of the respective presidents. However, appointment and dismissal of the head of finance is subject to the consent of the parent company. The Company obtains financial statements, operational reports and audited financial statements of all its investees on a regular basis, which therefore enables timely analysis and assessment on the operational performance and profitability of individual investees. Furthermore, the company has an internal audit department that performs regular and unscheduled audits on subsidiaries, devises audit plans, issues audit reports, monitors defects within the internal control system, and follows up on improvements.

(II) Causes of profit or loss incurred on investments in the last year, and improvement plans:

Unit: Foreign currency/ NTD thousands

Investee	Investment amount	Ratio of Shareholding (%)	Investment gains/losses recognized in 2018	Main causes for profit or loss	Corrective action plan
Faith Light International Corporation	257,587 (US$8,038)	100	61,718	Subsidiary's income recognized by the investment holding company	N/A
VANDEN INTERNATIONAL CO., LTD.	235,763 (US$7,518)	100	258,021	Subsidiary's income recognized by the investment holding company	N/A
Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	US$8,000	100	(2,598)	Expansion of export market for industrial sewing machine parts	N/A
Strong H Mechanical Technology (Laizhou) Co., Ltd.	US$22,979	100	333,424	Business expansion for pre-sewing blades and parts	N/A

(III) Investment plans for the coming year:

The Company’s investment policies largely depend on operational requirements. All subsidiaries (including 2nd-tier subsidiaries) are expected to maintain sound operation and consistent profit growth in the next year. The Company will devise new investment plans at appropriate timing in the future depending on the prevailing market condition, group business strategy and financial position.

VI. Analysis of risk factors

(I) Impact of interest and exchange rate changes and inflation, and their future countermeasures

1. Interest rate

Interest expenses incurred in 2017 and 2018 amounted to NT$4,951,000 and NT$13,077,000, which represented 0.27% and 0.72% of net operating revenues, respectively.

Safety is of the utmost concern in terms of capital allocation. However, due to the fact that the Company is currently in its growth stage, capital will be allocated towards expanding business scale for enhanced competitiveness. For this reason, the Company will aim to maintain sound relationship with banks so that it may have access to lower cost capital should the need arise. If interest rate exhibits high level of volatility in the future, the Company may raise funds from the capital market using alternative tools and choose between fixed or floating rate loans depending on interest rate movements to avoid interest rate risks.

2. Exchange rate

The Company’s Chinese operations earn revenues and incur expenses mainly in RMB. The Company may have the need to exchange USD for transactions such as domestic fundraising and payment of dividends to domestic investors, which therefore puts the Company at risk of changes in the USD/TWD exchange rate. The following is a list of possible response measures the Treasury Department may undertake to address such risk:

A. Treasury personnel will maintain close contact with banking partners to monitor changes in the foreign exchange market, and adjust foreign currency deposit positions as needed to support operations of group subsidiaries, while at the same time minimize impact of exchange rate changes on the Company’s profits.

B. The Company adopts a natural hedge against currency risks (i.e. importing and exporting using USD quotations). It utilizes forward exchange contracts and raises foreign currency debts whenever appropriate to minimize the impacts of exchange rate fluctuation to the Company's profitability.

3. Inflation/deflation

The Company maintains close and mutually beneficial relationship with upstream and downstream partners. Market price changes are constantly monitored and reflected in costs and price quotations to minimize inflation impacts on the Company’s profits. There had been no significant change in the financial market or commodity prices in the last year up till the publication date of the prospectus, hence there was no material impact on the Company's profit and loss.

(II) Policies on high-risk and highly leveraged investments, loans to third parties, endorsements / guarantees, and trading of derivatives; describe the main causes of profit or loss incurred and future response measures

The Company has established "Procedure for the Acquisition or Disposal of Assets" and "Endorsement and Guarantee Procedures" to serve as guidance for related activities for all subsidiaries of the group.

(1) Policies on high-risk and highly leveraged investments; describe the main causes of profit or loss incurred and future response measures:

The Company devotes all its focus on core business and does not engage in other risky activities. In addition, it adopts conservative financial practices and refrains from high-leverage investments, and thus has limited risk exposure.

(2) Policies on third-party lending; describe the main causes of profit or loss incurred and future response measures:

The Company did not lend to any third party in the last year and up till the publication date of prospectus. All outstanding loan arrangements with subsidiaries as at December 31, 2018 had complied with the Company’s policies and posed no impact to the profits or losses presented on the consolidated financial statements.

(3) Policies on guarantees and endorsements; describe the main causes of profit or loss incurred and future response measures:

The Company only had one 2nd-tier subsidiary - Hao Qiang Precision Machinery (Qingdao) Co., Ltd. that offered intragroup guarantee/endorsement to another 2nd-tier subsidiary - Strong H Mechanical Technology (Laizhou) Co., Ltd. according to "Endorsement and Guarantee Procedures." The purpose of this arrangement was to provide guarantee for loans. The Company has never incurred losses on any guarantee/endorsement offered to another party.

(4) Policies on derivative trading; describe the main causes of profit or loss incurred and future response measures:

The Company trades derivatives primarily to control exchange rate volatility. All transaction activities are carried out according to the "procedure for the Acquisition or Disposal of Assets"

(III) Future R&D plans and expected R&D expenditure

In light of the ongoing rise in wages and automation of production equipment, the Company will continue investing resources into the development of automated thread cutters and digitally controlled equipment. The Company expects to spend 3%~4% of its operating revenues as research and development expense in 2019, and more in subsequent years to further enhance competitiveness.

(IV) Changes in important policies and legal environment at home and abroad, and the effect on the financial status and operation of the Company, and Countermeasures:

The Company has not encountered any significant financial or business impact caused by changes in local/foreign policies or laws in the last year and up till the publication date of prospectus. The Company performs all business activities in compliance with domestic/foreign policies and regulations, and closely monitors changes to the domestic/foreign political environment and the latest regulatory developments. Any of the above changes will be consulted with lawyers, accountants etc or evaluated with appropriate response measures planned and implemented in response to the new market environment. The Company has not encountered any significant financial or business impact caused by changes in policies or laws of the Cayman Islands or China in the last year and up till the publication date of prospectus.

(V) The effect of technological and industrial changes on financial status and operation of the Company, and countermeasures:

Given the ongoing automation and labor replacement within the industry, the Company will closely monitor market trends and evaluate the impacts they have on future operations. In the meantime, more R&D expenses will be spent to improve overall competitiveness.

The Company encountered no change in technology or industry practice that significantly affected its financial or business performance in the last year and up till the publication date of this annual report.

(VI) Impact of changes in corporate identity on the Company's crisis management, and countermeasures

The Company upholds integrity and has been taking active steps to enhance internal management and quality assurance since it was first founded. These practices have enabled the Company to build a strong corporate image, gain customers' trust, and avoid the aforementioned crisis.

(VII) Expected benefits and possible risks of merger and acquisition, and countermeasures

There had been no merger or acquisition in the last year and up till the publication date of this annual report, hence not applicable.

(VIII) Expected benefits and possible risks of facilities expansion, and countermeasures

No plan expansion has been planned in the last year and up till the publication date of this annual report, hence not applicable.

(IX) Risk from centralized purchasing or selling, and countermeasures

No single supplier or customer accounted for more than 10% of total purchase/sale, hence there was no concentration risk.

(X) Impact and risk associated with large share transfers or changes in shareholdings of directors, supervisors, or shareholders who hold more than 10% of the Company's shares, and countermeasures

There had been no significant transfer of shareholding by directors, supervisors or major shareholders with more than 10% ownership in the last year and up till the publication date of this annual report. As an enhancement to the corporate governance system, the Company arranged a complete re-election of the board of directors during the shareholder meeting held on February 25, 2015. The number of director seats was changed to 7, and an Audit Committee comprising three independent directors was assembled to protect shareholders' interests. There has been no significant change in management.

(XI) Impact and risk associated with changes in management rights, and countermeasures

There has been no change in the Company's management in the last year and up till the publication date of annual report. To support future business development, the Company invited professionals with extensive machinery expertise and finance/accounting background to undertake director and independent director roles, but there has been no significant change in the management team.

(XII) Litigation and non-contentious cases

Major litigations, non-contentious cases, or administrative litigations involving the company or any director, supervisor, President, person-in-charge or major shareholder with more than 10% ownership interest, whether concluded or pending judgment, that are likely to pose significant impact to shareholders or security prices of the company. Disclose the nature of dispute, the amount involved, the date the litigation first started, the key parties involved, and progress as of the publication date of this annual report: The Company had no litigation, non-contentious or administrative litigation, whether concluded or pending judgment, that was likely to pose significant impact to shareholders or security prices as of the publication date of annual report.

(XIII) Other significant risks and response measures

1. Macroeconomic, political, foreign currency and regulatory risks

   The Company is registered in the Cayman Islands and operates mainly in China and Taiwan. For this reason, changes in macroeconomic, political and foreign currency risks at the place of registration and place of operation will all affect business performance of the Company.

2. Protection of shareholders' interests

   The Company is registered in The Cayman Islands, where the laws (e.g.: The Companies Law) are somewhat different from those of Taiwan. The Company has amended its Articles of Incorporation according to the "Shareholders' Equity Protection Checklist for Foreign Securities Issuer" prepared by Taiwan Stock Exchange Corporation, but investors are still advised to investigate the differences in regulation between the two jurisdictions and how they related to the Company's operations, and consult experts on the legal and investment risks involved.

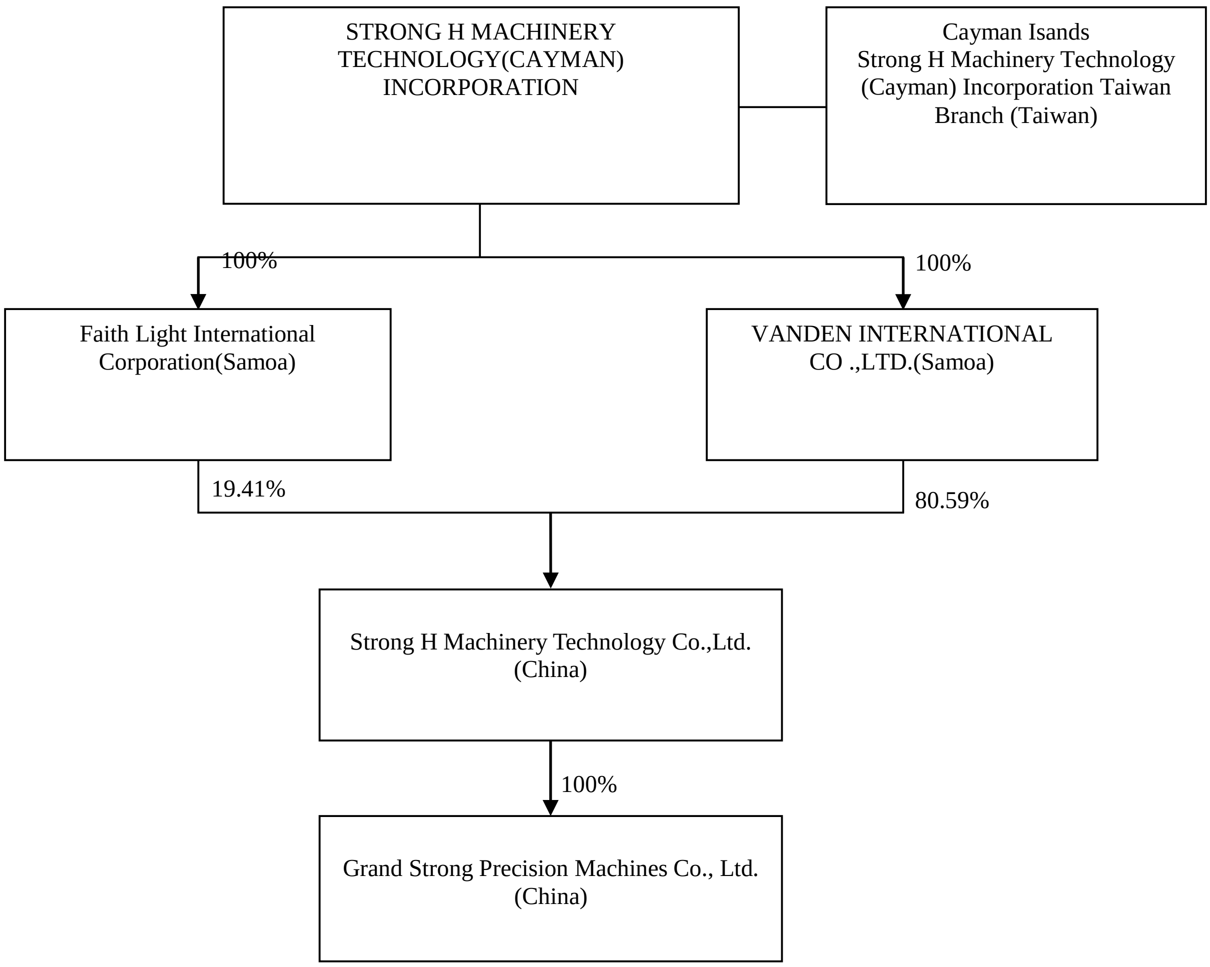
VII. Other important disclosures: None.

Eight. Special Disclosures

I. Information About Affiliates

(I) Consolidated business report

1. Affiliated enterprises chart



2. Profile of affiliated enterprises

Date: December 31, 2018; unit: foreign currency thousands

Name	Date of foundation	Address	Paid-up Capital	Main business activities or products
VANDEN INTERNATIONAL CO., LTD,	2012/6/19	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	USD 7,518	Professional investment institution
Faith Light International Corporation	2004/7/20	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	USD 8,038	Professional investment institution
Strong H Machinery Technology Co.,Ltd.	2006/12/14	No. 1699, Kaiming Road, Development Zone, Laizhou City, Shandong Province	USD 22,979	Manufacturing and sale of high-tech, specialized industrial sewing machine parts
Grand Strong Precision Machines Co., Ltd.	2005/6/1	Qiancheng Community, Shangma Street, Chengyang District, Qingdao City, Shandong Province	USD 8,000	Manufacturing and sale of high-tech, specialized industrial sewing machine parts

3. Directors, supervisors, and President of affiliated companies

Name	Job title	Name or the representative person	Shareholding	
			Number of shares	Percentage
VANDEN INTERNATIONAL CO., LTD,	Director	Chi, Ping-Hsin	0	0
Faith Light International Corporation	Director	Chi, Ping-Hsin	0	0
Strong H Machinery Technology Co.,Ltd.	Director	Chi, Ping-Hsin	0	0
	Supervisors	Chi, Tao-Song	0	0
	President	Chi, Ping-Hsin	0	0
Grand Strong Precision Machines Co., Ltd.	Director	Chi, Ping-Hsin	0	0
	Supervisors	Chi, Tao-Song	0	0
	President	Chi, Ping-Hsin	0	0

4. Performance of affiliated enterprises

Date: December 31, 2018; unit: foreign currency/NTD thousands

Name	Paid-up Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating profit (loss)	Income in the current period	EPS ($) (after-tax)
VANDEN INTERNATIONAL CO., LTD,	USD7,518	RMB 309,963 NTD 1,386,155	RMB 16,750 NTD 74,906	NTD 1,311,246	RMB- NTD-	RMB (8) NTD (37)	RMB 56,762 NTD 259,145	-
Faith Light International Corporation	USD 8,038	RMB 74,860 NTD 334,774	RMB 3,817 NTD 17,070	NTD 317703	RMB- NTD-	RMB (8) NTD (37)	RMB 13578 NTD 61989	-
Strong H Machinery Technology Co.,Ltd.	USD 22,979	RMB 506061 NTD 2263105	RMB 131,574 NTD 588,399	NTD 1,674,703	RMB 390,540 NTD 1,783,001	RMB 100,315 NTD 457,986	RMB 73,032 NTD 333,424	-
Grand Strong Precision Machines Co., Ltd.	USD 8,000	RMB 69,724 NTD 311,806	RMB 8,868 NTD 39,658	NTD 272,146	RMB 54,620 NTD 249,366	RMB (1,179) NTD (5,383)	RMB (894) NTD (2,598)	-

5. Common shareholders in controlling and controlled companies, as defined in Article 369-3 of The Company Act: None.

6. Businesses covered by affiliated companies

Affiliated enterprises of the Company are mainly involved in the production and sale of industrial sewing machine parts.

(V) Consolidated financial statements of affiliated companies

Foreign companies are exempted under Chapter 5 of the Preparation Guidelines from preparing consolidated financial statements of affiliated companies. Please refer to Appendix One for consolidated financial statements of the Company and subsidiaries.

(VI) Declaration for consolidated financial statements of affiliated companies

Foreign companies are exempted from preparation.

(VII) Affiliation report

The Company is not a subordinate of any corporate entity defined in the Affiliated Enterprises Chapter of The Company Act, hence not applicable.

II. Private placement of securities in the last year and up till the publication date of this annual report: None.

III. Holding or disposal of the Company's shares by subsidiaries in the last year and up till the publication date of this annual report: None.

IV. Other supplementary information

Description of the significant differences between the company's articles of association and the provisions on the protection of shareholders' rights and interests in the country:

Due to the slight inconsistency between the British Cayman Islands Act and the Republic of China Act, the Taiwan Stock Exchange Co., Ltd. amended the "Examination Form for the Protection of Shareholders' Rights and Interests of Foreign Issuer Registration Places" (the "Shareholders' Rights Protection Matters" It is not of course applicable to the Company. The following list explains the current Articles of Association of the Company (hereinafter referred to as the “Articles of Association”) which differ from the protection of shareholders' interests due to the provisions of the British Cayman Islands Act and the provisions of the Articles of Association:

Shareholders' Rights Protection	Cayman Order and Description	Company regulations and instructions
The company's business operations should comply with laws and regulations and business ethics, and adopt behaviors that promote public interest in order to fulfill its social responsibilities.	According to Cayman's lawyer, the Cayman Company Act does not prohibit companies from adopting public interest.	The main points of the relevant regulations have been amended in Article 2 of the Articles of Association According to Cayman’s lawyers, the company’s articles of association did not violate the Cayman Act.
Shareholders holding more than one percent of the total number of issued shares may submit a general meeting of shareholders to the company in writing or electronically. The board of directors shall be listed as a motion, except for the resolutions of the non-shareholders' meeting, the proposal holders' shareholdings of less than 1%, the proposal being submitted outside the period of the announcement, and the proposal exceeding 300 words or more than one proposal. The shareholder proposal is a proposal to urge the company to promote the public interest or to fulfill its social responsibilities. The board of directors still has to include the proposal.	According to Cayman's lawyer, the Cayman Company Law has no restrictions on shareholder claims.	The main points of the relevant regulations have been amended in Article 49 of the Articles of Association. According to Cayman’s lawyers, the company’s articles of association did not violate the Cayman Act.
Shareholders who hold more than half of the total number of shares in issue for more than three months may convene a temporary meeting of shareholders. The calculation of the shareholders'	According to Cayman's lawyer, the Cayman Company Law has no special restrictions on the convener of the shareholders' meeting.	The main points of the relevant regulations have been amended in Article 27(b) of the Articles of Association According to Cayman’s

Shareholders' Rights Protection	Cayman Order and Description	Company regulations and instructions
shareholding period and the number of shares held shall be based on the shareholding in the case of suspension of stock transfer.		lawyers, the company's articles of association did not violate the Cayman Act.
The following matters shall be listed and explained in the convening of the shareholders' meeting, and shall not be proposed by a provisional motion；The main content of the website may be placed on the website designated by the securities authority or the company, and its website shall be stated in the notice. ： (1) Elect or dissolve as a director or supervisor (2) Amendment of article (3) Divestment (4) Apply to stop public issue (5) Company dissolution, merger, share conversion, division (6) Conclude, change or terminate a contract for the lease of all business, entrusted operations or co-operation with others (7) Give up all or a major part of the business or property (8) Transferring all of the business or property of others, having a significant impact on the company's operations (9) Private placement of securities of equity nature (10) Director's permission to engage in prohibited activities in the competition industry (11) All or part of the dividends and dividends distributed by way of new shares (12) The statutory surplus reserve and the capital reserve due to the issuance of stock premiums or receipts will be distributed to the original shareholders by way of new shares or cash.	According to Cayman's lawyer, the Cayman Company's law requires that the convening notice should fully record the purpose of the convening and provide the important information that the shareholders need to understand the purpose of the convening. The intention to pass the special resolution and the special resolution should also be The notice of the shareholders meeting will be stated in the notice. With regard to the interim motion, the company shall abide by the relevant procedures for convening the shareholders' meeting and the notice of the meeting to pass the effective resolution of the shareholders' meeting. As mentioned above, the Cayman Companies Act requires that the convening notice should fully document the purpose of the convening and provide the important information that the shareholders need to understand the purpose of the convening. Unless it is an emergency, the chairman should not allow major matters to be moved by a provisional motion. Even if it is an emergency, the company should still convene a separate shareholders meeting in accordance with the general notification procedure, and once again decide to pass the major matter, it must be implemented. If the subsequent resolution is not practicable and the company has executed the material matter first, the execution of the material matter shall be submitted to the next general meeting of shareholders for approval by a special resolution. At this time, it shall not be adopted only by the record of the previous meeting.	The main points of the relevant regulations have been amended in Article 40 of the Articles of Association. According to Cayman's lawyers, the company's articles of association did not violate the Cayman Act.
Provisions for the distribution of surplus or impairment loss on a quarterly or semi-annual basis	Inadequacy	The company does not currently have this plan, so it will not amend the regulations.

Shareholders' Rights Protection	Cayman Order and Description	Company regulations and instructions
The board of directors shall place the articles of association and previous shareholders' meetings, financial statements, shareholder list and corporate bond stubs in the stock agency in the territory of the Republic of China. Shareholders can obtain proof of stakes, specify scope, and request to review, copy or copy at any time. ；The company should also order the stock agency to provide. The board of directors or other convener who calls the shareholders meeting may request the company or the stock agent to provide the shareholder list.	According to Cayman's lawyer, the current Taiwan regulations regarding the claims of shareholder information have not touched the Cayman Act.	The main points of the relevant regulations have been amended in Article 41 of the Articles of Association. According to Cayman's lawyers, the company's articles of association did not violate the Cayman Act.
You may not be a director if you have one of the following circumstances. If you have already held this position, you will be relieved. 1.The crimes committed by the Organized Crime Prevention Regulations have been determined by a guilty verdict, have not been executed, or have been executed, and have not expired for more than five years after the probation expires or pardon. 2.A criminal who has committed fraud, breach of trust, or embezzlement of a crime has been sentenced to more than one year in prison, has not been executed, and has not expired for more than two years after probation or pardon. 3.The crime of committing the crime of corruption is determined by conviction, has not been executed, and the expiration of the probation or the pardon has not exceeded two years. 4.The liquidation procedure has not been reinstated after the announcement of bankruptcy or the ruling of the court. 5.The bill was rejected and has not expired. 6.Incapability or ability to limit behavior. 7.Auxiliary declaration has not been revoked.	According to Cayman's lawyer, the current regulations on the negative qualifications of directors in Taiwan regulations have not touched the Cayman Act.	The main points of the relevant regulations have been amended in Article 96 of the Articles of Association. According to Cayman's lawyers, the company's articles of association did not violate the Cayman Act.
A spouse, a second degree of kinship with the director, or a company that has a controlling affiliation with a director, who is interested in matters of the preceding meeting, shall be deemed to have a stake in the matter.	According to Cayman's lawyer, the current regulations governing the interests of directors in Taiwan's regulations have not touched the Cayman Act.	The relevant provisions of the relevant regulations have been amended in Article 90 of the Articles of Association According to Cayman's lawyers, the company's articles of association did not violate the Cayman Act.
Supervisor regulations	According to Cayman's lawyer, the Cayman Company Law does not have a company supervisor.	The company has not set up a supervisor, so this item does not apply. In addition, the Company has amended Article

Shareholders' Rights Protection	Cayman Order and Description	Company regulations and instructions
		119 of the Articles of Association in accordance with the shareholders' equity statement. According to Cayman’s lawyers, the company’s articles of association did not violate the Cayman Act.
Shareholders who hold more than one percent of the total number of issued shares of the company for more than six months can request the supervisor to file a lawsuit against the company for the director. The Taipei District Court of Taiwan is the court of first instance. The independent director of the supervisor or the audit committee may, in addition to the board of directors not convene or be able to convene a shareholders meeting, convene a shareholder meeting if necessary.	According to Cayman's lawyer, the Cayman Company Law does not have a company supervisor. The company does not have a supervisor, so this item does not apply. According to Cayman's lawyer, under the Cayman law, the exceptions for shareholders to file a lawsuit on behalf of the company are: (a)This behavior is illegal or exceeds the scope of the company's authority and cannot be ratified by shareholders. (b)Or the act constitutes a fraud against the minority shareholders (that is, the object of seeking relief in the lawsuit is the major shareholder, and the major shareholder will not allow the company to seek relief for the plaintiff in the lawsuit, if the lawsuit is filed on the grounds of this paragraph, Demonstrate the situation of fraud, and the person who engages in wrongdoing has control over the company). Cayman's courts tend to not interfere with the internal behavior of the company, regardless of the scope of the company's authority, or the scope of the authority but can be ratified by the shareholders and in line with the will of the majority of shareholders. Therefore, unless the above exceptions are met, Article 123 of the Issuer's Bylaws may not be enforced under the Cayman Law.	The main points of the relevant regulations have been added to Article 122-1 of the Articles of Association and Article 90 has been amended. According to Cayman’s legal opinion, the company’s articles of association did not violate the Cayman Act.

V. Any occurrence of event defined under Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the previous year and up till the publication date of this annual report that significantly impacted shareholders’ interest or security prices: None.

Appendix I

Consolidated Financial Statements and Independent Auditor's Report for 2018 and 2017

Strong H Machinery Technology (Cayman) Incorporation and Subsidiaries

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

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

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

Very truly yours,

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION

By

CHI, PING HSIN
Chairman

March 14, 2019

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Revenue Recognition

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

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

Valuation of Inventory

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

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

Other Matters

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2019

Notice to Readers

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

(Continued)

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

1. GENERAL INFORMATION

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

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

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

1) IFRS 9 "Financial Instruments" and related amendment

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

Classification, measurement and impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 16 "Leases"

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

Definition of a lease

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

The Group as lessee

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

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

Anticipated impact on assets, liabilities and equity

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

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

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

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

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

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

d. Basis of consolidation

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

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

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

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

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

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

e. Foreign currencies

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

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

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

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

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

f. Inventories

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

g. Property, plant and equipment

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

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

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

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

h. Intangible assets

1) Intangible assets acquired separately

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

2) Derecognition of intangible assets

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

i. Impairment of tangible and intangible assets

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

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

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

j. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

<u>2018</u>

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

i. Financial assets at FVTPL

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

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

ii. Financial assets at amortized cost

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

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

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

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

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

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

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

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

2017

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

Loans and receivables

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

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

b) Impairment of financial assets

2018

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

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

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

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

2017

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities at FVTPL

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

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

b) Derecognition of financial liabilities

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

4) Convertible bonds

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

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

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

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

k. Revenue recognition

2018

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

Revenue from sale of goods

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

2017

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

1) Sale of goods

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

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

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

   c) The amount of revenue can be measured reliably;

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

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

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

2) Interest income

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

l. Leasing

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

The Group as lessee

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

m. Borrowing costs

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

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

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

n. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

o. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of financial assets - 2018

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

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

b Estimated impairment of trade receivables - 2017

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

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

c Valuation of inventories

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

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

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

d. Realization of deferred income tax assets

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

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

6. CASH AND CASH EQUIVALENTS

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

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

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

7. FINANCIAL ASSETS AT FVTPL - 2018

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

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

8. TRADE RECEIVABLES AND OTHER RECEIVABLES

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

Trade Receivables

For the year ended December 31, 2018

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

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

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

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

December 31, 2018

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

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

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

For the year ended December 31, 2017

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

The aging of trade receivables was as follows:

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

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

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

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

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

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

9. INVENTORIES

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

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

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

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

10. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

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

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

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

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

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

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

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

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

(Continued)

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

(Concluded)

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

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

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

12. INTANGIBLE ASSETS

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

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

13. PREPAYMENTS FOR LEASES

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

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

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

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

14. OTHER ASSETS

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

15. BORROWINGS

Short-term Borrowings

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

16. BONDS PAYABLE

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

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

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

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

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

17. OTHER LIABILITIES

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

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

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

18. RETIREMENT BENEFIT PLANS

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

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

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

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

19. EQUITY

a. Share capital

Ordinary shares

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

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

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

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

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

b. Capital surplus

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

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

2) Such capital surplus recognized from issued bonds payable.

c. Retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

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

d. Special reserves

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

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

e. Others equity items

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

20. REVENUE

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

21. NET INCOME

a. Other income

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

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

b. Other gains and losses

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

c. Finance costs

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

d. Depreciation and amortization

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

e. Employee benefits expense

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

(Continued)

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

(Concluded)

f. Employees' compensation and remuneration of directors and supervisors

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

Accrual rate

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

Amount

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

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

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

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

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

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

g. Gain or loss on foreign currency exchange

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

22. INCOME TAX

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

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

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

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

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

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

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

b. Current tax liabilities

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

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

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

For the year ended December 31, 2017

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

(Continued)

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

(Concluded)

e. Income tax assessments

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

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

23. EARNINGS PER SHARE

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

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

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

24. NON-CASH TRANSACTION

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

25. CAPITAL MANAGEMENT

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

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

26. FINANCIAL INSTRUMENTS

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

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

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

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

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

1) Fair value hierarchy

December 31, 2018

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

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

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

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

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

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

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

c. Categories of financial instruments

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

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

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

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

d. Financial risk management objectives and policies

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

1) Market risk

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

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

a) Foreign currency risk

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

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

Sensitivity analysis

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

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

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

b) Interest rate risk

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

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

Sensitivity analysis

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

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

2) Credit risk

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

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

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

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

3) Liquidity risk

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

Liquidity and interest risk rate table

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

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

December 31, 2018

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

December 31, 2017

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

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

December 31, 2018

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

December 31, 2017

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

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

27. TRANSACTIONS WITH RELATED PARTIES

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

Related parties and their relationships with the Group:

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

Operating Transaction

a. Sales of goods

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

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

b. Purchases of goods

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

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

c. Receivables from related parties are listed:

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

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

d. Payables to related parties are as below:

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

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

e. Disposals of property, plant and equipment

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

f. Endorsements and guarantees

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

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

g. Compensation of key management personnel

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

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

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

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

29. SIGNIFICANT EVENTS AFTER REPORTING PERIOD: NONE

30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2018

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

December 31, 2017

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

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

31. DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

1) Financing provided to others (Table 1)

2) Endorsements/guarantees provided (Table 2)

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

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

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

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

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

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

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

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

11) Information on investees (Table 6)

c. Information on investments in mainland China

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

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

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

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

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

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

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

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

32. SEGMENT INFORMATION

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

a. Segment revenues and results

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

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

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

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

b. Segment total assets and liabilities

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

c. Other segment information

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

d. Revenue from major products

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

e. Geographical information

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

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

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

Note 7: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

Note 2: The amount was eliminated upon consolidation.

TABLE 4

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

Note 2: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

Note 1: The intercompany relationships are coded as blow:

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

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

Note 3: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

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

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

TABLE 7

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

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

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

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

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

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

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION

Chairman: Chi, Ping-Hsin