



STRONG H

**Stock code
4560**

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION

2019 Annual Report

Published May 10, 2020

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: Chi, Ping-Hsin TEL: 0966-214560/(86)535-2292508
 Title: General Manager E-mail: IR@strongh.cn
 Name of acting spokesperson: Chen, Wen-Ling TEL: (886)3-3198016
 Title: Acting spokesperson 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 Huang, Yao-Lin
 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	Wang, Chien-Chih	Taiwan, R.O.C	<ol style="list-style-type: none"> 1. Chairperson, Jian Zhi International Law Firm 2. Supervisor, Nextronics Engineering Corporation. 3. Supervisor, Professional Computer Technology Limited Statutory Representative, Ming Liang Investment Corporation 4. Director, Insyde Software Co., Ltd.

Content

One. Report to Shareholders	1
Two. Company Profile.....	3
I. Introduction to the company and group.....	3
II. Company and group history	4
Three. Corporate Governance Report.....	6
I. Organization	6
II. Background information of directors, supervisors, President, vice presidents, assistant managers, and the heads of various departments and branches	7
III. Remuneration to Directors, Supervisors, President and Vice Presidents in the most recent year.....	13
IV. Status of corporate governance.....	17
V. Information About CPA Professional Fee	36
VI. Change of CPA.....	36
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	36
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	36
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	37
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	38
Four. Capital Overview.....	39
I. Capital Stock and Shares	39
(I) Source of Capital Stock	39
(II) Composition of Shareholders	40
(III) Diversification of equity.....	40
(IV) Roster of Major Shareholders	40
(V) Information relating to market price, net worth, earnings, and dividends per share for the last 2 years	41
(VI) Dividend Policy and the Status of Implementation.....	41
(VII) Impacts of proposed stock dividends on the Company's business performance and earnings per share.	42
(VIII) Employee/director/supervisor remuneration	42
(IX) Buyback of company shares	43
II. Issuance of corporate bonds	44
III. Preferred shares	45
IV. Global depository receipt.....	45
V. Employee stock warrants	45
VI. Issuance of new employee restricted shares	45
VII. New shares issued for merger, acquisition or share exchange	47
VIII. Implementation of fund utilization plan.....	47
Five. Operational Profile.....	48
I. Operations	48
II. Overview of market, and production and marketing.....	52
III. Employee size, average years of service, average age, and academic background in the last 2 years by the date of report publication	56
IV. Information about expenditure on environmental protection.....	56
V. Labor-Management Relations.....	57
VI. Major agreements	57
Six. Financial overview.....	59
I. Summary balance sheet, statement of comprehensive income, auditors and audit opinions for the last 5 years...	59
II. Financial analysis for the last 5 years.....	61
III. Audit Committee's report on the review of the latest financial report	63
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.....	65
V. Latest audited standalone financial report.....	65
VI. Any financial distress experienced by the Company or affiliated enterprise and impacts on the Company's financial position in the last year by the date of report publication	65
Seven. Review, analysis and risk of the financial status and management result	66
I. Financial position	66
II. Financial performance.....	67

III. Cash flow	68
IV. Material capital expenditures in the last year and impact on business performance	68
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	68
VI. Analysis of risk factors	69
VII. Other important disclosures.....	71
Eight. Special Disclosures.....	72
I. Information About Affiliates	72
II. Private placement of securities in the last year and by the date of report publication.....	74
III. Holding or disposal of the Company's shares by subsidiaries in the last year and by the date of report publication	74
IV. Other supplementary information.....	74
V. Any occurrence of event defined under Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the previous year and by the date of report publication that significantly impacted shareholders' interest or security prices.....	77
Appendix I. Consolidated Financial Statements and Independent Auditor's Report for 2019 and 2018.....	78

One. Report to Shareholders

**Strong H Machinery Technology (Cayman) Incorporation
2019 Business Report**

I. 2019 Business Report

(I) Achievements

In 2019 the revenue was NT\$1,654,088 thousand and the net income after tax was NT\$291,393 thousand.

Unit: NT\$ thousand

Year Item	2019	2018
Operating Revenue	1,654,088	1,816,136
Gross Profit	636,265	745,578
Operating Income	305,090	431,486
Income Before Tax	355,640	436,108
Income After Tax	291,393	313,070
Equity Per Share (EPS)	4.38	4.76

(II) Status of budget execution: No financial forecast is required for 2019 according to the applicable law.

(III) Financial income and expenditure and profitability analysis

Unit: NT\$ thousand; %

Item/Year		2019	2018	Ratio %	
Analysis	Gain/Lo	Operating Revenue	1,654,088	1,816,136	(8.92)
		Gross Profit	636,265	745,578	(14.66)
		Income After Tax	291,393	313,070	(6.92)
Profitability analysis		Return on Assets (%)	12.82	14.73	(12.97)
		Return on Equity (%)	17.38	20.09	(13.49)
	As a percentage of paid-in capital (%)	Income Before Tax	45.31	65.23	(30.54)
		Income After Tax	52.82	65.93	(19.88)
		Net Profit Rate (%)	17.62	17.24	2.20
	EPS After Tax (NT\$)	4.38	4.76	(7.98)	

(IV) Status of research and development

The RD investments in 2019 amounted to NT\$50,794 thousand, NT\$9,948 thousand less than that of 2018 at NT\$60,742 thousand. This reduction is because the RD technology of automatic devices and equipment has become mature.

Our automatic devices and equipment are developed to help customers enhance the production efficiency of sewing equipment, reduce labor, and lower production costs.

II. Summary of 2020 Business Plan

(I) Policy

1. Actively cultivate the international market and develop a device marketing system equipped with global development and service capabilities.
2. Accelerate product trade and fortify market leadership of parts.
3. Seek opportunities to enter other sectors with leading blade-making knowhow; and actively develop markets for new products to ensure sustainable development in the future.
4. Increase investments in innovation, expand the scale of the RD team, and enhance RD capacity to actively develop higher value-added new products.
5. Enhance the improvement of key technologies and the capacity of automated production to develop core technological advantages.

(II) Marketing policy

1. Improve processing technology and casting technology; and reduce procurement and IT costs to enhance cost advantages.
2. Actively cultivate the terminal device market and enhance marketing of automatic products.
3. Develop the key processes for new product development to ensure new products are developed as scheduled at the required quality.
4. Build a lean operational system to raise the automation level of processing, logistics, warehousing, and transportation to enhance the standard of smart manufacturing.
5. Optimize the mechanism for supply chain evaluation and improve the quality of products delivered to customers.

III. Future development strategy

We market products in our own brand “STRONG H,” one of the leading brands of parts for industrial sewing machines.

(I) Major strategies for product development

1. Automatic devices: We have been developing automatic devices in recent years to reduce time, labor, and processes. We also upgraded accessory devices for the production lines of garment factories to enhance efficiency and productivity. In the future, we will continue to improve the functions of existing products and develop products of higher price–performance ratio to meet the market and customer needs.
2. Automated equipment: In 2019 we began to design and manufacture automated equipment that supports single-unit operation or multi-process operation of single users characterized by automatic feeding, labor-saving, and time-saving for garment factories to extend peripheral sewing equipment production lines, in order to help them reduce labor and production costs. In the future, we will continue to develop sewing production lines composing of Single-process or multi-process sewing automated equipment.
3. Blades and needle sets
 - (1) Development of leather blades for industrial sewing machines to enter the market of blades for industrial machines of thick fabric and automotive decorations.
 - (2) Increase in needle set outputs for the repair market of industrial sewing machines in Southeast Asia.

(II) To expand the after-sale repair market has been one of our sales targets in recent years. Apart from actively developing strategic cooperation with worldwide outstanding agents, we have established complete sales channels in key overseas markets (Turkey, Pakistan, India, Bangladesh, and Vietnam).

In the future, we will continue to maintain steady development in all aspects, sprout core specialties, and work on our competitive edge to create better revenues.

Chairperson: Chi, Ping-Hsin CEO: Chi, Ping-Hsin CFO: Huang, Deak-Huei

Two. Company Profile

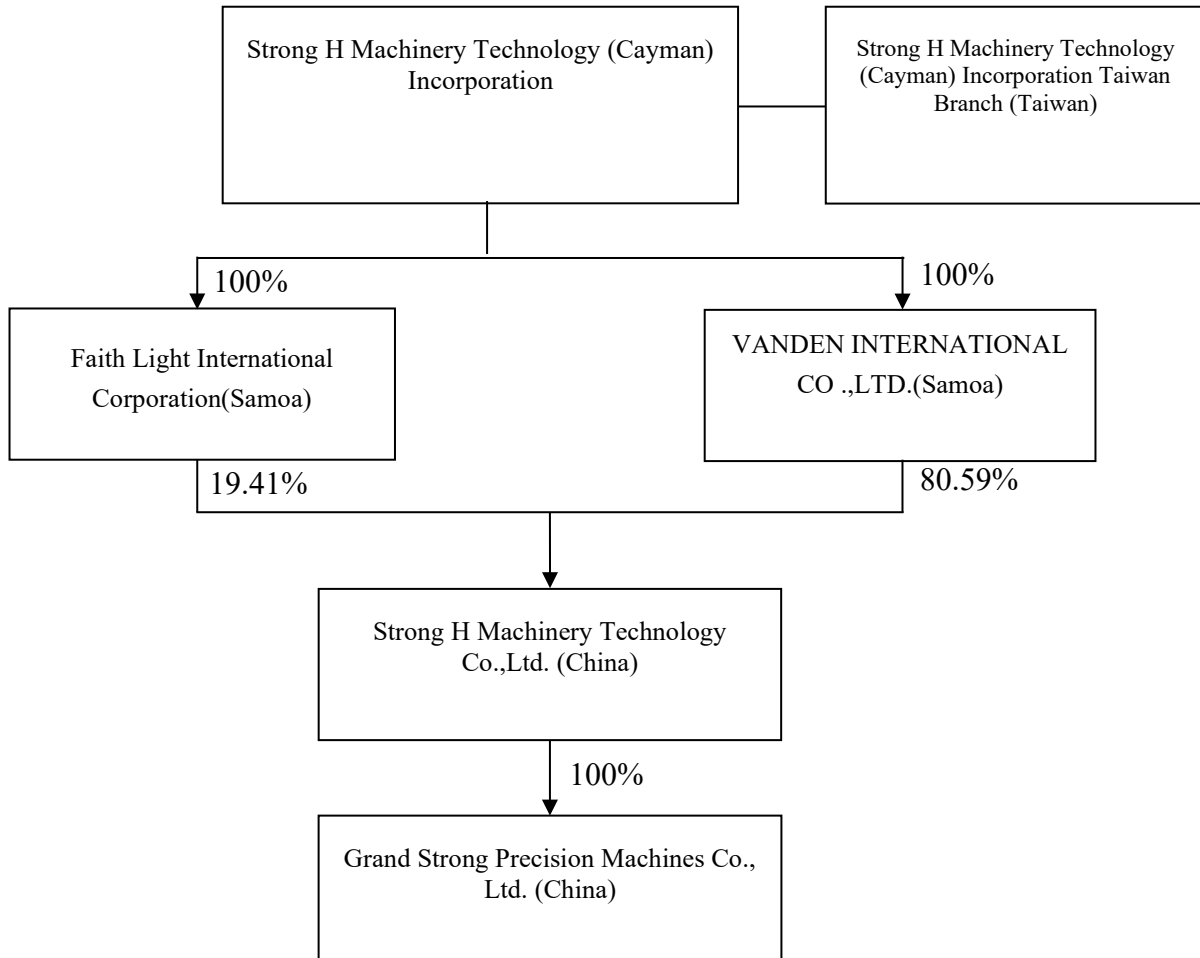
I. Introduction to the company and group

(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) Risk items: Please refer to VII-(VI) (p.69) of this annual report.

(IV) 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

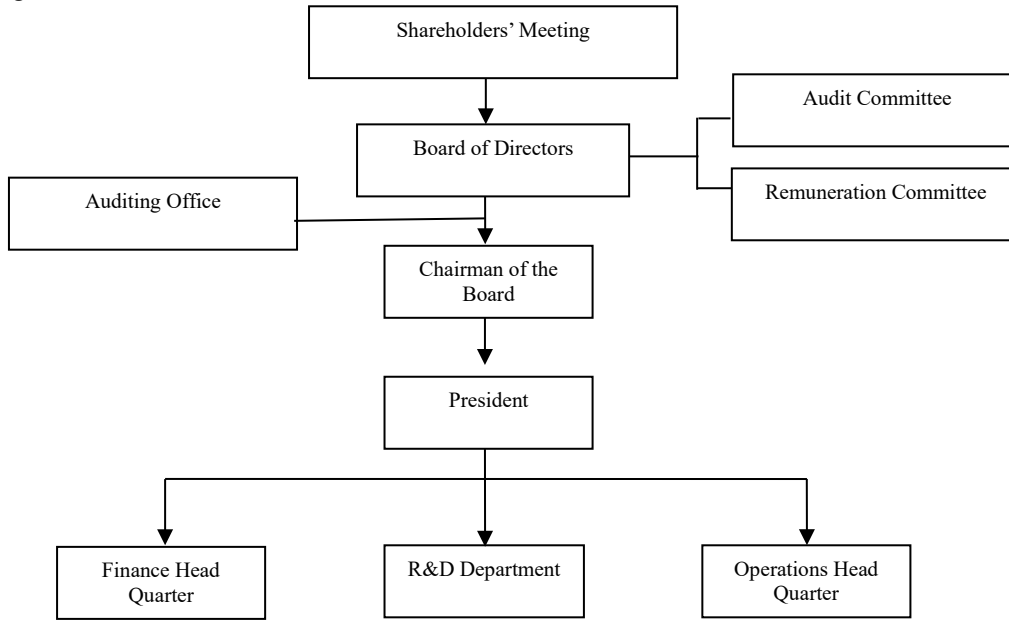
Year	Company and group history
1996	Laizhou Qiangxin Precision Machinery Co., Ltd. was founded in Laizhou City, Shandong Province.
1997	Registered the STRONG H  trademark. The Company expanded its product category to industrial sewing machine blade\needle plate\teeth\presser foot.
2005	Grand Strong Precision 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.
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.

Year	Company and group history
	<p>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.</p> <p>Patent was successfully registered for "Sewing Machine Thread Cutter."</p>
2015	<p>The materials building was completed and commissioned into use.</p> <p>Founded "Strong H Machinery Technology (Cayman) Incorporation Taiwan Branch."</p> <p>Strong H Laizhou participated in the "2015 China International Sewing Machinery & Accessories" exhibition. The 270m² of exhibition space was the largest in the Company's history.</p> <p>Patent was successfully registered for "Interlock Sewing Machine Cutter Presser Foot Driver."</p>
2016	<p>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.</p> <p>Strong H Laizhou held its 2016 Distributor Conference and Commendation Ceremony.</p> <p>Shares were offered publicly and registered on Emerging Stock Market.</p>
2017	<p>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.</p> <p>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.</p> <p>The Company participated in the "2017 China International Sewing Machinery & Accessories" exhibition. The 345 m² of exhibition space was the largest in the exhibition.</p>
2018	<p>The Company issued its 1st unsecured convertible bond on February 5 for a sum of NT\$300,900,000.</p>

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 11, 2020; unit: thousand shares; %

Job title	Nationality or place of registration	Name	Gender	Date elected	Term Expires	Date First Elected	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			Remarks (Note 2)
							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	Samoa	Imperial International Co. Ltd) (IMPERIAL INTERNATIONAL CO.,LTD)	Male	2019.6.6	3	2015.2.25	30,250	52.16	27,272	40.19	-	-	-	-	-	-	-	-	-	-
	Taiwan, R.O.C	Chi, Ping-Hsin		2019.6.6	3	2015.2.25	-	-	151	0.22	-	-	50,472 (Note 1)	74.39 (Note 1)	1. Taoyuan Senior High School 2. Strong Precision 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	The chairperson and the president of this Company is the same person to enhance operational efficiency and smoothen decision-making. In addition, the board of directors maintains objectivity and supervision power because over one-half of board members are neither managers nor employees of other companies concurrently. However, to enhance the Company's checks and balances in the future, we will increase one seat of independent director to more than the legal requirement as a countermeasure.
Director	Samoa	Imperial International Co. Ltd) (IMPERIAL INTERNATIONAL CO.,LTD)	Male	2019.6.6	3	2015.2.25	30,250	52.16	27,272	40.19	-	-	-	-	-	-	-	-	-	-

Job title	Nationality or place of registration	Name	Gender	Date elected	Term Expires	Date First Elected	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			Remarks (Note 2)
							Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Job title	Name	Relationship	
	Taiwan, R.O.C	Hsu, Hsiang-Jen		2019.6.6	3	2015.2.25	-	-	-	-	-	-	-	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	Taiwan, R.O.C	Chi, Tao-Song	Female	2019.6.6	3	2015.2.25	-	-	-	-	-	762	1.12	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	Taiwan, R.O.C	Hsu, Chin-Shan	Male	2019.6.6	3	2016.9.26	-	-	-	-	-	-	-	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	Taiwan, R.O.C	Tai, Kuo-Cheng	Male	2019.6.6	3	2015.2.25	-	-	-	-	-	-	-	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	Taiwan, R.O.C	Wang, Ching-Hsiang	Male	2019.6.6	3	2015.2.25	-	-	-	-	-	-	-	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. Downton Patents Co., Ltd. - Representative	-	-	-	-	

Job title	Nationality or place of registration	Name	Gender	Date elected	Term Expires	Date First Elected	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			Remarks (Note 2)
							Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Number of shares	Shareholding percentage	Job title	
Independent Director	Taiwan, R.O.C	Wang,Chien-Chih	Male	2019.6.6	3	2019.6.6	-	-	-	-	-	-	-	-	1. Department of Law, Fu Jen Catholic University.	1. Chairperson, Jian Zhi International Law Firm 2. Supervisor, Nextronics Engineering Corporation. 3. Supervisor, Professional Computer Technology Limited Statutory Representative, Ming Liang Investment Corporation 4. Director, Insyde Software Co., Ltd.	-	-	-	-

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

Note 2: If the chairperson and the president or equivalent role is the same person, its spouse, or the kindred at the first tier, state related information, including reasons, reasonability, necessity, and countermeasures.

2. Major shareholders of institutional shareholders

April 11 2020

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

3. Major shareholders of institutional shareholders

Institutional shareholders	Major shareholders of institutional shareholders
Not applicable	Not applicable

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

Name	Qualification	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	11	12	
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
Wang, Chien-Chih	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—	—

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 the company or its affiliates (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (3) Not holding more than 1% of the outstanding shares issued by the company or among the top 10 natural person shareholders by the person or his/her spouse or underage children, or in the name of a third party.
- (4) Not a spouse, a relative of the second tier under the Civil Code or direct kin within the third tier under the Civil Code of the managers stated in (1) or other roles stated in (2), (3).
- (5) Not a director, supervisor or employee of an institutional shareholder directly holding 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, or a representative of an institutional shareholder appointed as the director or supervisor of the company according to paragraph 1 or 2, Article 27, Company Act (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (6) Not a director, supervisor or employee of a company controlling over one half of the company's director seats or voting shares under one person (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (7) Not a director of a company or institution whose chairperson and president or equivalent role is the same person or its spouse (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (8) Not a director, supervisor, manager, or shareholder holding more than 5% of the outstanding shares of a specific

company or institution in a business or financial relation with the company (except for a specific company or institution holding over 20% but less than 50% of the company's outstanding shares, and independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).

- (9) Not a professional or owner, partner, director, supervisor, manager, or the spouse of these roles of a sole proprietorship, partnership, company, or institution that audits or provides related business, legal, financial, accounting services or consultation with service fees accumulating below NT\$500,000 over the last two years for the company or its affiliates; except for members of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition exercising powers according to the Securities and Exchange Act or the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) Not a spouse or relative of the second tier under the Civil Code to any other director.
- (11) Not under any of the categories stated in Article 30 of the Company Act.
- (12) Not being elected as representative of the government, an institution, or others under Article 27 of the Company Act.

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

April 11, 2020; unit: thousand shares; %

Job title	Nationality	Name	Gender	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			Remarks (Note 3)
					Number of shares	Shareholding percentage	Number of shares	Shareholding percentage	Number of shares	Shareholding percentage			Job title	Name	Relationship	
President	Taiwan, R.O.C	Chi, Ping-Hsin	Male	2006.12.14	—	—	151	0.22	50,472 ((Note 2))	74.39((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	—	—	—	The chairperson and the president of this Company is the same person to enhance operational efficiency and smoothen decision-making. In addition, the board of directors maintains objectivity and supervision power because over one-half of board members are neither managers nor employees of other companies concurrently. However, to enhance the Company's checks and balances in the future, we will increase one seat of independent director to more than the legal requirements as a countermeasure.
Vice Executive President	People's Republic of China	Qi, Yu-Bin	Male	2006.12.14	30	0.04	—	—	176	0.26	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	People's Republic of China	Guo, Jun-Zhu	Male	2006.12.14	30	0.04	—	—	138	0.20	1. Department of Electrical Engineering, Dalian Railway Institute	1. Strong H Machinery Technology Co., Ltd. - Manager	—	—	—	—
CFAO	Taiwan, R.O.C	Huang Deak-Huei	Male	2019.12.27	—	—	—	—	—	—	1. Director, Administration Department, Johnson Health Tech. Co., Ltd. 2. Expatriate CFO, Pou Chen Corporation 3. Department of Accounting, Soochow University	—	—	—	—	—
Auditing manager	Taiwan, R.O.C	Tung, Shang-Ju	Male	2016.12.13	3	0	—	—	—	—	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.

Note 3: If the president or equivalent role (top manager) and the chairperson is the same person, its spouse, or a relative of the first tier, state related information, including reasons, reasonability, necessity, and countermeasures.

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

(I) Director remuneration paid in the most recent year (2019)

1. Remuneration for general and independent directors

December 31, 2019; unit: NTD thousands

Job title	Name	Remuneration to directors								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 or not receiving remuneration from investees or the parent company other than subsidiaries				
		Remuneration (A)		Pension (B)		Director's remuneration		For Services (D)		Sum of A, B, C and D as a percentage of net income (Note 7)		Salaries, bonuses and special allowances, etc. (E)		Pension (F)		Employee remuneration (G)						
		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	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
Chairman of the Board	Representative of IMPERIAL INTERNATIONAL CO., LTD: Chi, Ping-Hsin (Note 1)																					
Director	Representative of IMPERIAL INTERNATIONAL CO., LTD: Hsu, Hsiang-Jen (Note 1)	—	—	—	—	—	2,973	—	1 4 4	—	1.07	—	7,061	—	—	—	—	1,189	—	—	3.90	—
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	Wang, Chien-Chih																					

- Please state the policy, system, standard, and structure of remuneration for independent directors and the relevance to the amount of remuneration in terms of their duty, risk, and time of involvement.
 - With respect to the articles of incorporation of this Company, remuneration will be appropriated from the profit, if any, to independent directors.
 - We have established a remuneration committee with all independent directors. Directors and managers are remunerated according to their duty, involvement in and contribution to organizational operations, the standard in the business. Remunerations are reviewed periodically according to related regulations of this Company and approved by the remuneration committee prior to disbursement.
- 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 2019.6.6 to re-elect directors. The list of new 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 Wang, Chien-Chi; and Lin, Chin-Chung resigned after the re-election.

Note 2: The Company delivered consolidated net income of NT\$291,393 thousand in 2019.

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\$1,000,000	—	Chi, Ping-Hsin, Chi, Tao-Song, Hsu, Hsiang-Jen, Hsu, Chin-Shan, Tai, Kuo-Cheng, Wang, Ching-Hsiang. Lin, Chin-Chung Wang, Chien-Chih	—	.Hsu, Chin-Shan. Tai, Kuo-Cheng. Wang, Ching-Hsiang. Lin, Chin-Chung, Wang, Chien-Chih
NT\$1,000,000 (inclusive)~ NT\$2,000,000 (exclusive)	—	—	—	Hsu, Hsiang-Jen
NT\$2,000,000 (inclusive)~ NT\$3,500,000 (exclusive)	—	—	—	Chi, Tao-Song
NT\$3,500,000 (inclusive)~ NT\$5,000,000 (exclusive)	—	—	—	—
NT\$5,000,000 (inclusive)~ NT\$10,000,000 (exclusive)	—	—	—	Chi, Ping-Hsin
NT\$10,000,000 (inclusive)~ NT\$15,000,000 (exclusive)	—	—	—	—
NT\$15,000,000 (inclusive)~ NT\$30,000,000 (exclusive)	—	—	—	—
NT\$30,000,000 (inclusive)~ NT\$50,000,000 (exclusive)	—	—	—	—
NT\$50,000,000 (inclusive)~ NT\$100,000,000 (exclusive)	—	—	—	—
> NT\$100,000,000	—	—	—	—
Total	—	8	—	8

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, 2019; 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 or not receiving remuneration from investees or the parent company 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	-	6,136	-	-	-	-	-	-	-	-	-	2.11	-
CFO and CAO	Hsu, Hsiang-Jen													

Note: The Company delivered consolidated net income of NT\$291,393 thousand in 2019.

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\$1,000,000	—	—
NT\$1,000,000 (inclusive)~ NT\$2,000,000 (exclusive)	—	Hsu, Hsiang-Jen
NT\$2,000,000 (inclusive)~ NT\$3,500,000 (exclusive)	—	—
NT\$3,500,000 (inclusive)~ NT\$5,000,000 (exclusive)	—	Chi, Ping-Hsin
NT\$5,000,000 (inclusive)~ NT\$10,000,000 (exclusive)	—	—
NT\$10,000,000 (inclusive)~ NT\$15,000,000 (exclusive)	—	—
NT\$15,000,000 (inclusive)~ NT\$30,000,000 (exclusive)	—	—
NT\$30,000,000 (inclusive)~ NT\$50,000,000 (exclusive)	—	—
NT\$50,000,000 (inclusive)~ NT\$100,000,000 (exclusive)	—	—
> NT\$100,000,000	—	—
Total	—	2

4. Names of managers who received employee remuneration:

December 31, 2019; 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	—	1,189	1,189	0.41
	CFO and CAO	Hsu, Hsiang-Jen				
	Branch manager	Chi, Tao-Song				

Note: The Company delivered consolidated net income of NT\$291,393 thousand in 2019.

(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	2018				2019			
	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	—	12,988	—	4.15	—	11,367	—	3.90
President and CFO/CAO	—	8,189	—	2.62	—	6,136	—	2.11

Note: The Company delivered consolidated net income of NT\$313,070 thousand in 2018 and NT\$291,393 thousand in 2019.

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 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	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.
Director	IMPERIAL INTERNATIONAL CO.,LTD Representative: Hsu, Hsiang-Jen	5	2	71.43	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.
Director	Chi, Tao-Song	7	0	100.00	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.
Director	Hsu, Chin-Shan	7	0	100.00	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.
Independent Director	Wang, Ching-Hsiang	7	0	100.00	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.
Independent Director	Lin, Chin-Chung	3	0	100.00	Resigned after the re-election at the annual general meeting of shareholders on 2019.6.6.
Independent Director	Tai, Kuo-Cheng	7	7	100.00	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.
Independent Director	Wang, Chien-Chih	4	0	100.00	A director of the 4 th board elected to the annual general meeting of shareholders on 2019.6.6.

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	Proposal	Independent directors' opinions	Company's action to independent directors' opinions	Attendance of at least one independent director
2019/03/14	14 th meeting of the 3 rd board	Amendment of the Company's "Articles of Incorporation."	No opinion	N/A	Yes
		Amendment of the Company's "Procedures for Acquisition or Disposition of Assets."	No opinion	N/A	Yes
2019/05/10	16 th meeting of the 3 rd board	Application for bank facility and endorsement/guarantee for Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	No opinion	N/A	Yes
		Amendment of the "electronic data processing cycle" of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	N/A	Yes
		Amendment of the "electronic data processing cycle" of tier-2 subsidiary Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	No opinion	N/A	Yes
2019/08/06	2 nd meeting of the 4 th board	Distribution of the director's remuneration for FY2018.	No opinion	N/A	Yes
		Distribution of the employee's remuneration for FY2018.	No opinion	N/A	Yes
		Application for bank facility and endorsement/guarantee for Strong H Machinery Technology Cayman Inc.	No opinion	N/A	Yes
		Land acquisition of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	N/A	Yes
		Amendment of the Company's "Procedures for Loaning of Funds for Others."	No opinion	N/A	Yes
		Amendment of the "Procedures for Loaning of Funds for Others" of subsidiaries and tier-2 subsidiaries.	No opinion	N/A	Yes
		Amendment of the Company's "Procedures for Making of Endorsements/Guarantees."	No opinion	N/A	Yes
2019/12/13	4 th meeting of the 4 th board	Amendment of the "Procedures for Making of Endorsements/Guarantees" of subsidiaries and tier-2 subsidiaries.	No opinion	N/A	Yes
		Determination of standard of the 2019 year-end bonus for managers.	No opinion	N/A	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	Proposal	Name of concerned directors	Reason for avoidance	Participation in voting
2019/04/01 15 th meeting of the 3 rd	Review of the candidates for directors and independent directors nominated by the board of directors	Chi, Ping-Hsin Chi, Tao-Song Hsu, Hsiang-Jen	Avoidance of the interest-conflicting directors	The above directors had a personal stake in the proposal discussed, and were absent from the discussion without exercising voting rights. The proposal was passed as proposed without objection from the remaining directors.

2019/06/06 1 st meeting of the 4 th board	Chairperson election.	Chi, Ping-Hsin	Avoidance of the interest-conflicting directors	The above directors had a personal stake in the proposal discussed, and were absent from the discussion without exercising voting rights. The proposal was passed as proposed without objection from the remaining directors.
	Appointment of the 3 rd Remuneration Committee.	Wang, Ching-Hsiang Tai, Kuo-Cheng Wang, Chien-Chi	Avoidance of the interest-conflicting directors	The above directors had a personal stake in the proposal discussed, and were absent from the discussion without exercising voting rights. The proposal was passed as proposed without objection from the remaining directors.
2019/08/06 2 nd meeting of the 4 th board	Distribution of the director's remuneration for FY2018.	Chi, Ping-Hsin Chi, Tao-Song Hsu, Hsiang-Jen Hsu, Ching-Shan	Avoidance of the interest-conflicting directors	The above directors had a personal stake in the proposal discussed, and were absent from the discussion without exercising voting rights. The proposal was passed as proposed without objection from the remaining directors.
	Distribution of the employee's remuneration for FY2018.	Chi, Tao-Song Hsu, Hsiang-Jen	Avoidance of the interest-conflicting directors	The above directors had a personal stake in the proposal discussed, and were absent from the discussion without exercising voting rights. The proposal was passed as proposed without objection from the remaining directors.

III. The cycle and duration, scope, method, and contents of self-evaluation or peer evaluation of the board of directors of TWSE/TPex listed companies, including the status of board evaluation.

Related procedures were established on August 8, 2019 and implemented from January 1, 2020. Every year, board members will evaluate the performance of the board, functional committees, and individual directors through self-evaluation, peer evaluation, external evaluation, or by other means.

IV. 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 2019, and up till the publication date of annual report. Attendance records are as follows:

Title	Name	Attendance in Person (B)	Attendance by proxy	Actual attendance rate (%) (B/A)(Note)	Remarks
Independent Director	Wang, Ching-Hsiang	6	0	100.00	—
Independent Director	Lin, Chin-Chung	2	0	100.00	Resigned after re-election at the 2019.6.6 AGM
Independent Director	Tai, Kuo-Cheng	6	0	100.00	—
Independent Director	Wang, Chien-Chih	4	0	100.00	Inaugurated after re-election at the 2019.6.6 AGM

Other notes:S

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	Proposal	Audit Committee's resolution	Company's action to Audit Committee's opinions	Attendance of at least one independent director
2019/03/14	13 th meeting of the 2 nd board	The 2018 financial statements and business report of this Company.	No opinion	N/A	Yes
		The 2018 self-inspection of the internal control system of this Company.	No opinion	N/A	Yes
		Amendment of the Company's "Articles of Incorporation."	No opinion	N/A	Yes
		Amendment of the Company's "Procedures for Acquisition or Disposition of Assets/"	No opinion	N/A	Yes
2019/05/10	14 th meeting of the 2 nd board	Application for bank facility and endorsement/guarantee for Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	No opinion	N/A	Yes
		Amendment of the "electronic data processing cycle" of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.	No opinion	N/A	Yes
		Amendment of the "electronic data processing cycle" of tier-2 subsidiary Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	No opinion	N/A	Yes
2019/08/06	2 nd meeting of the 3 rd board.	The 2019 Q2 consolidated financial statements of this Company.	No opinion	N/A	Yes
		Application for bank facility and endorsement/guarantee for Strong H Machinery Technology Cayman Inc.	No opinion	N/A	Yes
		Land acquisition of tier-2 subsidiary Strong H	No opinion	N/A	Yes

		Mechanical Technology (Laizhou) Co., Ltd.			
2019/11/08	3 rd meeting of the 3 rd board.	Amendment of the Company's "Procedures for Loaning of Funds for Others."	No opinion	N/A	Yes
		Amendment of the "Procedures for Loaning of Funds for Others" of subsidiaries and tier-2 subsidiaries.	No opinion	N/A	Yes
		Amendment of the Company's "Procedures for Making of Endorsements/Guarantees."	No opinion	N/A	Yes
		Amendment of the "Procedures for Making of Endorsements/Guarantees" of subsidiaries and tier-2 subsidiaries.	No opinion	N/A	Yes
2019/12/13	4 th meeting of the 3 rd board.	The 2020 audit program of this Company.	No opinion	N/A	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 substantially 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	✓ ✓ ✓		(I) There was one female director among the members of the 3 rd board. In addition to corporate director representatives and natural-person directors, the board also has 4 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) This Company established the "BOD Performance Evaluation Regulations" on November 8, 2019 and	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	
<p>performed regularly every year? Will the implement evaluation every year and determine the remuneration and nomination of directors with the results?</p> <p>(IV) Will the Company have the independence of the public accountant evaluated regularly?</p>	✓		<p>implemented it from January 1, 2020. Every year, board members will evaluate the performance of the board, functional committees, and individual directors through self-evaluation, peer evaluation, external evaluation, or by other means.</p> <p>(IV) Financial statement auditors have been instructed to disassociate themselves from tasks that pose direct or indirect conflict with their own interests. Furthermore, financial statement auditors' independence is evaluated by the board of directors on a regular basis. Note 1 shows the CPA independence assessment in the last year.</p>	
<p>IV. Does a public company deploy sufficient quantity of eligible governance personnel and appoint a governance supervisor to take charge of company's governance affairs (including, without limitation, providing directors and supervisors with the data required for business operations, assisting directors and supervisors with legal compliance, handling affairs in relation to holding a BOD meeting or a general meeting of shareholders, processing company registration and change registration, and keeping minutes for BOD meetings and general meetings of shareholders)?</p>	✓		<p>The Company has assigned dedicated personnel to oversee corporate governance affairs</p>	No material nonconformity
<p>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)?</p>	✓		<p>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.</p>	No material deterioration was found.
<p>VI. Has the company appointed a professional shareholders service agent to process the affairs related to shareholders' meetings?</p>	✓		<p>The Company commissions the Shareholder Service Department of Fubon Securities Co., Ltd. to handle matters relating to shareholder meetings.</p>	No material nonconformity
<p>VII. Information disclosure</p> <p>(I) Has the company established a website that discloses financial, business, and corporate governance-related information?</p> <p>(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)?</p> <p>(III) Does the company publish and declare its financial statements within two months after the end of a fiscal year, and publish and declare in advance the financial statements of Q1, Q2, and Q3 and status of monthly operations?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(I) The Company has established its own website and will continue using it as a means to disclose information.</p> <p>(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.</p> <p>(III) This Company publishes and declares the quarterly and annual financial statements by law and the status of monthly operations every month.</p>	No material nonconformity
<p>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)?</p>	✓		<p>(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.</p> <p>(II) The Company uses contracts to outline rights and obligations with its suppliers and customers.</p> <p>(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.</p> <p>(IV) All of the Company's directors possess relevant professional knowledge and are subjected to ongoing education. Note 2 shows the status of further education in the last year.</p> <p>(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.</p> <p>(VI) Risk management policies, practices, and risk assessment standards: The Company has established internal policies and performs risk management and evaluation accordingly.</p> <p>(VII) Customer policy: The Company has established credit management practices and internal control procedures</p>	No material deterioration was found.

Item	Implementation Status			Difference from the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies and the reasons
	Yes	No	Summary	
			(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.	
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): Note 3 shows the fail items and items required for improvement in the Corporate Governance Evaluation.				

Note 1: CPAs' independence assessment criteria in the last year.

Assessment criteria	Assessment outcome	Compliance of independence
1. CPAs were reappointed at least once every 7 years as of the most recent audit.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
2. CPAs were free of any direct and indirect financial interest with the Company.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
3. CPAs were free of any inappropriate relationship with their clients.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
4. CPAs have instructed their assistants to be honest, fair and independent.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
5. Not involved in the auditing of financial statements of former employers 2 years prior to practice.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
6. CPA's name is not used by another party.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
7. Does not own shares in the Company or affiliated enterprises.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
8. Not in any borrowing arrangement with the Company and its affiliated enterprises.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
9. Does not engage the Company or affiliated enterprises in joint investment or profit-sharing arrangement.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
11. Not involved in decision-making within the Company or affiliated enterprises.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
12. Not involved in any other businesses that may compromise independence.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> 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.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
14. Does not receive commission on business-related activities.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes
15. Free of penalties and occurrences that may compromise independence.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Yes

Note 2: Status of Further Education of Directors in Last Year

Title	Name	Educational Course Date	Organizer	Course	Hours
Corporate Representative Director	Chi, Ping-Hsin	2019/08/28	Corporate Operation Association	Opportunities and Strategies for Business Mergers in Taiwan in US-China Trade War	3
Corporate Representative Director	Hsu, Hsiang-Jen	2019/08/22	Corporate Operation Association	Insight into and Countermeasures of the "Economic Substance Act" and "The International Tax Co-operation (Economic Substance) Law of Tax Haven	3
		2019/08/28	Corporate Operation Association	Opportunities and Strategies for Business Mergers in Taiwan in US-China Trade War	3
Director	Chi, Tao-Sung	2019/08/22	Corporate Operation Association	Insight into and Countermeasures of the "Economic Substance Act" and "The International Tax Co-operation (Economic Substance) Law of Tax Haven	3
		2019/08/28	Corporate Operation Association	Opportunities and Strategies for Business Mergers in Taiwan in US-China Trade War	3

Title	Name	Educational Course Date	Organizer	Course	Hours
Director	Hsu, Ching-Shan	2019/08/22	Corporate Operation Association	Insight into and Countermeasures of the “Economic Substance Act” and “The International Tax Co-operation (Economic Substance) Law of Tax Haven	3
		2019/08/28	Corporate Operation Association	Opportunities and Strategies for Business Mergers in Taiwan in US-China Trade War	3
Independent Director	Wang, Ching-Hsiang	2019/08/13	National Federation of CPA Associations	Latest Tax Regulations and Practice	7
		2019/11/29	National Federation of CPA Associations	EAS Latest Q&A	3
Independent Director	Tai, Kuo-Chang	2019/08/22	Corporate Operation Association	Insight into and Countermeasures of the “Economic Substance Act” and “The International Tax Co-operation (Economic Substance) Law of Tax Haven	3
Independent Director	Wang, Chien-Chi	2019/04/16	Taiwan Academy of Banking and Finance	Governance and Sustainable Development Training	3
		2019/07/11	Taiwan Institute of Directors	New Approach to Tax Governance: Facing “Economic Substance Act” and “The International Tax Co-operation (Economic Substance) Law of Tax Haven	3

Note 3: Description of Corporate Governance Evaluation Results

Item	Indicator	Improved?	Description
1.6	Did the company hold the AGM before the end of May?	No	We will justify the possibility of holding the AGM before May in the future.
1.7	Did the company disclose the shareholders meeting agenda handbook and supplemental meeting materials on the designated Internet information reporting website 30 days prior to the day of the AGM?	Yes	We have fulfilled this indicator this year.
1.8	Did the company provide its annual report 14 days prior to the day of the AGM?	Yes	We have fulfilled this indicator this year.
1.9	Did the company simultaneously provide the Chinese and English versions of the meeting notice 30 days prior to the day of the AGM?	No	We will make efforts to achieve this in the future.
1.10	Did the company disclose the English versions of the meeting agenda handbook and supplemental meeting materials 21 days before the day of the AGM?	Yes	We have fulfilled this indicator this year.
1.11	Did the company provide the English annual report 7 days before the day of the AGM?	Yes	We have fulfilled this indicator this year.
1.14	Did the company disclose the implementation status of the AGM resolutions of the preceding fiscal year in the annual report?	Yes	We have fulfilled this indicator this year.
2.2	Did the company adopt a board diversity policy and disclose the status of implementation of the diversity policy in the annual report and on the company's website?	No	We have disclosed the board diversity policy in the AR 2019, and disclosure on the corporate website is under planning.
2.3	Is it true that the position of the chairman of the board and general manager (chief executive officer) was not held by the same person or his/her spouse?	No	Currently, the chairperson and president of this Company are the same person.
2.5	Is it true that the number of the directors on the company's board of directors who are employees of the company or of its parent, subsidiary, or sister company is less than or equal to one-third of the total number of	Yes	We have fulfilled this indicator this year.

Item	Indicator	Improved?	Description
	directors?		
2.14	Did the company have any functional committees other than statutorily required committees, and did such functional committees have not less than three members, with at least half of the members being independent directors, and did the company disclose the organization, functions, and operations of such committees?	No	Business operations are rather simple at the moment, and other functional committees will be established as necessary in the future.
2.15	Did the company disclose on its website how independent directors communicate with the head of internal audit and external auditors (e.g. the manner of communication, the matters discussed, and the results of such communication regarding the company's financial reports and its financial and operating status)?	No	The communication between independent directors and the chief auditor and CPAs has been disclosed in the AR2019, and disclosure on the corporate website is currently being planned.
2.17	Did the board review the independence of the external auditors (at least once a year) and fully and accurately disclose the assessment procedures in the annual report?	Yes	We have fulfilled this indicator this year.
2.21	Did the company have full-time corporate governance personnel responsible for matters relating to corporate governance, and disclose the unit's operations and implementation in the annual report and on its website?	No	We have not met the requirements for assigning full-time corporate governance personnel. We will assign full-time corporate governance personnel when those requirements are met in the future.
2.22	Have the rules or procedures adopted by the company for assessing the performance of the board of directors been passed by the board, and has it furthermore carried out self-assessment at least once a year, and disclosed the assessment results on its website or in its annual report?	Yes	We have fulfilled this indicator this year.
2.23	Have the rules or procedures adopted by the company for assessing the performance of the board of directors been passed by the board, with the express requirement that an external assessment be carried out at least once every three years, and has it furthermore carried out the assessment within the time limit under its rules, and disclosed the implementation status and assessment results on its website or in its annual report?	No	We have established the “BOD Performance Evaluation Regulations” implemented as of 2020.
2.24	Did the directors and supervisors complete the number of hours of continuing education required by the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies?	No	We will make efforts to achieve this.
2.25	Did all of the company's independent directors complete the number of hours of continuing education required by the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies?	No	We will make efforts to achieve this.
3.2	Did the company disclose material information in English and Chinese at the same time?	No	We will make efforts to achieve this.
3.4	Did the company file its annual financial reports within 2 months from the end of the fiscal year?	No	We will justify if we can advance the publication of our financial statements within 2 months from the end of the fiscal year.
3.5	Did the company website or MOPS disclose the annual financial report (including the financial statements and notes) in English?	Yes	We have fulfilled this indicator this year.
3.6	Did the company website or MOPS disclose	No	We will make efforts to achieve this after

Item	Indicator	Improved?	Description
	the interim financial reports (including the financial statements and notes) in English?		assessment.
3.8	Did the company voluntarily disclose its financial forecast quarterly, without having any corrections ordered by the competent authority or having any demerits imposed by the TWSE or TPEX?	No	We did not make quarterly financial forecasts.
3.13	Did the company disclose the remuneration details of each director and supervisor in its annual report? [If the company voluntarily disclosed the individual remuneration of each of its directors and supervisors, one additional point will be added to the total score.]	No	Currently we won't consider the disclosure of such information.
3.16	Did the company disclose in its annual report and on its website the list of substantial shareholders, including the names, number of shares held, and shareholding percentages, of the shareholders holding 5% or more of shares, or ranking among the top ten shareholders in terms of shareholding percentage?	No	We have disclosed related information in the annual report, and disclosure on the corporate website is under planning.
3.17	Did the company website disclose information related to the company's finances, business and corporate governance?	No	Full information disclosure on the corporate website is under planning.
3.18	Did the company provide an English website for investors to read, and did the website include information related to the company's finances, business, and corporate governance?	No	Full information disclosure on the corporate website is under planning.
3.19	Did the company make information relating to its general meeting of shareholders available on its website, including, at least, the most recent annual report to shareholders, the meeting notice, the agenda handbook, and the meeting minutes?	No	Full information disclosure on the corporate website is under planning.
3.20	Did the company attend or voluntarily hold investor conferences at least two times in the year being evaluated, and were the first and last investor conferences in the year held at least 3 months apart? [If the company held at least one investor conference each quarter or held investor conferences to address the operating results of each quarter, one additional point will be added to the total score.]	No	We held an investor conference on December 10, 2019 to fully disclose the company's current status of operation and outlook. In the future, we will assess the need for holding more investor conferences.
4.1	Did the company have an adequate governance framework, by which to adopt and review corporate social responsibility policies, systems, or related management principles, and disclose the same in its annual report and on its website?	No	Information disclosure on the corporate website is under planning
4.2	Did the company have a designated unit or personnel in charge of promoting corporate social responsibility and ethical corporate management, and disclose the unit's operations and implementation in the annual report and on its website, and did the unit regularly report to the board of directors?	No	In the future, we will consider the need to establish a designated (concurrent) unit according to the status of business operations.
4.3	Did the company regularly disclose in its annual report and on the company website its concrete plans for promoting corporate social responsibility and the results of the implementation of those plans?	No	We will make efforts to achieve this.

Item	Indicator	Improved?	Description
4.4	Did the company, following internationally recognized guidelines, prepare and publish reports such as its corporate social responsibility report to disclose non-financial information of the company? [If the company voluntarily prepared and published reports such as its corporate social responsibility report to disclose non-financial information of the company, one additional point will be added to the total score.]	No	In the future, we will assess the need to prepare an internationally recognized report according to the status of business operations.
4.5	Did the company obtain a third-party verification or assurance for reports disclosing non-financial information of the company such as its corporate social responsibility report?	No	In the future, we will assess the need to prepare an internationally recognized report according to the status of business operations.
4.6	Did the company, following the International Bill of Human Rights, adopt a policy to protect human rights, and disclose it in its annual report or on its website?	No	We will make efforts to achieve this.
4.7	Did the company sign a collective agreement with the labor union in accordance with the Collective Agreement Act?	No	Business is operated according to local laws and regulations. No labor-management dispute has been reported so far. Related agreements will be signed as necessary in the future.
4.9	Did the company disclose its employee welfare measures, retirement plan, and the implementation thereof in the annual report and on its website?	No	We have disclosed related information in the annual report, and disclosure on the corporate website is under planning.
4.11	Did the company disclose the annual emissions of CO ₂ or other greenhouse gases (GHG) for the past 2 years? [If the annual emissions of CO₂ or other greenhouse gases for the past 2 years have been verified by an external institution, one additional point will be added to the total score.]	No	Resources for full disclosure of the annual emissions of CO ₂ and other GHGs have not yet completed.
4.12	Did the company set management policies for energy conservation, reduction of carbon/greenhouse gas (GHG) emissions, water use, or other waste/pollutants?	No	We will make efforts to achieve this.
4.13	Was the company ISO 14001 or ISO50001 certified or accredited with similar environmental or energy management system certification?	No	We will assess the need for such certification according to the future status of operations.
4.15	Did the company disclose on its website or in its annual report its ethical corporate management policy, expressly prescribing its specific ethical management practices and its programs to prevent unethical conduct?	No	Disclosure of related information will be enhanced.
4.17	Did the company develop supplier management policies, calling for cooperation with suppliers in complying with the relevant provisions regarding issues such as environmental protection, public safety, and health and thus jointly enhancing corporate social responsibility, and did it disclose such policies on the company website or in the corporate social responsibility report?	No	We have established the supplier management policy, but have not fully disclosed it on the corporate website.

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

1. Composition of the Remuneration Committee

Identity	Name	Qualification	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			9	10
Independent Director	Wang, Ching-Hsiang	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	N/A
Independent Director	Wang, Chien Chih	—	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—	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 this Company or its affiliates.
- (2) Not a director or supervisor of this Company or its affiliates (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (3) Not a natural person itself, spouse, underage child, or under the title of a third party who holds more than 1% of the total outstanding shares issued by the company or among the top 10 natural person shareholders.
- (4) Not the spouse, the relative of second tier under the Civil Code or a relative within the third tier under the Civil Code of the managers stated in (1) or other roles stated in (2), (3).
- (5) Not a director, supervisor or employee of an institutional shareholder directly holding 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, or a representative of an institutional shareholders appointed as the director or supervisor of the company according to paragraph 1 or 2, Article 27, Company Act (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (6) Not a director, supervisor or employee of a company controlling over one half of the company’s director seats or voting shares under one person (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (7) Not a director of a company or institution whose chairperson and president or equivalent role is the same person or its spouse (except for independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (8) Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of a specific company or institution in a business or financial relation with the company (except for a specific company or institution holding over 20% but less than 50% of the company’s outstanding shares, and independent directors of the company and its parent company, subsidiaries or the subsidiaries of the same parent company established in accordance with this Act or the local laws).
- (9) Not a professional or owner, partner, director, supervisor, manager or the spouse of these roles of a sole proprietorship, partnership, company, or institution that audits or provides related business, legal, financial, accounting services or consultation with service fees accumulating below NT\$500,000 over the last two years for the company or its affiliates; except for members of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition exercising powers according to the Securities and Exchange Act or the Business Mergers and Acquisitions Act or related laws or regulations.
- (10) 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) Terms of the current board: From June 6, 2019 to June 5, 2022. The Remuneration Committee held 6 meetings (A) in the last year (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	6	—	100.00	—
Member	Lin, Chin-Chung	3	—	100.00	Resigned after re-election at the 2019.6.6 AGM.
Member	Tai, Kuo-Cheng	6	—	100.00	—
Member	Wang, Chien-Chih	3	—	100.00	Inaugurated after re-election at the 2019.6.6 AGM.

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.

Board Meeting Date	Session	Proposal	Resolution	Handling of opinions made by the Remuneration Committee
2019/3/14	14 th meeting of the 3 rd board	Distribution of remuneration for directors and employees for FY2018.	Independent Director Lin, Chi-Chung suggested, the remuneration for directors should be raised from NT\$3,000,000 to NT\$3,192,628. The proposal was unanimously passed by all attending directors.	Given that the 2018 business performance was the result of the concerted effort of all employees under the board's leadership, and the ratio of remuneration for employees has been raised, the board of directors and independent directors thus passed the proposal to raise the ratio of 2018 remuneration for directors as per the ratio of 2018 remuneration for employees.

- 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 and inconsistency with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons”

Item	Implementation Status			Inconsistency with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary	
I. Did the company assess the risk of environmental, social, and governance (ESG) issues in relation to company operations based on the materiality principles and establish policies or strategies in relation to risk management?	✓		Based on related internal control regulations, we assess risk regularly. Apart from performing assessment according to the environmental and legal requirements and operating procedures at the time of assessment, each business unit take corrective and preventive measures for found risks.	No material inconsistency.
II. 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?	✓		The Administrative Department of this Company plan budgets for donations and review and support recipients.	No material inconsistency.
III. Environmental issues (I) Does the company have an appropriate environmental management system established in accordance with its industrial characteristics? (II) Is the company committed to enhancing the utilization efficiency of resources and using renewable materials that are with low impact on the environmental impacts? (III) Did the Company assess the present and future potential risks and opportunities of climate change on the Company and take actions to related issues? (IV) Did the Company produce statistics on the GHG emissions, water consumption, and total waste in the last two years? Has the company established policies for energy conservation, carbon reduction, GHG reduction, water conservation, and waste management?	✓ ✓ ✓	 ✓	(I) The Company advocates resource reuse and promotes awareness through internal channels. The Administrative Department is responsible for the management of the office environment (II) The Company’s Administrative Department has specialists assigned to maintain and enforce 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) We specialize in the manufacture and sales of parts for industrial sewing machines without engaging in direct outdoor business activities. Therefore, we have not included climate change as a risk factor of operations. In the future, we will include this in risk assessment and plan countermeasures. (IV) We specialize in the manufacture and sales of parts for industrial sewing machines without engaging in specific polluting industries. Although we use electroplating equipment, the pollution is very limited. As a result, we hire legally registered and operated waste disposal contractors to dispose of our waste. We analyze and control electricity consumption and constantly implement energy conservation and carbon reduction. We also monitor aircon temperature every day to practice energy conservation and carbon reduction.	No material inconsistency.
IV. Social issues (I) Has the company developed related management policies and procedures in accordance with related laws and the International Bill of Human Rights? (II) Has the company established and implemented reasonable employee welfare measures (including remuneration, leave, and other benefits) and appropriately reflected business performance and achievements in the remuneration for employees? (III) Does the company provide employees with a safe and healthy work environment and regular safety and health education? (IV) Has the Company established effective career development and training plans for employees? (V) Did the company comply with the related laws and regulations and international standards regarding the customer health and safety, customer privacy, marking communication, and	✓ ✓ ✓ ✓ ✓		(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. (II) The work rules of each subsidiary and affiliate have been established and implemented according to the local laws and regulations and the related labor laws and regulations (including remuneration, leave, and other benefits). (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) The Company has a dedicated to arrange training, education, and skill development for employees. It is also the responsibility of department heads to provide employees with technical guidance and training. (V) This Company strictly follows local laws and regulations regarding the customer health and safety, customer privacy, marking communication, and labeling of products and services. In addition, we have established processes	No material inconsistency.

Item	Implementation Status			Inconsistence with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary	
<p>labeling of its products and services and establish policies to protect the rights and interests of customers and procedures for grievances?</p> <p>(VI) Has the company established policies for management to request suppliers to comply with the relevant laws and regulations of environmental protection, occupational safety and health, and labor human rights? Does the company keep track on the implementation of such policies?</p>	✓		<p>relating to sales management and grievance management and have developed complete product return procedures and complaint channels.</p> <p>(VI) The Company has established the Supplier Management Procedures and assesses the related data and qualifications of suppliers prior to entering a contract with suppliers.</p>	
<p>V. Did the company, following internationally recognized guidelines, prepare and publish reports such as its corporate social responsibility report to disclose non-financial information of the company? Did the company apply for assurance or guarantee of such reports to a third-party certification body?</p>		✓	<p>We have established the “Corporate Social Responsibility Best Practice Principles” to realize our commitments for society, employees, and shareholders and practice information transparency.</p>	No material inconsistency.
<p>VI. If the company has established own corporate social responsibility guidelines in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies”, please state the current practice and any deviations from the “Best Practice Principles” We have established and implemented our own “Corporate Social Responsibility Best Practice Principles” without material inconsistency from the Best Practice Principles.</p>				
<p>VII. Other important information that help understand the CSR operation:</p> <p>(I) The Company supports community activities and is actively involved in neighborhood programs.</p> <p>(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.</p> <p>(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.</p> <p>(IV) The Company organizes internal courses as a form of on-job training; employees may also be subsidized for external training if deemed necessary</p>				

(VI) Performance in ethical corporate management inconsistency with the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Status (Note 1)			Inconsistency and Causes of Inconsistency from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
<p>I. Establishing ethical corporate management policies and programs</p> <p>(I) Has the company established policies for ethical corporate management approved by the board of directors and stated such policies and practices in its regulations and external documents and in the commitment made by the board of directors and senior management to actively implement such policies?</p> <p>(II) Has the company established an assessment mechanism of risk from unethical behavior to regularly analyze and assess business activities with higher risk of involvement in unethical behavior and preventive programs for unethical behaviors containing at least the preventive measures stated in paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies”?</p> <p>(III) Has the company established in the preventive programs the operating procedures for unethical behavior prevention, penalties and grievance systems of breaching the guidelines for conduct, and implemented and periodically review them?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(I) We have established the “Ethical Corporate Management Best Practice Principles,” implemented ethical management policies, and disclosed them on the MOPS. We have also requested all directors, managers, senior management, and employees to abide by these principles in all activities.</p> <p>(II) We have established and implemented the “Procedures for Ethical Management and Guidelines for Conduct” and the “Code of Ethical Conduct” to specify the operating procedures, guidelines for conduct, and the penalties and grievance channels of breach.</p> <p>(III) We have established the “Procedures for Ethical Management and Guidelines for Conduct” to specify related operations. We have also enhanced the education of no acceptance of valuable articles in any form or name for managers and employees to prevent damage on the company’s rights and interests because of personal interests.</p>	No material inconsistency.
<p>II. Implementing ethical corporate management</p> <p>(I) Has the company assessed the ethical records of its counterparts and explicitly included clauses on ethical conduct in transaction contracts?</p> <p>(II) Has the company established a dedicated (concurrent) unit to implement ethical corporate management under BOD and report regularly (as least once a year) to BOD the status of implementation and supervision of the ethical management policy and preventive programs of unethical behavior?</p> <p>(III) Has the company established and implemented a policy to prevent conflicts of interests and provided suitable channels for reporting such conflicts?</p> <p>(IV) Has the company established an effective accounting system and an internal control system for the internal audit unit to establish related audit programs based on the results of risk assessment of involvement in unethical behavior to audit and prevent the compliance with the preventive programs of unethical behavior or hire a CPA to perform the audit?</p> <p>(V) Has the company regularly arranged internal and external education and training activities for ethical corporate management?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>(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.</p> <p>(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.</p> <p>(III) The Company has “Ethical Behavior Guidelines” and “Business Integrity Code of Conduct” available to provide governance.</p> <p>(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.</p> <p>(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.</p>	No material inconsistency.
<p>III. Operating the whistleblower system</p> <p>(I) Has the company established explicit whistleblower and reward schemes and convenient reporting channels, and assign appropriate personnel to investigate the target of a whistleblower report?</p> <p>(II) Has the company established standard operating procedures for investigation, post-investigation measures, and related mechanisms to ensure confidentiality of a whistleblower complaint?</p>	<p>✓</p> <p>✓</p>		<p>(I) Apart from establishing the “Procedures for Ethical Management and Guidelines for Conduct” and convenient reporting channels, we assign suitable investigators according to the suspect’s nature.</p> <p>(II) After detecting or receiving a report of involvement in unethical behavior of a staff member, if he/she is found breaching this Company’s ethical management policies and regulations, we will request him/her to immediately cease related behaviors and take appropriate actions. We will also take legal actions to claim damages, where necessary,</p>	No material inconsistency.

Evaluation Item	Status (Note 1)			Inconsistency and Causes of Inconsistency from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies
	Yes	No	Summary	
(III) Has the company established measures to protect whistleblowers against retaliation?	✓		to maintain the company's goodwill, rights, and interests. We will also take related protective measures to protect the whistleblower against retaliation. (III) For whistleblower protection, we have established an independent mailbox or dedicated line for reporting unethical behavior on the corporate website and intranet to protect whistleblowers against retaliation.	
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 inconsistency.
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 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.				
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.				

(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 at <http://www.strongh.cn> and the Market Observation Post System at <https://mops.twse.com.tw>

(VIII) Other material information helpful for understanding the status of implementation of corporate governance may be disclosed at the same time:

(IX) Enforcement of internal control system

1. Declaration of Internal Control System

Strong H Machinery Technology (Cayman) Incorporation

Declaration of Internal Control

Date: March 19, 2020

The following declaration regarding the internal control system of the Company and subsidiaries has been made based on a self-assessment performed in 2019:

- 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, 2019. 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 19, 2020; 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 19, 2020, 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, 2019. 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, 2019, maintaining effectiveness in all major aspects; Strong H Machinery Technology (Cayman) INC. and its subsidiaries issued on March 19, 2020, 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 Huang, Yao-Lin

March 27, 2020

(X) The content of penalties or punishment, major defects, and improvements of legal penalties to the company or employees, or the company's punishment for the employee's violation of the internal control system with results that may cause material impacts to the rights and interests of shareholders or stock prices: 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
2019 annual general meeting	2019/06/06	<p>Adoption</p> <ul style="list-style-type: none"> ● 2018 business report and financial statements. Status: Adopted by the AGM. ● 2018 earnings appropriation of the Company. Status: Adopted by the AGM and distributed on 2019/8/15. <p>Discussions</p> <ul style="list-style-type: none"> ● Approval of distribution of capital reserve for cash dividend. Status: Approved and distributed on 2019/8/15. ● Approval of amendment of the "Articles of Incorporation" Status: Approved and completed. ● Approval of amendment of the "Procedures for Acquisition or Disposition of Assets." Status: Approved and completed. ● Approval of amendment of the "Procedures for Loaning of Funds for Others." Status: Approved and completed. <p>Election</p> <ul style="list-style-type: none"> ● Full board election Status: Election of the 4th board was completed and new members were inaugurated. <p>Other proposal</p> <ul style="list-style-type: none"> ● Approval of abolition of the non-compete restriction on new directors and their representatives. Status: Approved and implemented. <p>Motion: None.</p>

2. Major board of directors resolutions

Meeting date	Important Resolution
2019/3/14	<ul style="list-style-type: none"> ● Passed the 2018 business report and financial statements. ● Passed the 2018 earnings appropriation of the Company. ● Passed the distribution of capital reserve for cash dividend. ● Passed the 2018 remuneration for directors and employees. ● Passed the 2018 self-inspection of the internal control system. ● Passed the amendment "Articles of Incorporation" ● Passed the amendment "Procedures for Acquisition or Disposition of Assets." ● Passed "Corporate Governance Best Practice Principles." ● Completed the full board re-election. ● Passed the abolition of the non-compete restriction on new directors and their representatives. ● Passed the 2019 AGM convention.
2019/4/1	<ul style="list-style-type: none"> ● Passed the distribution of restricted stock awards (RSA). ● Passed the nomination and qualification of directors and independent directors of the board.
2019/5/10	<ul style="list-style-type: none"> ● Passed the amendment of the Company's "2018 1st RSA Issuance Regulations." ● Passed the application for bank facility and endorsement/guarantee for Hao Qiang Precision Machinery (Qingdao) Co., Ltd. ● Passed the amendment of the "electronic data processing cycle" of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd. ● Passed the amendment of the "electronic data processing cycle" of tier-2 subsidiary Hao Qiang Precision Machinery (Qingdao) Co., Ltd. ● Passed the establishment of the "Director's Requests Handling SOP."
2019/6/6	<ul style="list-style-type: none"> ● Completed the chairperson election. ● Passed the member appointment of the 3rd Remuneration Committee. ● Passed the setting of the base date of ex-dividend and for distribution of capital reserve for cash dividend for 2019.
2019/8/6	<ul style="list-style-type: none"> ● Passed the distribution of 2018 remuneration for directors.

Meeting date	Important Resolution
	<ul style="list-style-type: none"> ● Passed the distribution of 2018 remuneration for employees. ● Passed the establishment of the “Self-Regulatory Rules on Disclosure of Merger and Acquisition Information.” ● Passed the application for bank facility and endorsement/guarantee for Strong H Machinery Technology Cayman Inc. ● Passed the Land acquisition of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.
2019/11/8	<ul style="list-style-type: none"> ● Passed the independence assessment of the financial statement auditors. ● Passed the establishment of the “BOD Performance Evaluation Regulations.” ● Passed the establishment of the “Regulations for Payment of Remuneration for Directors.” ● Passed the amendment of the Company’s “Procedures for Loaning of Funds for Others.” ● Passed the amendment of the “Procedures for Loaning of Funds for Others” of subsidiaries and tier-2 subsidiaries. ● Passed the amendment of the Company’s “Procedures for Making of Endorsements/Guarantees.” ● Passed the amendment of the “Procedures for Making of Endorsements/Guarantees” of subsidiaries and tier-2 subsidiaries. ● Passed the adoption of the additional budget for the acquisition of 43 hectares of land for tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd. ● Passed the budget for phase 1 of the new plant construction project of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.
2019/12/13	<ul style="list-style-type: none"> ● Passed the policy, system, standard, and structure of performance assessment, salary, and remuneration for directors, independent directors, and managers. ● Passed the standard of distribution of 2019 year-end bonus for managers. ● Passed the 2020 annual audit program. ● Passed the 2020 business plan and annual budget. ● Passed the change of financial statement auditors. ● Passed the capitalization with earnings of tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd.
2020/3/19	<ul style="list-style-type: none"> ● Passed the position rotation of financial supervisor and accounting supervisor. ● Passed the compensation to managers. ● Passed the 2019 financial statements and business report. ● Passed the 2019 distribution of remuneration for directors and employees. ● Passed the 2019 internal control system and self-audit. ● Passed the amendment of the "Articles of Incorporation". ● Passed the amendment of the "Rules of Procedure for Shareholders' Meetings". ● Passed the amendment of the "Rules of Procedure for the Board of Directors' Meetings." ● Passed the amendment of "Integrity Management Operating Procedures and Code of Conduct." ● Passed the application of the line of credit. ● Passed the 2020 Annual Shareholders' Meeting.
2020/4/23	<ul style="list-style-type: none"> ● Passed the 2019 earnings distribution. ● Passed the amendment of the "Articles of Incorporation". ● Passed the application of the line of credit.

(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, chief governance officer, or head of R&D in the most recent year by the date of report publication.

Summary of Management Personnel Change

2020/4/30

Title	Name	Inauguration	Resignation	Reason for Resignation
CFAO	Hsu, Hsiang-Jen	2014/2/14	2019/12/17	Retirement

V. Information About CPA Professional Fee

Firm Name	Name of CPA	Audit period	Remarks
Deloitte & Touche	Liu, Shuei-En	2019/1/1 ~ 2019/09/30	Internal job rotation of Deloitte & Touche
Deloitte & Touche	Yang, Ching-Ting		
Deloitte & Touche	Liu, Shuei-En	2019/10/1 ~ 2019/12/31	
Deloitte & Touche	Huang, Yao-Lin		

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	2,870	—	—	—	—	—	2019/1/1~2019/9/30	Non-audit fee- Others refer to the fees for the targeted review of internal control system, employee rights new stock book review.	
	Yang, Ching-Ting									
Deloitte & Touche	Liu, Shuei-En	2,470	—	—	—	1,580	1,580			2019/10/1~2019/12/31
	Huang, Yao-Lin									

(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. Due to the internal job rotation of Deloitte & Touche by law, previous CPAs Liu, Shuei-En and Jing-Ting Yang were replaced by CPAs Liu, Shuei-En and Huang, Yao-Lin in 2019.

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	2019		Year-to-date as at April 11	
		Net Change in Shareholding	Increase (decrease) in shares collateralized	Net Change in Shareholding	Increase (decrease) in shares collateralized
Chairman	Chi, Ping-Hsin	70	—	—	—
Vice Executive President	Qi, Yu-Bin	—	—	30	—
Business Manager	Guo, Jun-Zhu	—	—	30	—
Auditing manager	Tung, Shang-Ju	—	—	3	—

(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	40.19	—	—	—	—	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	7.69	—	—	—	—	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	7.69	—	—	—	—	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	7.69	—	—	—	—	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	5.98	—	—	—	—	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	5.13	—	—	—	—	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	—
HSBC Bank Hosted Core Pacific - Yamaichi International (HK) Ltd	2,355,000	3.47	—	—	—	—	—	—	—
Yuanta Securities (Hong Kong) Company Limited-CLIENT ACCOUNT	952,000	1.40	—	—	—	—	—	—	—
HERO PROMISE LIMITED (HERO PROMISE LIMITED) (Representative: Chi, Tao-Song)	762,000	1.12	—	—	—	—	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	—

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 Second degree of kinship with the representative Second degree of kinship with the representative	
ZHAN,LI-HUI		1.01	—	—	—	—	—	—	—

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, 2019; 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 11, 2020; unit: shares

Share Types	Authorized capital stock			Remarks
	Outstanding shares	Unissued shares	Total	
Common shares	67,851,619	32,148,381	100,000,000	—

2. Changes in share capital

April 11, 2020; 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	—	—
June 2019	10	100,000,000	1,000,000,000	66,713,116	667,131,160	Conversion of convertible bond	—	—
July 2019	10	100,000,000	1,000,000,000	66,823,486	668,234,860	Conversion of convertible bond	—	—
September 2019	10	100,000,000	1,000,000,000	66,911,780	669,117,800	Conversion of convertible bond	—	—
October 2019	10	100,000,000	1,000,000,000	66,969,174	669,691,740	Conversion of convertible bond	—	—
December 2019	10	100,000,000	1,000,000,000	67,331,950	673,311,950	Conversion of convertible bond	—	—
January 2020	10	100,000,000	1,000,000,000	67,851,619	678,516,190	Conversion of convertible bond and issuance of 335,000 shares of RSA (Note 2)	—	—

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.

Note 2: Issuance of RSA under approval document Jin-Guan-Cheng-Fa-Zi No. 1080311497 reported for validation on April 18, 2019.

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

(II) Composition of Shareholders

April 11, 2020; unit: shares

Composition of Shareholders Volume	Government institutions	Financial institution	Other corporations	Individual	Foreign Institutions and Natural Persons	Total
Number of persons	—	—	11	1,416	26	1,453
Current shareholding	—	—	833,155	10,356,615	56,661,849	67,851,619
Ratio of Shareholding (%)	—	—	1.23	15.26	83.51	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 0.47%.

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

(III) Diversification of equity

April 11, 2020; unit: shares

Shareholding range	Number of Shareholders	Current shareholding	Shareholding percentage
1 to 999	90	11,662	0.02
1,000 to 5,000	1,023	1,993,405	2.94
5,001 to 10,000	134	1,094,696	1.61
10,001 to 15,000	57	742,303	1.09
15,001 to 20,000	41	747,000	1.10
20,001 to 30,000	31	797,000	1.18
30,001 to 50,000	26	1,038,000	1.53
50,001 to 100,000	20	1,529,826	2.26
100,001 to 200,000	11	1,563,727	2.31
200,001 to 400,000	7	1,793,000	2.64
400,001 to 600,000	3	1,318,000	1.94
600,001 to 800,000	2	1,444,000	2.13
800,001 to 1,000,000	1	952,000	1.40
1,000,001 to 5,000,000	3	9,895,000	15.58
5,000,001 to 10,000,000	3	15,660,000	23.08
10,000,001 and above	1	27,272,000	40.19
Total	1,453	67,851,619	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 11, 2020; unit: shares

Name of Major Shareholders	Type of share	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	40.19
PREMIER CHOICE VENTURES INC		The Independent State of Samoa	5,220,000	7.69
DOUBLE FAITH HOLDING LIMITED		The Independent State of Samoa	5,220,000	7.69
Global Sharp Investments Limited		The Independent State of Samoa	5,220,000	7.69
Joyful Gain Investment Limited		The Independent State of Samoa	4,060,000	5.98
Regency Star International Limited (Regency Star International Limited)		The Independent State of Samoa	3,480,000	5.13
HSBC Bank Hosted Core Pacific - Yamaichi International (HK) Ltd		Hong kong	2,335,000	3.47
Yuanta Securities (Hong Kong) Company Limited-CLIENT ACCOUNT		Hong kong	952,000	1.40
HERO PROMISE LIMITED (HERO PROMISE LIMITED) (Representative: Chi, Tao-Song)		The Independent State of Samoa	762,000	1.12
ZHAN,LI-HUI		Taiwan, R.O.C	682,000	1.01

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

Unit: NTD; thousand shares

Title		Year	2018	2019	As of March 31, 2020
Market price per share	H i g h e s t		86.30	58.50	51.90
	L o w e s t		42.80	47.15	38.10
	A v e r a g e		56.59	52.39	47.10
Net worth per share	Before dividend distribution		24.97	25.26	25.43
	After distribution		21.47	21.26(Note)	—
E P S	Weighted average shares		65,708	66,598	67,389
	E P S		4.76	4.38	0.56
Stock dividend	Cash dividend		3.5	4(Note)	—
	Free - Gratis dividends	From earnings	—	—	—
		From capital reserves	—	—	—
	Retained Dividends		—	270,590(Note)	—
Return on investment analysis	P / E r a t i o		11.89	11.96	—
	Price to dividends ratio		16.17	13.10	—
	Cash dividend yield (%)		6.18	7.64	—

Note: The Company held 6th in the fourth session Board of Directors on April 23, 2020, and issued a cash dividend of NT\$4 per share, it is expected to issue NT\$270,590 thousand (based on the current number of shares of 67,647 thousand shares), which is yet to be acknowledged and discussed at the shareholders' meeting of 2020.

(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, reserve appropriated from profit, 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; and

(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 (collectively 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. If a proposal is raised to make distribution out of Cumulative Distributable Earnings, the board of directors shall present a dividend/profit-sharing plan for a general resolution at the meeting of shareholders and meet the following requirements:
- (a) Cumulative Distributable Earnings can be distributed in cash or new shares for shareholders.
 - (b) The total amount of dividend under the plan shall be no less than 10% of the Cumulative Distributable Earnings of the period.
 - (c) No interest shall accrue on the undistributed payable dividends or profit sharing.

2. Dividend distribution proposed for the next shareholder meeting:

The Company's 2019 earnings distribution was approved by the Board of Directors on April 23, 2020, with NT\$4 per share for a total cash dividends of NT\$270,590,476, the aforementioned 2019 earnings distribution has not yet been discussed at the shareholders' meeting up to the date of publication of the annual report.

(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; and
- (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 2019 amount of NT\$2,973 thousand and the employees the amount of NT\$2,973 thousand as remunerations payable in cash in the session dated March 19 2020. There is no difference between the above remuneration and the estimated amount recognized in the 2019 financial statements.

- (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 2019, 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): The difference at NT\$193 thousand between the actual payment of the remuneration for directors and employees distributed in 2019 and the amount recognized in 2018 is mainly found in the book value and the value approved by the board. The amount will be adjusted as losses in 2019.

5. Remuneration reported by the board of directors

The distribution resolution of employee compensation approved by the board. The appropriation of 2018 earnings had been approved by the shareholders during their meeting on June 6, 2019 and distribution of bonus to employees and remuneration to directors and supervisors are as follows:

- (1) Employee remuneration NT\$3,192,628 , all paid in case.
- (2) Directors remuneration NT\$3,192,628, all paid in case.

(3) Cash dividend to the shareholders NT\$ 185,223,195.

(4) Cash distributed with capital reserve to shareholders NT\$ 46,305,799.

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

Corporate bond category		1st domestic unsecured convertible bond
Issue date		February 5, 2018
Face value		One Hundred Thousand New Taiwan Dollars
Place of Issue and Trading		Not applicable
Issuing price		Issued at 100.3% of face value
Total amount		Three Hundred Million New Taiwan Dollars
Interest		0%
Tenor		3 years Maturity date: February 5, 2021
Guarantor		Not applicable
Trustee		Trust Department of Bank SinoPac Company Limited
Underwriter		Fubon Securities Co., Ltd.
Certifying lawyer		KPMG Law Firm Kelvin Chung
CPA name		Deloitte & Touche CPA Liu, Shuei-En, CPA Huang, Yao-Lin
Method of repayment		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.
Outstanding principal		Three Hundred Million New Taiwan Dollars
Terms and conditions for early redemption or repayment		To proceeding according to Article 21- Early Redemption of the terms and conditions of the current convertible bond issue.
Restrict clauses		N/A
Name of the credit rating agency, rating date, and rating results		Not applicable
Other equity attached	Amount of common shares, global depository receipts, or other securities converted (exchanged or subscribed) by the date of report publication	2,266,619 common shares have been converted to date.
	Rules for issuing and conversion (either by exchange or purchase)	Please refer to the terms and conditions of the first domestic unsecured convertible bond issue.
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		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, 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	
Year		2019	As of March 31, 2020
Item			
Market price of the convertible bond	High	121.15	113.40
	Low	106.00	100.05
	Average	112.68	109.21
Conversion price		NT\$48.40 Adjusted to NT\$45.30 since 2019/7/15	NT\$45.30
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:

(I) Restricted stock awards (RSA)

2020/4/30

Type of RSA	1 st RSA 2018
Declared effective date	2019/4/18
Issuance date	2020/1/15
Number is issued RSA shares	335,000 shares
Issuance price	Dividend
Ratio of new RSA shares in outstanding shares	0.49%
RSA vesting conditions	<p>A. Company performance vested ratio</p> <p>(1) Net income as shown in the CPA audit report of one year before the vesting year is 100% or above of the company's target performance: 100%.</p> <p>(2) Net income as shown in the CPA audit report of one year before the vesting year is 90-99% of the company's target performance: 90%.</p> <p>(3) Net income as shown in the CPA audit report of one year before the vesting year is 80-89% of the company's target performance: 80%.</p> <p>(4) Net income as shown in the CPA audit report of one year before the vesting year is below 80% of the company's target performance: 0%.</p> <p>B. Personal performance vested ratio</p> <p>(1) Annual evaluation: The annual average of personal performance since the regulations take effect is B or higher, below B is 0%.</p> <p>(2) Annual average of personal performance: A=100%; A-=90%; B+=80%; B=60%.</p> <p>(3) The score of the above personal performance evaluation is subject to the "Employee Performance Assessment Regulations."</p> <p>C. Seniority vested ratio</p> <p>Service since January 1, 2019=40%, and each additional year is 30%.</p>
Restrictions on RSA	<p>1. During the vesting period, employees shall not sell, pledge, transfer, present to others as a gift, set as guaranty, and dispose in other means the new RSA shares.</p> <p>2. The rights to attendance, proposition, speech, voting, and other rights and interests of shareholders of employees before meeting the vesting condition shall be exercised through a trust/custodian institution.</p> <p>3. During the vesting period, no allotment, dividend, or cash capitalization by issuing new shares shall apply to new RSA shares. In addition, these also do not apply to new RSA shares meeting the vesting condition 15 business days before the book closure date of record date of allotment, dividend, and subscription until the allotment record date.</p>

Custody of RSA	During the trust period of RSA, this Company will solely represent employees to negotiate, sign, amend, extend, rescind, terminate the trust/custody agreements (including, without limitation) with the stock trust/custody institutions, and to make instructions for the delivery, utilization, and disposition of the trust/custody property.
Handling of RSA of employees unqualified for vesting after allotment	<ol style="list-style-type: none"> 1. Handling of RSA of employees unqualified for vesting: This Company will gratuitously recover and cancel RSA unqualified for vesting. 2. If employees breach the employment contract or seriously violate the work rules after being allotted with RSA, this Company will gratuitously recover and cancel their RSA unqualified for vesting. 3. Voluntary resignation: Unqualified RSA will be deemed as unqualified for vesting on the date of resignation. This Company will gratuitously recover and cancel them. 4. Termination of employment for other reasons (including unnoticed termination of employment contract, suspension, dismissal, retirement, and redundancy): If the employment contract between this Company and an employee is terminated for other reasons, this Company will gratuitously recover and cancel RSA unqualified for vesting. 5. Leave of absence: When an employee is approved by this Company for taking a leave of absence (LOA), this Company will gratuitously recover and cancel the RSA deemed as unqualified for vesting on the effective date of LOA; except with the approval of the board of directors which is authorized to handle such RSA unqualified for vesting. 6. Death of general causes: All causes of death are general causes of death, except for death caused by work-related injuries as specified in subparagraph 1, paragraph 6, Article 5, of the issuance regulations. RSA unqualified for vesting will be deemed as unqualified for vesting, this Company will gratuitously recover and cancel them. 7. Transfer <ol style="list-style-type: none"> (1) Transfer requested by employees: The RSA unqualified for vesting of employees applying for a transfer to an affiliate or company will be handled according to the RSA of employees of voluntary resignation. (2) Transfer requested by the company: The RSA unqualified for vesting of employees transferred by the Company approved by the board of directors will be subject to the resolution of the board of directors.
Recovered or redeemed RSA	0 shares
Number of shares of relieved RSA	131,000 shares
Number of shares of un-unrelieved RSA	204,000 shares
Ratio of shares of un-unrelieved RSA in outstanding shares (%)	0.30
Impact on shareholder equity	Calculating based on the number of this Company's shares circulating in the market, the dilatation effect on the EPS in future years is limited, and the impact on shareholder equity is insignificant.

(II) Name and stake of managers and top ten employees acquiring RSAs

2020/4/30

	Title	Name	Number of Shares of Acquired RSA	Ratio of Shares of Acquired RSA in Outstanding Shares (%)	Relieved RSA			Unrelieved RSA				
					Number of Released Shares	Issuing Price	Amount of Issuance	Ratio of Shares of Relieved RSA in Outstanding Shares (%)	Number of Unreleased Shares	Issuing Price	Amount of Issuance	Ratio of Shares of Unrelieved RSA in Outstanding Shares (%)
Managers	AVP	Chi, Yu-Pin	67,500	0.10	27,000	Gratuitous	-	0.04	40,500	Gratuitous	-	0.06
	Sales Manager	Kuo, Chun-Chu										
	Chief Auditor	Tung, Shang-Ju										
Employee	Manager	Mao, Ching-Sheng	267,500	0.39	104,000	Gratuitous	-	0.15	163,500	Gratuitous	-	0.24
	Assistant to Director	Wang, Ming-Po										
	Assistant Manager	Chiang, Ching-Yuan										
	Section Chief	Peng, Chi-Chiang										
	Section Chief	Wang, Chung-Chun										
	Deputy Section Chief	Wang, Sheng-Lin										
	Deputy Section Chief	Hou, Chien										
	Team Leader	Wang, Hsiao-Wei										
	Team Leader	Ren, Chien-Chou										

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

VIII. Implementation of fund utilization plan:

(I) Contents of the Plan

Contents and status of any incomplete plans for previous offering or private placement of securities, or any such plans completed within the last three years without significant effects by one quarter before the report printing date: All plans have been completed and profit can be seen.

(II) Progress and yield analysis:

Based on the purposes of each plan stated above, compare the progress and yield with the plan by one quarter before the report printing date. If the progress or yield is behind the schedule, state the exact causes, the impacts on shareholder's rights and interests, and improvement plans: None.

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: NTDS\$ thousand

Product \ Year	2018		2019	
	Amount	Revenue weight (%)	Amount	Revenue weight (%)
Industrial sewing machine parts	1,816,136	100	1,654,088	100
Total	1,816,136	100	1,654,088	100

3. Existing products (services)

The main product lineups of this Company include: accessories before sewing, industrial sewing machine blades, needle blades, automatic assisted devices, automatic sewing equipment, and other industrial blades.

4. Planned products (services)

- A. 4-needle 6-thread automatic thread cutter.
- B. Electronic Puller
- C. 1-6 steps computer device.
- D. Zig-zag anti-bird nest device
- E. Automatic electronic control system
- F. Single-step sewing automatic equipment.
- G. Integrated multi-step (multi-process) automatic sewing unit.
- H. Single-process or multi-process sewing automatic production line.
- I. Automated sewing equipment and production line automation.
- 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

Between January and July 2019, there was the slowdown of the global economy, rising disputes of the US-China trade war which exerted pressure on domestic and foreign markets, the industry's production and sales have slightly dropped, whereas exports slightly rebounded. With that, there has been some pressure on corporate development with declining profits. Although the industry faces uncertainties and challenges, companies are cutting production to reduce costs and improving product quality. Corresponding to the CISMA2019, we have advanced layouts and accelerated development of new technologies and new products to face future challenges.

According to statistics published by the China Sewing Machinery Association (CSMA), China's sewing machine industry produced an aggregate output value of RMB 10.388 billion between January and July 2019, down by 17.36 % year-on-year; meanwhile, 3,630,500 sewing machines were manufactured during this period, representing a 13.47 % decline year-on-year, of which 2,499,300 industrial sewing machines were manufactured, representing a 17.25% decline year-on-year.

According to statistics published by the China Sewing Machinery Association (CSMA), China's sewing machine industry generated operating revenue of RMB11.54 billion between January and July 2019, down by 11.56% year-on-year; meanwhile, 3,856,800 sewing machines were sold, which represented a 7.33% decline, and 108.48% of the units produced.

According to statistics published by General Administration of Customs of the People's Republic of China: China's sewing machine industry generated US\$1.438 billion in exports between January and July 2019, representing a 1.23% growth year-on-year. Export of industrial sewing machines totaled 2,338,600 units and US\$722 million, down 1.49% and up 3.38%, respectively, year-on-year.

Between January and August 2019, the Vietnam market ranked top in the industry, with exports of US\$249 million, accounting for 15.06% of the total export in the industry; India is the second largest export market, with a total export of US\$210 million; Japan is the third largest export market, with a total export of US\$75.13 million. Among the markets, Malaysia, Myanmar, Cambodia and other ASEAN markets, as well as Uzbekistan, Egypt, Nigeria and Iran markets

have evident growth that is worthy of attention.

According to statistics of the National Bureau of Statistics of China, the enterprises above designated size generated main operating revenue of RMB16.705 billion between January and July 2019, down by 8.54% year-on-year, with a total profit of RMB889 million, down by 17.83% year-on-year; meanwhile, gross margin was 18.85%, which declined by 2.94% year-on-year, with an operating profit margin of 5.32%, which declined by 10.15% 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.

One the other hand 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

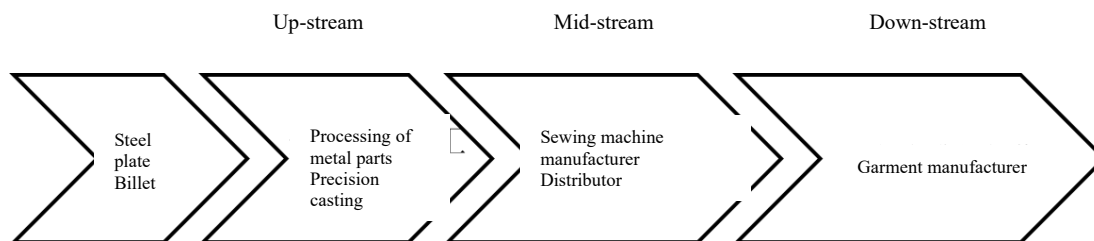
(2) Industry prospect

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	2016	2017	2018	2019
	Doctor	—	—	—	—
	Master	—	—	—	—
	Bachelor	13	9	10	16
	Diploma (and below)	48	53	61	66
	Total	61	62	71	82

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

		Unit: NTD\$ thousand				
Year	Item	2015	2016	2017	2018	2019
	R&D expenditures	21,312	35,777	37,517	60,742	50,794
	Net revenues	1,244,747	1,176,155	1,374,470	1,816,136	1,654,088
	As a percentage of net revenues (%)	1.71	3.04	2.73	3.34	3.07

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 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: NTDS\$ thousand

Year Geographic areas where the main products are provided	2017		2018		2019	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
C h i n a	1,051,307	76.49	1,469,803	80.93	1,275,727	77.13
A s i a - o t h e r s	257,117	18.70	259,941	14.31	316,590	19.14
A m e r i c a	23,999	1.75	44,225	2.44	34,468	2.08
E u r o p e	30,229	2.20	25,326	1.39	23,661	1.43
O t h e r s	11,818	0.86	16,841	0.93	3,642	0.22
T o t a l	1,374,470	100.00	1,816,136	100.00	1,654,088	100

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 development First, 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 Province (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.

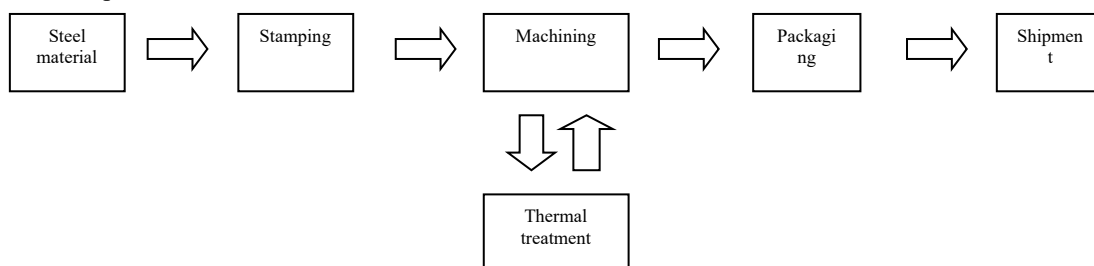
(II) Key purpose and manufacturing processes for the Company's main products

1. Purposes of main products

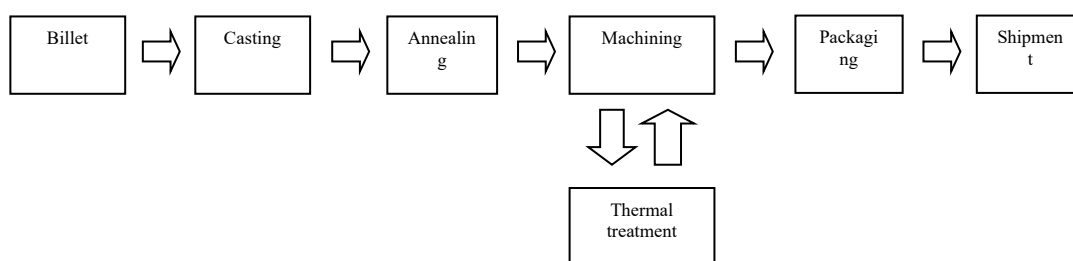
The Company is mainly involved in the production and sale of industrial sewing machine parts and automation devices. Its products are used for the assembly and repair of industrial sewing machines. Main product categories include industrial sewing machine blades, needle plates, thread cutters and others.

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
Pneumatic components	Teng Zhuo Smart Technology 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	2018	2019

Main product	Productivity	Production volume	Production value	Productivity	Production volume	Production value
Industrial sewing machine parts	90,299	62,275	1,846,184	78,786	51,907	1,605,249
Total	90,299	62,275	1,846,184	78,786	51,907	1,605,249

2. Analysis of variations

The company's annual production capacity in 2019 is slightly lower than that in 2018 and the output is down by 16.65% 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 pieces/ NTD thousands

Year	2018				2019			
	Domestic sale		Exports		Domestic sale		Exports	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Industrial sewing machine parts	44,453	1,494,133	10,917	322,003	47,565	1,279,871	18,673	374,217
Total	44,453	1,494,133	10,917	322,003	47,565	1,279,871	18,673	374,217

2. Analysis of variations

Due to the overall market factors in 2019, the turnover of products fell by 8.92% compared with 2018.

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

Item		2018	2019	As of March 31, 2020
Number of employees	Direct labor	957	858	852
	Indirect labor	399	241	242
	Managerial staff	226	308	315
	Total	1,582	1,407	1,409
Average age		32.6	34.21	34.26
Average tenure (year)		7.9	8.75	8.57
Education distribution ratio (%)	Doctor	-	-	-
	Master	0.07	0.14	0.14
	College	24.00	23.74	24.63
	Senior high school	59.94	58.28	56.28
	Below senior high school	15.99	17.84	18.95
	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 (including compensations and violations of environmental protection laws found in environmental audits with information regarding the date of punishment, ticket number, regulations breached, contents of breach, and contents of punishment) due to pollution in the last year and by the date of report publication, and disclose the estimated amount at present and in the future and countermeasures, or the reasons preventing from estimation, if any:

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 labor-management disputes (including the violation of the Labor Standards Act found in the labor inspection, with information regarding the date of punishment, ticket number, regulations breached, contents of breach, and contents of punishment) in the last year up and by the date of report publication. Please quantify the estimated losses and state any responsive actions, and state the reasons if losses cannot 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 Guanjong 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		-
Loan Contract	Strong H Machinery Technology (Laizhou) INC . Cathay United Bank (China) Co., Ltd. Qingdao Branch	2019.9.23-2020.9.22 Borrowing period from the first day of the transfer-2020.9.22	The credit line is RMB 20 million and the land and buildings of Qingfang Land Rights No. 20103976 are used as collateral.	-

Nature	Participants	Contract start and end dates	Main contents	Restrict clauses
	Strong H Machinery Technology (Cayman) INC /Cathay United Bank	2019.8.15~2020.8.15	USD 3 million operating turnover fund	-
	Strong H Machinery Technology (Cayman) INC /Mega International Commercial Bank Pateh Branch	2019.5.25-2020.5.24	USD 3 million operating turnover fund	-
Lease Contract	Strong H Machinery Technology (Cayman) INC/ Huang, Chen, Meishi	2019.5.1-2021.4.30	A rental office in Taoyuan City, with a monthly rent of NTS21,500, 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					As of March 31, 2020
		2015	2016	2017	2018	2019	
C u r r e n t a s s e t s		1,203,214	1,095,950	1,443,173	1,601,327	1,605,459	1,672,085
Property , plant, and equipment		520,238	464,308	492,970	524,520	516,153	501,159
I n t a n g i b l e a s s e t s		8,512	6,608	6,091	7,414	6,949	6,450
O t h e r a s s e t s		101,757	100,466	108,464	200,486	250,752	254,808
T o t a l a s s e t s		1,833,721	1,667,332	2,050,698	2,333,747	2,379,313	2,434,502
Current liabilities	Before dividend distribution	799,779	462,162		357,418	581,376	612,785
	After distribution	799,779	566,562	673,484	588,947	Note 2	Unassigned
Non-current liabilities		62,028	61,548	61,548	324,297	97,095	95,977
Total liabilities	Before dividend distribution	861,807	523,710	585,787	681,715	678,471	708,762
	After distribution	861,807	628,110	748,912	913,244	Note 2	Unassigned
Equity attributable to owners of the parent		971,914	1,143,622	1,464,911	1,652,032	1,700,842	1,725,740
Share capital		580,000	580,000	652,500	661,511	673,312	678,516
Capital reserve		136,934	212,334	371,995	401,444	414,521	417,291
Retained earnings	Before dividend distribution	173,570	362,134	460,876	643,446	749,616	787,179
	After distribution	173,570	257,734	330,376	458,223	Note 2	Unassigned
Other equity items		81,410	(10,846)	(20,460)	(54,369)	(136,607)	(157,246)
Treasury stock		-	-	-	-	-	-
Non-controlling equity		-	-	-	-	-	-
E q u i t y T o t a l	Before dividend distribution	971,914	1,143,622	1,464,911	1,652,032	1,700,842	1,725,740
	After distribution	971,914	1,039,222	1,301,786	1,466,809	Note 2	Unassigned

Note 1: The financial reports audited or verified by accountants in the 2015-2019 and the one quarter of 2020.

Note 2: The Company held the 6th in the fourth session Board of Directors on April 23, 2020, and issued a cash dividend of NT\$4 per share, it is expected to issue NT\$270,570 thousand (based on the current number of shares of 67,647 thousand shares), which is yet to be acknowledged and discussed at the shareholders' meeting of 2020.

2. Summary statement of comprehensive income

Unit: NTD thousands

Item	Year	Financial information for the last 5 years					As of March 31, 2020
		2015	2016	2017	2018	2019	
Operating revenue		1,244,747	1,176,155	1,374,470	1,816,136	1,654,088	265,258
Gross profit		502,208	470,067	562,603	745,578	636,265	97,762
Operating gains and losses		260,035	231,854	290,595	431,486	305,090	35,964
Non-operating revenues and expenses		(7,752)	(6,919)	3,213	4,622	50,550	9,263
Net profit before tax		252,283	224,935	293,808	436,108	355,640	45,227
Continued business unit Net profit in the current period		—	—	—	—	—	—
Loss of discontinuing operations		—	—	—	—	—	—
Net profit (loss) in current period		168,938	147,964	203,142	313,070	291,393	37,563
Other comprehensive income for the current period (net, after-tax)		(17,973)	(92,256)	(9,614)	(33,909)	(70,337)	(22,126)
Total comprehensive income in the current period		150,965	55,708	193,528	279,161	221,056	15,437
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)		2.91	2.55	3.25	4.76	4.38	0.56

Note 1: The financial reports audited or verified by accountants in the 2015-2019 and the one quarter of 2020.

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

Year	Accounting firm	Name of auditor	Opinion
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
2019	Deloitte & Touche	Liu, Shuei-En, Huang, Yao-Lin	Unqualified opinions

II. Financial analysis for the last 5 years

(I) Financial analysis - IFRS

Item of analysis		Year	Analysis of financial information for the most recent five years					Year-to-date as at March 31, 2020
		2015	2016	2017	2018	2019		
Financial structure (%)	Liabilities to total assets	47.00	31.41	28.57	29.21	28.52	29.11	
	Long term fund to fixed assets ratio	198.74	259.56	312.46	376.79	348.33	363.50	
Liquidity analysis%	Current ratio	150.44	237.14	282.78	448.03	276.15	272.87	
	Quick ratio	94.06	139.48	174.93	297.55	207.23	202.45	
	Interest coverage	37.36	27.55	60.34	34.35	25.99	19.54	
Operating efficiency	Account receivable turnover (times)	2.18	2.06	2.30	2.81	2.39	1.59	
	Average collection days	168	178	158.69	129.93	152.71	229.29	
	Inventory turnover (times)	1.71	1.68	1.81	2.23	2.56	1.95	
	Account payable turnover (times)	9.41	9.88	10.68	13.28	13.73	6.99	
	Average days in sales	214	235	201.65	164.02	142.57	187.09	
	Property, plant, and equipment turnover (times)	2.52	2.46	2.87	3.57	3.18	2.09	
	Total assets turnover (times)	0.68	0.74	0.83	0.83	0.70	1.76	
Profitability	ROA (%)	9.79	8.88	11.13	14.73	12.82	1.64	
	ROE (%)	17.70	13.65	15.58	20.09	17.38	2.19	
	Pre-tax profit as a percentage of paid-up capital (%)	43.50	38.78	45.03	65.93	52.82	6.67	
	Net profit margin (%)	13.57	12.58	14.78	17.24	17.62	14.16	
	Earnings per share (\$) (Note 1)	2.91	2.55	3.25	4.76	4.38	0.56	
Cash flow	Cash flow ratio (%)	11.95	41.38	28.52	80.95	65.59	17.51	
	Cash flow adequacy ratio (%)	60.10	93.65	79.12	88.82	183.09	172.59	
	Cash reinvestment ratio (%)	4.53	13.46	2.29	7.32	10.96	5.27	
Leverage	Operating leverage	1.23	1.35	2.20	1.12	1.24	1.45	
	Financial leverage	1.03	1.04	1.02	1.03	1.05	1.07	
<p>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)</p> <ol style="list-style-type: none"> 1. Current ratio: mainly due to corporate bonds of NT\$196,701,000 due within one year are transferred from non-current liabilities into current liabilities. 2. Quick ratio: mainly due to corporate bonds of NT\$196,701,000 due within one year are transferred from non-current liabilities into current liabilities. 3. Times interest earned ratio: mainly due to significant decline of pre-tax profit by 18.5% compared to that in 2018. 4. Cash flow adequacy ratio: mainly due to significant increase in cash in-flows from operating activities and a 								

significant drop in inventories.

5. Cash reinvestment ratio: mainly due to significant increase in cash in-flow from operating activities.

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

(I) Financial report review report

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

We have reviewed the Company's 2019 business report and 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 2020 Annual General Meeting

Strong H Machinery Technology (Cayman) Incorporation

Audit Committee convener: Wang, Ching-Hsiang

2020/3/19

(II) Examination report of surplus distribution proposal

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

We have reviewed the Company's 2019 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 2020 Annual General Meeting

Strong H Machinery Technology (Cayman) Incorporation

Audit Committee convener: Wang, Ching-Hsiang

2020/4/23

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 by the date of report publication: 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

Item	Year	2018	2019	Variance	
				Amount	(%)
Current assets		1,601,327	1,605,459	4,132	0.26
Property, plant, and equipment		524,520	516,153	(8,367)	(1.60)
Intangible assets		7,414	6,949	(465)	(6.27)
Other assets		200,486	77,844	(122,642)	(61.17)
Total assets		2,333,747	2,379,313	45,566	1.95
Current liabilities		357,418	581,376	223,958	62.66
Other liabilities		324,297	97,095	(227,202)	(70.06)
Total liabilities		681,715	678,471	(3,244)	(0.48)
Capital stock		661,511	673,312	11,801	1.78
Capital surplus		401,444	414,521	13,077	3.26
Undistributed earnings		566,459	607,413	40,954	7.23
Other equity		(54,369)	(136,607)	(82,238)	151.26
Total shareholders' equity		1,652,032	1,700,842	48,810	2.95
<p>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:</p> <ol style="list-style-type: none"> 1. Current assets: mainly due to adopting IFRS 16 for recognizing pre-paid lease payments - non-current (other assets) as a right-of-use assets. 2. Current liabilities: mainly due to corporate bonds of NT\$196,701,000 due within one year are transferred from non-current liabilities into current liabilities. 3. Other liabilities: mainly due to corporate bonds of NT\$196,701,000 due within one year are transferred from non-current liabilities into current liabilities. 4. Other equity: mainly due to a decrease in exchange difference between NTD and the Company's functional currency RMB caused by the RMB to NTD exchange rate decline. 					

II. Financial performance

(I) Financial performance analysis for the previous 2 years

Unit: NTD\$ thousand

Item	Year	2018	2019	Variance	
				Amount	(%)
Total operating revenue, net		1,816,136	1,654,088	(162,048)	(8.92)
Operating cost		1,070,558	1,017,823	(52,735)	(4.93)
Gross profit		745,578	636,265	(109,313)	(14.66)
Total operating expenses		314,092	331,175	17,083	5.44
Operating income		431,486	305,090	(126,396)	(29.29)
Total non-operating revenue and expenditure		4,622	50,550	45,928	993.68
Income before tax		436,108	355,640	(80,468)	(18.45)
Income tax expenses		123,038	64,247	(58,791)	(47.78)
Net profit in the current period		313,070	291,393	(21,677)	(6.92)

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 decreased operating revenue and gross profit and increased operating expense.

2. Non-operating revenue and costs: mainly due to an increase of NT\$46,881,000 in subsidies received from the local government in China.

3. Income tax expense: mainly because of Strong H Mechanical Technology (Laizhou) Co., Ltd. has been certified as a high-tech enterprise and enjoys preferential income tax of 15%, which led to a decrease in income tax expense.

(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	2018	2019	Variance	
			Amount	(%)
Operating activities	289,330	404,574	115,244	39.83
Investing activities	(250,519)	(103,975)	146,544	(58.50)
Financing activities	22,887	(171,169)	(194,056)	(847.89)

Analysis of Capital Changes:

1. Cash flow: mainly due to inventory correction and increase in accounts payable turnover in days.
2. Cash flow from investing activities: mainly due to decreased acquisition of land and sale of financial assets.
3. Cash flow from financing activities: mainly due to distribution of cash dividends and no issuance of new bonds.

(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
468,591	295,000	280,000	483,591	—	-

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 2020, and the net cash inflow from operating activities is expected to be NTD\$295,000 thousand 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 NTD\$280 thousand 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 2019	Main causes for profit or loss	Corrective action plan
Faith Light International Corporation	257,587 (US\$8,038)	100	63,568	Subsidiary's income recognized by the investment holding company	N/A
VANDEN INTERNATIONAL CO., LTD.	235,763 (US\$7,518)	100	264,259	Subsidiary's income recognized by the investment holding company	N/A
Hao Qiang Precision Machinery (Qingdao) Co., Ltd.	US\$8,000	100	(15,438)	Due to adjustment of production product items	N/A
Strong H Mechanical Technology (Laizhou) Co., Ltd.	US\$27,979	100	340,624	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 2018 and 2019 amounted to NT\$13,077 thousand and NT\$14,229 thousand, which represented 0.72% and 0.86% 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, 2019 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 and 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 2020, 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 by the date of report publication.

(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 by the date of report publication, hence not applicable.

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

In response to business development planning in the next 3~5 years, the tier-2 subsidiary Strong H Mechanical Technology (Laizhou) Co., Ltd. acquired the superficies of about 153 hectares from the Laizhou Natural Resources and Planning Bureau (formerly Laozhou City National Resources) in 2018 and 2019 for building factories in the Laizhou City Development Zone in Shandong Province. Currently, we have signed a factory construction (phase I) contract with Shandong Guangyuan Group, and construction has started.

The project will be implemented in two phases and completed by the end of 2020 to bring positive benefits to organizational operations.

(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

No significant transfer of shares by directors, supervisors or major shareholders holding over 10% of the stake in the last year and by the date of report publication. As the third board of directors expired, a full board re-election was held on June 6, 2019. Six directors won a second term, and only one was replaced. 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.

3. Information security risk

We have hired professional staff to take charge of matters in relation information security prevention and information crisis management; make high-availability backup of data based on the risk level of IT system and infrastructure; assess the operational risk and impacts in terms of finance, regulation, and customers every year; plan, design, and improve appropriate hardware and software equipment and resources; and improve operating procedures to significantly reduce the impact of information security risk. After assessment, no significant operational risk was found in the Company's information security.

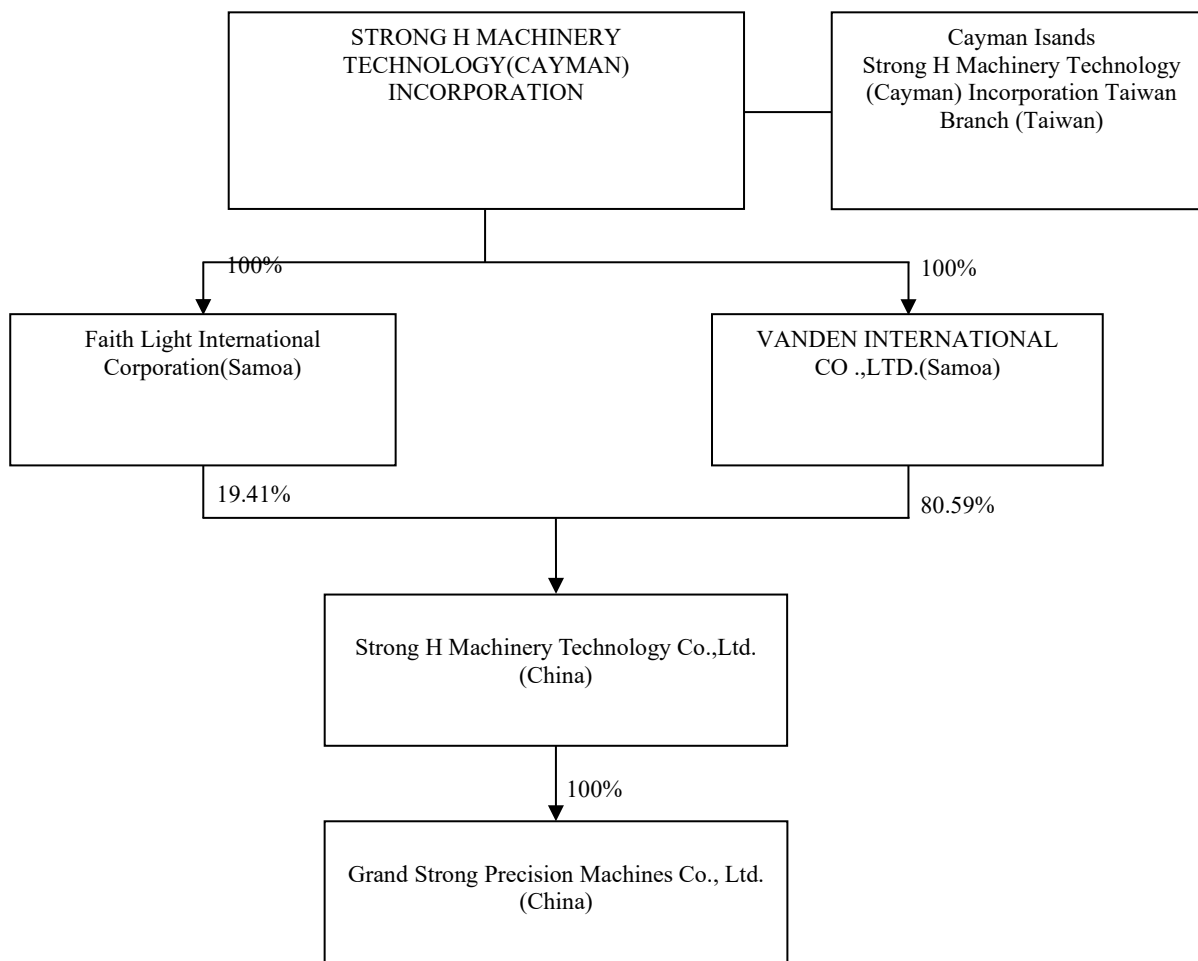
VII. Other important disclosures: None.

Eight. Special Disclosures

I. Information About Affiliates

(I) Consolidated business report

1. Affiliated enterprises chart



2. Profile of affiliated enterprises

Date: December 31, 2019; 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 27,979	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, 2019; 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 365,553 NTD 1,573,705	RMB 18,886 NTD 81,305	RMB 346,667 NTD 1,492,400	RMB - NTD -	RMB (12) NTD (54)	RMB 59,543 NTD 265,213	-
Faith Light International Corporation	USD 8,038	RMB 89,737 NTD 386,316	RMB 4,370 NTD 18,815	RMB 85,366 NTD 367,501	RMB (2) NTD (8)	RMB (12) NTD (53)	RMB 14,323 NTD 63,798	-
Strong H Machinery Technology Co.,Ltd.	USD 27,979	RMB 526,520 NTD2,266,669	RMB 75,560 NTD 325,287	RMB 450,960 NTD 1,941,382	RMB 367,378 NTD 1,636,340	RMB 80,298 NTD 357,654	RMB 76,473 NTD 340,624	-
Grand Strong Precision Machines Co., Ltd.	USD 8,000	RMB 65,993 NTD 284,099	RMB 8,368 NTD 36,023	RMB 57,625 NTD 248,077	RMB 41,813 NTD 186,238	RMB (3,778) NTD (16,826)	RMB (3,230) NTD (14,388)	-

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 by the date of report publication: None.

III. Holding or disposal of the Company's shares by subsidiaries in the last year and by the date of report publication: 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:

Protection of Shareholder's Rights	Cayman Order & Description	Company Charters & Regulations
<p>1. When an AGM resolution involves any one of the following, dissenting shareholders shall enjoy the appraisal right:</p> <p>(1) split-off, merger, acquisition, or share transfer;</p> <p>(2) enter into, amend, or terminate any contract for lease of the company's business in whole, or for entrusted business, or for regular joint operation with others; transfer the whole or any essential part of its business or assets; or accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company.</p> <p>2. The shareholder file the request under the preceding paragraph in writing within 20 days since the AGM resolution was made and specify the price for buying back. If the company and shareholder reach an agreement about the price of buying back, the company shall pay for the shares within 90 days since the resolution of the general meeting was made. In case no agreement is reached, the company shall pay the fair price it has recognized to the dissenting shareholder who asks for a higher price within 90 days since the resolution of the general meeting was made. If the company did not pay, the company shall be considered to be agreeable to the price requested by the shareholder.</p> <p>3. When a shareholder request for buying back its shares from the company as per subparagraph 1, paragraph 1, if no agreement is reached within 60 days after the AGM resolution was made, the company shall apply to the court for a ruling on the fair price against all the dissenting shareholders as the opposing party within 30 days after that duration. The company may set the Taipei District Court of Taipei as the jurisdiction court of the first instance.</p>	<p>As notified by Cayman legal consul, Taiwan's appraisal right does not contradict with the Cayman law.</p>	<p>Related provisions have been amended in Article 60 and 61 of the company charter.</p> <p>According to the Cayman legal consul, the company charter does not contradict with the Cayman law.</p>

Protection of Shareholder's Rights	Cayman Order & Description	Company Charters & Regulations
<p>A resolution on the following proposals involving the material rights and interests of shareholders shall be adopted by a majority vote at a meeting of shareholders attended by shareholders representing two-thirds or more of the total number of the outstanding shares of the company. If the total number of shares represented by shareholders present at a meeting of shareholders is insufficient to meet the above criteria, the resolution may be adopted by two-thirds of the votes of the shareholders present at a meeting of shareholders attended by shareholders representing a majority of the total number of the outstanding shares of the company.</p> <ol style="list-style-type: none"> 1. Enter into, amend, or terminate any contract for lease of the company's business in whole, or for entrusted business, or for regular joint operation with others; transfer the whole or any essential part of its business or assets; or accept the transfer of another's whole business or assets, which has great bearing on the business operation of the company. 2. Amendment of the articles of incorporation. 3. Any amendment to the articles of incorporation prejudicial to the privileges of special shareholders shall be adopted by a meeting of special shareholders. 4. Distribute retained earnings as dividends and bonuses in whole or in part in the form of new shares. 5. A resolution for dissolution, consolidation or merger, or split-up of a company 6. Share transfer. 	<p>As notified by Cayman legal consul, an exempted company established as per Cayman's Companies Law (CAP. 22), the following acts shall be exercised by shareholders with voting rights as per the "special resolution":</p> <p>Amendment of the memorandum of association (CAP. 22, §10).</p> <p>Resolution on capital reduction (CAP. 22, §14).</p> <p>Amendment of the articles of association (CAP. 22, §24).</p> <p>Passage of the articles of association (CAP. 22, §25).</p> <p>Change of company name articles of association (CAP. 22, §31).</p> <p>Share transfer, except when share transfer has been stipulated in the articles of association (CAP. 22, § 40(b)).</p> <p>Assignment of auditors to audit the company as per CAP. 22, §63-67 (CAP. 22, §67).</p> <p>Liquidation of the company (CAP. 22, §90 and 92).</p> <p>Cancellation of company liquidation (CAP. 22, §111(2)(a)).</p> <p>Other voluntary liquidation than liquidation required by failure to repay mature debts (CAP. 22, § 116(c)).</p> <p>Re-registration of a general civilian company into an exemption company (CAP. 22, §210).</p> <p>Merger/consolidation (CAP. 22, § 233(7)).</p> <p>In addition, as notified by the Cayman legal consul, a voluntary dissolution of a company due to failure to repay mature debts shall be approved by a general resolution (e.g. approval by shareholders representing one-half of the voting shares of attending shareholders or by all shareholders with voting rights in writing), except a severe resolution is required as otherwise specified in the articles of association.</p>	<p>As notified by the Cayman legal consul, whether or not the company charter requires, the said regulations of CAP. 22 shall apply to this Company. In addition, this Company shall not avoid the applicability of CAP. 22 through charter amendment. In response to the "special resolution" requirement in CAP. 22, the threshold of a "special resolution" for amendment of the memorandum of association and articles of association has been amended in Article 33 of the company charter (articles of association). In addition, the need for a "special resolution" or "severe resolution" for company dissolution is stipulated in Article 35 of the company charter (articles of association). Other items required for a severe resolution as specified in the shareholder rights and interests' checklist that do not contradict with the Cayman order have been stated in Article 34 of the company charter (articles of association). Revisions made to the shareholder rights and interests checklist have also been updated in Article 34 of the company charter (articles of association).</p>
<p>A director who has a personal interest in the matter under discussion at a board meeting shall explain to the board meeting the essential contents of such personal interest. In the merger/consolidation and acquisition by a company, a director who has a personal interest in the transaction of merger/consolidation and acquisition</p>	<p>As notified by the Cayman legal consul, the current regulations governing the conflict of interests in the law of Taiwan do not contradict with the Cayman order.</p>	<p>The key points of related regulations have been updated in Article 90 of the parent company's charter (articles of association). According to the Cayman legal consul, the parent company's charter does not contradict with the Cayman order.</p>

Protection of Shareholder's Rights	Cayman Order & Description	Company Charters & Regulations
<p>shall explain to the Board meeting and the general meeting the essential contents of such personal interest and the cause of approval or dissent to the resolution of merger /consolidation or acquisition.</p>		
<ol style="list-style-type: none"> 1. Before any resolution of merger/consolidation and acquisition by the Board of Directors, the company shall review the fairness and reasonableness of the plan and transaction of the merger/consolidation or acquisition through the audit committee of a special committee (applicable to companies with the supervisor system). If no board resolution on merger/consolidation and acquisition is required according to the law of the place of registration of a foreign issuer, no board discussion for such proposals is required. 2. When the audit committee (special committee) reviews matters, it shall seek opinions from an independent expert on the justification of the share exchange ratio or distribution of cash or other assets. 3. The review results of the audit committee (special committee) and opinions of independent experts all shall be attached to shareholders' notice after a board resolution. If no board resolution on merger/consolidation and acquisition is required according to the law of the place of registration of a foreign issuer, the board of directors shall submit reports for matters of the merger/consolidation and acquisition at the nearest AGM. 4. When the said documents required for delivery to shareholders are published in the exact content on a website designated by the competent securities authority of the Republic of China and those documents are prepared in the company and at the AGM venue, those documents shall be deemed as having been sent to shareholders. 	<p>As notified by the Cayman legal consul, the current A&M regulations in Taiwan do not contradict with that of the Cayman order.</p>	<p>The key points of related regulations have been updated in Article 119 of the parent company's charter (articles of association). According to the Cayman legal consul, the parent company's charter does not contradict with the Cayman order.</p>

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

Appendix I

Consolidated Financial Statements and Independent Auditor's Report for 2019 and 2018

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

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 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, 2019, 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 27, 2020

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, 2019 and 2018, 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, 2019 and 2018, 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 audit of the consolidated financial statements for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission of the Republic of China on February 25, 2020, and auditing standards generally accepted in the Republic of China. We conducted our audit of the consolidated financial statements for the year ended December 31, 2018 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, 2019, 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, 2019.

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.

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, 2019 and 2018 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, 2019 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 Alan Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

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, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 468,591	20	\$ 351,561	15
Financial assets at fair value through profit or loss - current (Notes 7 and 28)	-	-	44,720	2
Notes receivable (Notes 4 and 8)	97,499	4	90,330	4
Trade receivables (Notes 4, 5 and 8)	614,305	26	578,277	25
Other receivables from related parties (Notes 4 and 29)	-	-	4,505	-
Current tax asset (Notes 4 and 23)	1,544	-	-	-
Inventories (Notes 4, 5 and 9)	312,973	13	444,805	19
Other current assets (Notes 3, 4, 14, 15 and 30)	<u>110,547</u>	<u>4</u>	<u>87,129</u>	<u>4</u>
Total current assets	<u>1,605,459</u>	<u>67</u>	<u>1,601,327</u>	<u>69</u>
NON-CURRENT ASSETS				
Property, plant and equipment (Notes 4, 11, 29 and 30)	516,153	22	524,520	22
Right-of-use asseets (Notes 3, 4, 12 and 30)	172,908	7	-	-
Intangible assets (Notes 4 and 13)	6,949	-	7,414	-
Deferred tax assets (Notes 4, 5 and 23)	32,934	2	39,623	2
Prepayments for leases - non-current (Notes 4, 14 and 30)	-	-	135,052	6
Other non-current assets (Notes 4 and 15)	<u>44,910</u>	<u>2</u>	<u>25,811</u>	<u>1</u>
Total non-current assets	<u>773,854</u>	<u>33</u>	<u>732,420</u>	<u>31</u>
TOTAL	<u>\$ 2,379,313</u>	<u>100</u>	<u>\$ 2,333,747</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 4 and 16)	\$ 60,360	3	\$ -	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 28)	-	-	480	-
Notes payable (Note 4)	658	-	5,322	-
Trade payables (Notes 4 and 29)	76,108	3	66,167	3
Other payables (Notes 4 and 18)	244,275	10	233,362	10
Current tax liabilities (Notes 4 and 23)	-	-	49,244	2
Current portion of bonds payable (Notes 4, 17, 26 and 28)	196,701	9	-	-
Other current liabilities (Note 4)	<u>3,274</u>	<u>-</u>	<u>2,843</u>	<u>-</u>
Total current liabilities	<u>581,376</u>	<u>25</u>	<u>357,418</u>	<u>15</u>
NON-CURRENT LIABILITIES				
Bonds payable (Notes 4, 17, 26 and 28)	-	-	234,663	10
Deferred tax liabilities (Notes 4 and 23)	<u>97,095</u>	<u>4</u>	<u>89,634</u>	<u>4</u>
Total non-current liabilities	<u>97,095</u>	<u>4</u>	<u>324,297</u>	<u>14</u>
Total liabilities	<u>678,471</u>	<u>29</u>	<u>681,715</u>	<u>29</u>
EQUITY (Notes 4, 20, 25 and 27)				
Share capital				
Ordinary shares	<u>673,312</u>	<u>28</u>	<u>661,511</u>	<u>28</u>
Capital surplus	<u>414,521</u>	<u>17</u>	<u>401,444</u>	<u>17</u>
Retained earnings				
Legal reserve	87,834	4	56,527	3
Special reserve	54,369	2	20,460	1
Unappropriated earnings	<u>607,413</u>	<u>26</u>	<u>566,459</u>	<u>24</u>
Total retained earnings	<u>749,616</u>	<u>32</u>	<u>643,446</u>	<u>28</u>
Other equity	<u>(136,607)</u>	<u>(6)</u>	<u>(54,369)</u>	<u>(2)</u>
Total equity	<u>1,700,842</u>	<u>71</u>	<u>1,652,032</u>	<u>71</u>
TOTAL	<u>\$ 2,379,313</u>	<u>100</u>	<u>\$ 2,333,747</u>	<u>100</u>

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 21, 29 and 34)	\$ 1,654,088	100	\$ 1,816,136	100
OPERATING COSTS (Notes 9, 19, 22 and 29)	<u>(1,017,823)</u>	<u>(62)</u>	<u>(1,070,558)</u>	<u>(59)</u>
GROSS PROFIT	<u>636,265</u>	<u>38</u>	<u>745,578</u>	<u>41</u>
OPERATING EXPENSES (Notes 19, 22 and 29)				
Marketing	(58,141)	(4)	(55,799)	(3)
Administrative	(222,240)	(13)	(197,551)	(11)
Research and development	<u>(50,794)</u>	<u>(3)</u>	<u>(60,742)</u>	<u>(3)</u>
Total operating expenses	<u>(331,175)</u>	<u>(20)</u>	<u>(314,092)</u>	<u>(17)</u>
INCOME FROM OPERATIONS	<u>305,090</u>	<u>18</u>	<u>431,486</u>	<u>24</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4, 22 and 29)				
Other income	59,339	4	10,765	1
Other gains and losses	5,440	-	6,934	-
Finance costs	<u>(14,229)</u>	<u>(1)</u>	<u>(13,077)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>50,550</u>	<u>3</u>	<u>4,622</u>	<u>-</u>
INCOME BEFORE INCOME TAX	355,640	21	436,108	24
INCOME TAX EXPENSE (Notes 4, 5 and 23)	<u>(64,247)</u>	<u>(4)</u>	<u>(123,038)</u>	<u>(7)</u>
NET INCOME	<u>291,393</u>	<u>17</u>	<u>313,070</u>	<u>17</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4 and 20)				
Items that will not be reclassified subsequently to profit or loss:				
Exchange difference on translating foreign operations	<u>(70,337)</u>	<u>(4)</u>	<u>(33,909)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 221,056</u>	<u>13</u>	<u>\$ 279,161</u>	<u>15</u>
EARNINGS PER SHARE (Note 24)				
Basic earnings per share	<u>\$ 4.38</u>		<u>\$ 4.76</u>	
Diluted earnings per share	<u>\$ 4.21</u>		<u>\$ 4.76</u>	

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, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	Share Capital		Capital Surplus	Retained Earnings				Other Equity		Total	Total Equity
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Difference on Translating Foreign Operations	Unearned Employee Benefits		
BALANCE AT JANUARY 1, 2018	65,250	\$ 652,500	\$ 371,995	\$ 36,213	\$ 10,846	\$ 413,817	\$ 460,876	\$ (20,460)	\$ -	\$ (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)	(33,909)
Total comprehensive income (loss) in 2018	-	-	-	-	-	313,070	313,070	(33,909)	-	(33,909)	279,161
Convertible bonds converted to ordinary shares	901	9,011	30,734	-	-	-	-	-	-	-	39,745
BALANCE AT DECEMBER 31, 2018	66,151	661,511	401,444	56,527	20,460	566,459	643,446	(54,369)	-	(54,369)	1,652,032
Appropriations of 2018 earnings											
Legal reserve	-	-	-	31,307	-	(31,307)	-	-	-	-	-
Special reserve	-	-	-	-	33,909	(33,909)	-	-	-	-	-
Cash dividends to shareholders	-	-	-	-	-	(185,223)	(185,223)	-	-	-	(185,223)
	-	-	-	31,307	33,909	(250,439)	(185,223)	-	-	-	(185,223)
Issuance of share dividends from capital surplus	-	-	(46,306)	-	-	-	-	-	-	-	(46,306)
Net income in 2019	-	-	-	-	-	291,393	291,393	-	-	-	291,393
Other comprehensive income (loss) in 2019, net of income tax	-	-	-	-	-	-	-	(70,337)	-	(70,337)	(70,337)
Total comprehensive income (loss) in 2019	-	-	-	-	-	291,393	291,393	(70,337)	-	(70,337)	221,056
Convertible bonds converted to ordinary shares	1,180	11,801	39,547	-	-	-	-	-	-	-	51,348
Issuance of ordinary shares for cash	-	-	19,836	-	-	-	-	-	(11,901)	(11,901)	7,935
BALANCE AT DECEMBER 31, 2019	67,331	\$ 673,312	\$ 414,521	\$ 87,834	\$ 54,369	\$ 607,413	\$ 749,616	\$ (124,706)	\$ (11,901)	\$ (136,607)	\$ 1,700,842

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, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 355,640	\$ 436,108
Adjustments for:		
Depreciation expenses	70,531	47,663
Amortization expenses	2,152	3,419
Amortization of prepayments for leases	-	1,049
Expected credit loss (reversed) recognized on trade receivables	(505)	3,640
Finance costs	14,229	13,077
Interest income	(7,450)	(3,453)
Compensation costs of share-based payment	7,935	-
Reversal of write-down of inventories	(5,966)	(10,371)
Loss of obsolete inventory	-	2,473
Net gain on fair value changes of financial assets and liabilities designated as at fair value through profit or loss	(480)	(641)
Other items	30	1,994
Changes in operating assets and liabilities		
Notes receivable	(10,791)	(6,300)
Trade receivables	(59,466)	(64,346)
Inventories	125,481	17,785
Other current assets	(24,201)	(24,849)
Notes payable	(4,664)	4,629
Trade payables	12,856	(21,503)
Other payables	19,970	(21,584)
Other current liabilities	431	(418)
Cash generated from operations	495,732	378,372
Interest received	7,450	3,453
Interest paid	(1,007)	(1,333)
Income tax paid	(97,601)	(91,162)
	404,574	289,330
Net cash generated from operating activities		

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of financial assets classified as at fair value through profit or loss	-	(44,720)
Proceeds from sale of financial assets classified as at fair value through profit or loss	44,720	-
Payments for property, plant and equipment	(86,644)	(103,797)
Payments for right-of-use assets	(46,556)	-
Proceeds from disposal of property, plant and equipment	7,563	8,255
Payments for intangible assets	(2,493)	(4,892)
Increase in prepayments for equipment	(15,648)	(4,706)

(Continued)

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Increase in prepayments for leases	\$ -	\$ (100,774)
Increase in items of other investing activities	<u>(4,917)</u>	<u>115</u>
Net cash used in investing activities	<u>(103,975)</u>	<u>(250,519)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	60,360	-
Repayments of short-term borrowings	-	(114,888)
Proceeds from issuance of convertible bonds	-	300,900
Dividend paid to owners of the Company	<u>(231,529)</u>	<u>(163,125)</u>
Net cash used in financing activities	<u>(171,169)</u>	<u>22,887</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(12,400)</u>	<u>(6,494)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	117,030	55,204
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>351,561</u>	<u>296,357</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 468,591</u>	<u>\$ 351,561</u>

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

(Concluded)

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

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

The Company’s functional currency was renminbi (RMB) before, as the Company became listed in Taiwan, in order to increase the comparative and consistency of financial reports, express in New Taiwan dollar (NTD) in 2017. However, considering the Group’s financing management and efficiency, the Company’s function changed to be responsible for the planning of financing activities of the Group in Taiwan, based on this change in the economic environment, the functional currency will be changed from RMB to NTD, and in accordance with IAS 21 “The Effects of Changes in Foreign Exchanges Rates”, the extension of the way, as of January 1, 2018, the consolidated financial statements are presented in the Company’s functional currency, NTD.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 19, 2020.

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:

- 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 IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. 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 impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	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	<u>-</u>	<u>136,080</u>	<u>136,080</u>
Total effect on assets	<u>\$ 136,080</u>	<u>\$ -</u>	<u>\$ 136,080</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: 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 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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.

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

New IFRSs	Effective Date Announced by IASB (Note)
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 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

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

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 28.

ii. Financial assets at amortized cost

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

b) Impairment of financial assets

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

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

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

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

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. 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 28.

b) Derecognition of financial liabilities

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

4) Convertible bonds

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

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

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

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

k. Revenue recognition

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

Revenue from sale of goods

Revenue from 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.

l. Leasing

2019

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

The Group as lessee

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

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

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

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest

rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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

2018

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. Government grants

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

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

o. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

p. Share-based payment arrangements

Restricted shares for employees granted to employees

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

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

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

q. Taxation

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

1) Current tax

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 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.

Key Sources Of Estimation Uncertainty

a. Estimated impairment of financial assets

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

The carrying amount of trade receivables as of December 31, 2019 and 2018 is disclosed in Note 8.

b. Valuation of inventories

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

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

The carrying amount of inventories as of December 31, 2019 and 2018 are disclosed in Note 9.

c. Realization of deferred income tax assets

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

The carrying amount of deferred income tax assets at December 31, 2019 and 2018 are disclosed in Note 23.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2019	2018
Cash on hand	\$ 3,627	\$ 3,752
Demand deposits	381,306	321,570
Cash equivalents (investments with original maturities less than 3 months)		
Bank acceptances	2,712	3,220
Time deposits	<u>80,946</u>	<u>23,019</u>
	<u>\$ 468,591</u>	<u>\$ 351,561</u>

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

	<u>December 31</u>	
	2019	2018
Demand deposits	0.01%-0.35%	0.01%-0.35%
Time deposits	1.75%-2.06%	2.35%

7. FINANCIAL ASSETS AT FVTPL

	<u>December 31</u>	
	2019	2018
<u>Financial assets at FVTPL - current</u>		
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*	<u>-</u>	<u>35,776</u>
	<u>\$ -</u>	<u>\$ 44,720</u>
<u>Financial liabilities at FVTPL - current</u>		
Financial liabilities mandatorily classified as at FVTPL		
Convertible options	<u>\$ -</u>	<u>\$ 480</u>

- * 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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount - operating	\$ 97,499	\$ 90,330
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 97,499</u>	<u>\$ 90,330</u>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 615,417	\$ 579,938
Less: Allowance for impairment loss	<u>(1,112)</u>	<u>(1,661)</u>
	<u>\$ 614,305</u>	<u>\$ 578,277</u>

Trade Receivables at Amortized Cost

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

The Group 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, 2019

	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%	0.4%	2%	5%	30%	100%	
Gross carrying amount	\$ 575,974	\$ 21,091	\$ 5,366	\$ 11,531	\$ 1,455	\$ -	\$ 615,417
Loss allowance (Lifetime ECL)	<u>-</u>	<u>(77)</u>	<u>(107)</u>	<u>(499)</u>	<u>(429)</u>	<u>-</u>	<u>(1,112)</u>
Amortized cost	<u>\$ 575,974</u>	<u>\$ 21,014</u>	<u>\$ 5,259</u>	<u>\$ 11,032</u>	<u>\$ 1,026</u>	<u>\$ -</u>	<u>\$ 614,305</u>

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)	<u>-</u>	<u>(28)</u>	<u>(37)</u>	<u>(176)</u>	<u>(1,420)</u>	<u>-</u>	<u>(1,661)</u>
Amortized cost	<u>\$ 540,888</u>	<u>\$ 28,886</u>	<u>\$ 1,819</u>	<u>\$ 3,370</u>	<u>\$ 3,314</u>	<u>\$ -</u>	<u>\$ 578,277</u>

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

	December 31	
	2019	2018
Balance at January 1	\$ 1,661	\$ 7,133
Add: Net remeasurement of loss allowance	-	3,640
Less: Amounts written off	-	(9,078)
Less: Net remeasurement of loss allowance	(505)	-
Foreign exchange gains and losses	<u>(44)</u>	<u>(34)</u>
Balance at December 31	<u>\$ 1,112</u>	<u>\$ 1,661</u>

9. INVENTORIES

	December 31	
	2019	2018
Raw materials	\$ 113,487	\$ 137,051
Work in progress	72,595	105,346
Finished goods	141,706	223,788
Less: Allowance for inventory write-downs	<u>(14,815)</u>	<u>(21,380)</u>
	<u>\$ 312,973</u>	<u>\$ 444,805</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$1,017,823 thousand and \$1,070,558 thousand, respectively. The cost of goods sold included reversals of inventory write-downs of \$5,966 thousand and \$10,371 thousand, and obsolete inventory loss of \$0 thousand and \$2,473 thousand, respectively.

10. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

Investor	Investee	Nature of Activities	Proportion of Ownership	
			2019	2018
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 on November 8, 2018 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.

Note 3: The board of directors of the Company on December 13, 2019 decided to increase the capital of its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou) by US\$5,000 thousand; as a result, its sub-subsidiary Strong H Machinery Technology Co., Ltd. (Laichou)'s capital increased from US\$22,979 thousand to US\$27,979 thousand and has completed the change registration on December 25, 2019.

The consolidated financial statements of the above subsidiaries have been audited by CPA for the years ended December 31, 2019 and 2018.

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 4.3050 and \$4.4720 for the years ended December 31, 2019 and 2018. The average exchange rate of RMB to NTD is \$4.4541 and 4.5654 for the years ended December 31, 2019 and 2018.

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
<u>Cost</u>					
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	<u>(7,348)</u>	<u>(9,209)</u>	<u>(1,184)</u>	<u>(996)</u>	<u>(18,707)</u>
Balance at December 31, 2018	<u>\$ 353,258</u>	<u>\$ 442,609</u>	<u>\$ 56,966</u>	<u>\$ 46,331</u>	<u>\$ 899,164</u>
<u>Accumulated depreciation and impairment</u>					
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	<u>(2,519)</u>	<u>(4,752)</u>	<u>(703)</u>	<u>-</u>	<u>(7,794)</u>
Balance at December 31, 2018	<u>\$ 121,054</u>	<u>\$ 219,795</u>	<u>\$ 33,795</u>	<u>\$ 46,331</u>	<u>\$ 374,644</u>
Carrying amounts at December 31, 2018	<u>\$ 232,204</u>	<u>\$ 222,814</u>	<u>\$ 23,171</u>	<u>\$ 46,331</u>	<u>\$ 524,520</u>
<u>Cost</u>					
Balance at January 1, 2019	\$ 353,258	\$ 442,609	\$ 56,966	\$ 46,331	\$ 899,164
Additions	-	18,256	19,317	50,384	87,957
Reclassified from intangible assets	-	-	539	-	539
Reclassified to prepaid expenses	-	-	-	(6,462)	(6,462)
Reclassified	13,818	27,333	12,073	(53,224)	-
Disposals	-	(10,016)	(2,215)	-	(12,231)
Effect of foreign currency exchange differences	<u>(13,655)</u>	<u>(17,720)</u>	<u>21</u>	<u>(1,419)</u>	<u>(35,915)</u>
Balance at December 31, 2019	<u>\$ 353,421</u>	<u>\$ 460,462</u>	<u>\$ 83,559</u>	<u>\$ 35,610</u>	<u>\$ 933,052</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2019	\$ 121,054	\$ 219,795	\$ 33,795	\$ -	\$ 374,644
Disposals	-	(7,166)	(1,977)	-	(9,143)
Reclassified	(3,306)	3,306	-	-	-
Depreciation expense	16,878	29,935	20,524	-	67,337
Effect of foreign currency exchange differences	<u>(4,975)</u>	<u>(9,082)</u>	<u>(1,882)</u>	<u>-</u>	<u>(15,939)</u>
Balance at December 31, 2019	<u>\$ 129,651</u>	<u>\$ 236,788</u>	<u>\$ 50,460</u>	<u>\$ -</u>	<u>\$ 416,899</u>
Carrying amounts at December 31, 2019	<u>\$ 223,770</u>	<u>\$ 223,674</u>	<u>\$ 33,099</u>	<u>\$ 35,610</u>	<u>\$ 516,153</u>

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 30.

12. LEASE ARRANGEMENTS

Right-of-use Assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land	<u>\$ 172,908</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 46,556</u>
Depreciation charge for right-of-use assets	
Land	<u>\$ 3,194</u>

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

As of December 31, 2019, prepaid lease payments include land use rights with carrying amounts of \$137,924 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 30.

13. INTANGIBLE ASSETS

	Computer Software
<u>Cost</u>	
Balance at January 1, 2018	\$ 18,535
Additions	4,892
Effect of foreign currency exchange differences	<u>(470)</u>
Balance at December 31, 2018	<u>\$ 22,957</u>
	(Continued)

	Computer Software
<u>Accumulated amortization</u>	
Balance at January 1, 2018	\$ 12,444
Amortization expense	3,419
Effect of foreign currency exchange differences	<u>(320)</u>
Balance at December 31, 2018	<u>\$ 15,543</u>
Carrying amounts at December 31, 2018	<u>\$ 7,414</u>
<u>Cost</u>	
Balance at January 1, 2019	\$ 22,957
Additions	2,493
Reclassified to property, plant and equipment	(539)
Effect of foreign currency exchange differences	<u>(908)</u>
Balance at December 31, 2019	<u>\$ 24,003</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2019	\$ 15,543
Amortization expense	2,152
Effect of foreign currency exchange differences	<u>(641)</u>
Balance at December 31, 2019	<u>\$ 17,054</u>
Carrying amounts at December 31, 2019	<u>\$ 6,949</u> (Concluded)

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

14. PREPAYMENTS FOR LEASES

	<u>December 31</u>	
	2019	2018
Current assets (included in other current assets line item)	\$ -	\$ 1,028
Non-current assets	<u>-</u>	<u>135,052</u>
	<u>\$ -</u>	<u>\$ 136,080</u>

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 30.

15. OTHER ASSETS

	<u>December 31</u>	
	2019	2018
Other receivables	\$ 44,571	\$ 12,501
Prepayments to suppliers	39,424	40,209
Prepaid expenses	28,315	30,404
Prepayments for leases	26,630	1,028
Prepayments for business facilities	16,517	25,242
Others	<u>-</u>	<u>3,556</u>
	<u>\$ 155,457</u>	<u>\$ 112,940</u>
Current	\$ 110,547	\$ 87,129
Non-current	<u>44,910</u>	<u>25,811</u>
	<u>\$ 155,457</u>	<u>\$ 112,940</u>

16. BORROWINGS

Short-term Borrowings

	<u>December 31</u>	
	2019	2018
<u>Secured borrowings</u>		
Bank loans	\$ 60,360	\$ -
<u>Interval of interest rate</u>		
Secured borrowings	2.38%	-

17. BONDS PAYABLE

	<u>December 31</u>	
	2019	2018
Unsecured domestic bonds	\$ 196,701	\$ 234,663
Less: Current portions	<u>(196,701)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 234,663</u>

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, the issue period is three years, due on February 5, 2021.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of \$50.7, \$48.4 and \$45.3. 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	<u>(1,121)</u>
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	<u>(39,745)</u>
Liability component at December 31, 2018	234,663
Interest charged at an effective interest rate	13,386
Convertible bonds converted into ordinary shares	<u>(51,348)</u>
Liability component at December 31, 2019	<u>\$ 196,701</u>

18. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Other payables - current</u>		
Payable for purchase of equipment	\$ 117,554	\$ 65,610
Payable for salary and bonus	64,583	2,726
Payable for tax (Note 1)	17,203	10,871
Payable for insurance	4,866	129,852
Payable for purchase of equipment	2,967	1,654
Others (Note 2)	<u>37,102</u>	<u>22,649</u>
	<u>\$ 244,275</u>	<u>\$ 233,362</u>

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

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

19. 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.

20. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Numbers of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>67,331</u>	<u>66,151</u>
Shares issued	<u>\$ 673,312</u>	<u>\$ 661,511</u>

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.

The change in the Company's share capital was due to convertible into 1,180 thousand shares of ordinary shares at NT\$10 par value in 2019.

b. Capital surplus

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of ordinary shares	\$ 293,064	\$ 339,370
Conversion of bonds	80,759	35,445
<u>May not be used for any purpose</u>		
Employee restricted shares (2)	19,836	-
Share warrants (3)	<u>20,862</u>	<u>26,629</u>
	<u>\$ 414,521</u>	<u>\$ 401,444</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to once a year.
 - 2) Such capital surplus issued restricted shares for employees are disclosed in Note 25.
 - 3) 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 2018 and 2017 approved in the shareholders' meetings on June 6, 2019 and on June 12, 2018, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share	
	For the Year Ended		(NT\$)	
	December 31		For the Year Ended	
	2018	2017	2018	2017
Legal reserve	\$ 31,307	\$ 20,314		
Special reserve	33,909	9,614		
Cash dividends	185,223	130,500	\$ 2.8	\$ 2.0

Note: The cash dividends of the above appropriation of earnings for 2018 and 2017 were calculated based on the 65,250 thousand shares since the capital increase in 2018.

The Group was subjected to pay 46,306 thousand and 32,625 thousand cash dividends through its capital surplus, as a resolution of the shareholders' meeting on June 6, 2019 and June 12, 2018.

The appropriations of earnings for 2019 was proposed by the Company's board of directors in April 2020.

d. Special reserves

	<u>For the Year Ended December 31</u>	
	2019	2018
Beginning at January 1	\$ 20,460	\$ 10,864
Appropriations in respect of Debits to other equity items	<u>33,909</u>	<u>9,614</u>
Balance at December 31	<u>\$ 54,369</u>	<u>\$ 20,460</u>

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

e. Others equity items

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

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.

2) Unearned employee benefits

Restricted shares for employees are issued in 2019 (see Note 25).

	<u>For the Year Ended December 31</u>	
	2019	2018
Balance at January 1	\$ -	\$ -
Issuance of shares	(19,836)	-
Share-based payment expenses recognized	<u>7,935</u>	<u>-</u>
Balance at December 31	<u>\$ (11,901)</u>	<u>\$ -</u>

21. REVENUE

	<u>For the Year Ended December 31</u>	
	2019	2018
Sewing machine spare parts sales revenue	<u>\$ 1,654,088</u>	<u>\$ 1,816,136</u>

22. NET INCOME

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	\$ 7,450	\$ 3,453
Government subsidy income (Note)	46,881	-
Others	<u>5,008</u>	<u>7,312</u>
	<u>\$ 59,339</u>	<u>\$ 10,765</u>

Note: The local government of China granted subsidies to the listed companies according to the Development Special Plan on December 27, 2019.

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Net foreign exchange gains	\$ 11,158	\$ 12,859
Loss on disposal of property, plant and equipment	(30)	(1,994)
Others	<u>(5,688)</u>	<u>(3,931)</u>
	<u>\$ 5,440</u>	<u>\$ 6,934</u>

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	\$ 843	\$ 1,333
Interest on convertible bonds	<u>13,386</u>	<u>11,744</u>
	<u>\$ 14,229</u>	<u>\$ 13,077</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating costs	\$ 48,714	\$ 34,083
Operating expenses	<u>21,817</u>	<u>13,580</u>
	<u>\$ 70,531</u>	<u>\$ 47,663</u>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>2,152</u>	<u>4,468</u>
	<u>\$ 2,152</u>	<u>\$ 4,468</u>

e. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	2019	2018
Defined contribution plans of post-employment benefits	\$ 41,709	\$ 48,588
Salary and bonus	434,362	496,243
Other employee benefits	<u>56,166</u>	<u>54,600</u>
	<u>\$ 532,237</u>	<u>\$ 599,431</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 367,390	\$ 453,554
Operating expenses	<u>164,847</u>	<u>145,877</u>
	<u>\$ 532,237</u>	<u>\$ 599,431</u>

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, 2019 and 2018 which were approved by the Company's board of directors on March 19, 2020 and March 14, 2019, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2019	2018
Employees' compensation	1.00%	1.00%
Remuneration of directors and supervisors	1.00%	1.00%

Amount

	<u>For the Year Ended December 31</u>	
	2019	2018
	Cash	Cash
Employees' compensation	\$ 2,973	\$ 3,193
Remuneration of directors and supervisors	2,973	3,193

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.

Because of estimating difference, the actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2018 differed from the amounts recognized in the consolidated financial statements for the year ended December 31, 2018. The differences were adjusted to profit and loss for the year ended December 31, 2019.

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 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	\$ 3,193	\$ 3,193
Amounts recognized in the annual consolidated financial statements	3,193	3,000

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	
	2019	2018
Foreign exchange gains	\$ 26,227	\$ 31,196
Foreign exchange losses	<u>(15,069)</u>	<u>(18,337)</u>
Net gains	<u>\$ 11,158</u>	<u>\$ 12,859</u>

23. INCOME TAX

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

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ 52,074	\$ 101,373
Adjustments for prior years	(4,400)	(2,534)
Deferred tax		
In respect of the current year	17,487	-
Effect of tax rate changes	<u>(914)</u>	<u>24,199</u>
Income tax expense recognized in profit or loss	<u>\$ 64,247</u>	<u>\$ 123,038</u>

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

	For the Year Ended December 31	
	2019	2018
Profit before income tax	<u>\$ 355,640</u>	<u>\$ 436,108</u>
Income tax expense calculated at the statutory rate (15% and 25% in 2019 and 2018)	\$ 53,346	\$ 109,027
Nondeductible expenses in determining taxable income	2,593	2,029
Deferred tax effect of earnings of subsidiaries	12,129	14,516
Effect of tax rate changes	(914)	-
Effect of different tax rates of group entities operating in other jurisdictions	1,493	-
Adjustments for prior years' tax	<u>(4,400)</u>	<u>(2,534)</u>
Income tax expense recognized in profit or loss	<u>\$ 64,247</u>	<u>\$ 123,038</u>

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

The applicable tax rate was the corporate tax rate of 25 % payable by Strong H Machinery Technology (Laichou) Corporation. However, in accordance with the relevant provision of Income Tax Act of Chinese enterprises and its implemental regulation, formulate the Measures for the Administration of High-tech Enterprises. The Measures regulate that enterprise applying for the High-tech enterprises that recognized as needing key support by the government can have preferential tax rate of 15% is subject to corporate income tax, valid for 3 years. Strong H Machinery Technology (Laichou) corporation qualified as a High-tech enterprises in 2019, and have a preferential tax rate of 15% from 2019 to 2021. The applicable tax rate is the corporate tax rate of 25% payable by 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 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 assets and liabilities

	December 31	
	2019	2018
Current tax assets		
Tax refund receivable	<u>\$ 1,544</u>	<u>\$ -</u>
Current tax liabilities		
Income tax payable	<u>\$ -</u>	<u>\$ 49,244</u>

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Allowance for impairment loss	\$ 1,815	\$ (799)	(41)	\$ 975
Allowance for inventory write-off	5,345	(2,665)	(109)	2,571
Payable for insurance	<u>32,463</u>	<u>(1,927)</u>	<u>(1,148)</u>	<u>29,388</u>
	<u>\$ 39,623</u>	<u>\$ (5,391)</u>	<u>\$ (1,298)</u>	<u>\$ 32,934</u>
<u>Deferred tax liabilities</u>				
Deferred tax effect of				
earnings of subsidiaries	\$ 80,380	\$ 12,128	\$ (3,407)	\$ 89,101
Others	<u>9,254</u>	<u>(946)</u>	<u>(314)</u>	<u>7,994</u>
	<u>\$ 89,634</u>	<u>\$ 11,182</u>	<u>\$ (3,721)</u>	<u>\$ 97,095</u>

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>				
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	<u>38,741</u>	<u>(5,603)</u>	<u>(675)</u>	<u>32,463</u>
	<u>\$ 48,573</u>	<u>\$ (8,127)</u>	<u>\$ (823)</u>	<u>\$ 39,623</u>
<u>Deferred tax liabilities</u>				
Deferred tax effect of				
earnings of subsidiaries	\$ 67,537	\$ 14,516	\$ (1,673)	\$ 80,380
Others	<u>7,891</u>	<u>1,556</u>	<u>(193)</u>	<u>9,254</u>
	<u>\$ 75,428</u>	<u>\$ 16,072</u>	<u>\$ (1,866)</u>	<u>\$ 89,634</u>

e. Income tax assessments

The income tax returns through 2018 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 2017, has been assessed by the tax authorities for the Group in ROC.

24. EARNINGS PER SHARE

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2019	2018
Earnings used in the computation of basic earnings per share	\$ 291,393	\$ 313,070
Effect of potentially dilutive ordinary shares		
Interest on convertible bonds (after tax)	<u>8,940</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 291,393</u>	<u>\$ 313,070</u>

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Weighted average number of ordinary shares in computation of basic earnings per share (in thousands)	66,598	65,708
Effect of potentially dilutive ordinary shares		
Convertible bonds	4,265	-
Restricted shares for employees	360	-
Employee compensation	<u>69</u>	<u>71</u>
Weighted average number of ordinary share used for the diluted earnings per share computation (in thousands)	<u>71,292</u>	<u>65,779</u>

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.

25. SHARE-BASED PAYMENT ARRANGEMENTS

Restricted Shares for Employees

In the shareholders' meeting on June 12, 2018, the shareholders approved a restricted share plan for employees with a total amount of \$3600 thousand, consisting of 360 thousand shares, and The FSC declared the effective date of the letter No. 1080311497 on April 18, 2019. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

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

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

The vested conditions are as follows:

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

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

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

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

In 2019, the Company recognized that the compensation cost for issuing restricted shares for employees was RMB 7,935 thousand.

26. NON-CASH TRANSACTION

Since the convertible bonds were converted to ordinary shares between June and September 2019, there was a decrease of \$51,348 thousand bonds payables' carrying amount and an increase of \$11,801 thousand share capital and \$39,745 thousand capital surplus, refer to Note 17.

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 17.

27. 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.

28. 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.

December 31, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial liabilities</u>					
Financial liabilities at amortized cost					
Convertible bonds	\$ 196,701	\$ _____	\$ _____	\$ 196,701	\$ 196,701

December 31, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial liabilities</u>					
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, 2019: None.

December 31, 2018

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

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, 2019
<u>Financial assets (liabilities) at FVTPL - current</u>	
Balance at January 1, 2019	\$ (480)
Recognized in profit or loss (included in other gains and losses)	<u>480</u>
Balance at December 31, 2019	<u>\$ -</u>
December 31, 2018	
<u>Financial assets (liabilities) at FVTPL - current</u>	
Issued date (February 5, 2018)	\$ (1,121)
Recognized in profit or loss (included in other gains and losses)	<u>641</u>
Balance at December 31, 2018	<u>\$ (480)</u>

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, 2019 and 2018, the historical volatility used was 19.09% and 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 \$0 thousand, \$20 thousand and \$0 thousand, \$0 thousand on December 31, 2019.
- c) 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

	<u>December 31</u>	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL		
Held for trading	\$ -	\$ 44,720
Financial assets at amortized cost (1)	1,207,025	1,034,087
<u>Financial liabilities</u>		
Amortized cost (2)	491,450	460,307
Financial liabilities at FVTPL		
Mandatorily classified as at FVTPL	-	480

- 1) The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, trade receivables, other receivables.
- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term loans, trade and other payables (excluding payable for salary and bonus, 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 32.

Sensitivity analysis

	Currency Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$ 3,557 (i)	\$ 3,703 (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, 2019 and 2018.

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	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 80,946	\$ 31,964
Financial liabilities	196,701	234,663
Cash flow interest rate risk		
Financial assets	381,306	357,346
Financial liabilities	60,360	-

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, 2019 and 2018 would increase/decrease by \$3,209 thousand and \$3,573 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, 2019 and 2018.

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, 2019, credit risk is not highly concentrated. On December 31, 2018 the balance of trade receivables from companies A and B were respectively \$55,539 thousand and \$60,091 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, 2019

	1-6 Months	6 Months to 1 Year	1+ Years
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 116,835	\$ 117,554	\$ -
Variable interest rate assets	60,959	-	-
Fixed interest rate assets	<u>-</u>	<u>206,296</u>	<u>-</u>
	<u>\$ 177,794</u>	<u>\$ 323,850</u>	<u>\$ -</u>

December 31, 2018

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

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, 2019

	1-6 Months	6 Months to 1 Year	1+ Years
<u>Non-derivative financial assets</u>			
Non-interest bearing	\$ 744,774	\$ -	\$ -
Variable interest rate assets	383,212	-	-
Fixed interest rate assets	<u>81,205</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,209,191</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

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

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.

29. TRANSACTIONS WITH RELATED PARTIES

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

Related parties and their relationships with the Group:

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

Operating Transaction

a. Sales of goods

Line Items	Related Party Categories	For the Year Ended December 31	
		2019	2018
Sales	Related party in substance	\$ <u>863</u>	\$ <u>6,299</u>

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

b. Purchases of goods

Line Items	Related Party Categories	For the Year Ended December 31	
		2019	2018
Purchases	Related party in substance	\$ <u>9,006</u>	\$ <u>7,236</u>

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	
		2019	2018
Other receivable	Related party in substance (Qianghao Machinery Technology (Qingdao) Co., Ltd.)	\$ <u>-</u>	\$ <u>4,505</u>

The outstanding trade receivables for selling of equipment from related parties are unsecured. For the years ended December 31, 2019 and 2018, 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	
		2019	2018
Trade payable	Related party in substance	\$ <u>307</u>	\$ <u>2,968</u>

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

e. Disposals of property, plant and equipment

Related Party Category/Name	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2019	2018	2019	2018
Related party in substance Qianghao Machinery Technology (Qingdao) Co., Ltd.	\$ -	\$ 5,143	\$ -	\$ 464

f. Endorsements and guarantees

On December 31, 2019, the credit of bank loans approved by the board of directors is guaranteed by the company, endorsement guarantee amount is \$5,000 thousand, Chi, Ping-Hsin is the guarantor, and Grand Strong Precision Machines Corporation set the land access \$15,292 thousand and building \$50,363 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	
	2019	2018
Short-term employee benefits	\$ 4,385	\$ 5,818
Post-employment benefits	<u>20</u>	<u>56</u>
	<u>\$ 4,405</u>	<u>\$ 5,874</u>

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

30. 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	
	2019	2018
Land use rights (classified as prepayments for leases)	\$ -	\$ 16,302
Land use rights (classified as right-of-use assets)	15,292	-
Buildings	<u>50,363</u>	<u>57,472</u>
	<u>\$ 65,655</u>	<u>\$ 73,774</u>

31. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On January 10, 2020, the company in accordance with provisions on Measures to Restricts Employee Right and Issue New Stock, authorized the chairman to set the capital increase base date for issuing new shares with restricted employee rights on January 15, 2020. The actual number of issued shares was 335 thousand shares, \$10 per share. The listing date of these stock is February 27, 2020 and the sale of new stocks after the restriction of employee rights has been fulfilled.

32. 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, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 10,870	6.865 (USD:RMB)	\$ 321,254
USD	3,163	29.980 (USD:NTD)	<u>94,816</u>
			<u>\$ 416,070</u>

Financial liabilities

Monetary items			
USD	2,000	30.180 (USD:RMB)	<u>\$ 60,360</u>

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 11,692	6.863 (USD:RMB)	\$ 358,825
USD	7,873	30.716 (USD:NTD)	<u>241,840</u>
			<u>\$ 600,655</u>

Financial liabilities

Monetary items			
USD	7,500	30.733 (USD:RMB)	<u>\$ 230,363</u>

The Group is mainly exposed to USD. The significant realized and unrealized foreign exchange gains (losses), please refer to Note 22.

33. 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, 17 and 28)
 - 10) Intercompany relationships and significant intercompany transactions (Table 4)
 - 11) Information on investees (Table 5)
- 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 6)
 - 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)

34. 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, 2019 and 2018 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.

	<u>Segment Revenue</u>		<u>Segment Profit</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Sewing machine spare parts segment	<u>\$ 1,654,088</u>	<u>\$ 1,816,136</u>	\$ 290,861	\$ 418,409
Other income			59,339	10,765
Other gains and losses			<u>5,440</u>	<u>6,934</u>
Profit before tax			<u>\$ 355,640</u>	<u>\$ 436,108</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the years ended December 31, 2019 and 2018.

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

	<u>Depreciation and Amortization</u>	
	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Sewing machine spare parts segment	<u>\$ 72,683</u>	<u>\$ 52,131</u>

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	
	2019	2018
China	\$ 1,630,800	\$ 1,789,552
Taiwan	<u>23,288</u>	<u>26,584</u>
	<u>\$ 1,654,088</u>	<u>\$ 1,816,136</u>

f. Information about major customers

Included in revenue arising from direct sales of sewing machine spare parts of \$1,654,088 thousand and \$1,816,136 thousand in 2019 and 2018, respectively, is revenue of approximately \$98,443 thousand and \$130,037 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 2019 and 2018.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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	\$ 224,850 (US\$ 7,500) (Notes 3 and 4)	\$ - (Notes 3 and 4)	\$ - (Note 3 and 5)	-	2	\$ -	Operating capital	\$ -	None	\$ -	\$ 680,337 (Note 6)	\$ 680,337 (Note 7)	

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, 2019.

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

Note 5: The Company recovered a US\$1,500 thousand (equivalent to NT\$46,715 thousand) loan from Strong H Machinery Technology (Laichou) Corporation before December 31, 2019.

Note 6: 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 7: The maximum total financing provided should not exceed 40% of Strong H Machinery Technology (Cayman) Inc.'s net worth.

Note 8: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
0	Strong H Machinery Technology (Cayman) Incorporation	Strong H Machinery Technology (Laichou) Corporation	Subsidiary	(NT\$ 850,421) (Note 3)	US\$ 5,000 (NT\$ 149,900) (Notes 2 and 7)	US\$ 5,000 (NT\$ 149,900) (Notes 2 and 7)	\$ - (NT\$ -)	\$ -	8.81	NT\$ 1,700,842 (Note 5)	Y	N	Y	
1	Grand Strong Precision Machines Corporation	Strong H Machinery Technology (Laichou) Corporation	Fellow subsidiary	\$ 28,813 (NT\$ 124,040) (Note 4)	US\$ 4,000 (NT\$ 119,920) (Notes 2 and 7)	US\$ 4,000 (NT\$ 119,920) (Notes 2 and 7)	\$ - (NT\$ -)	\$ 15,251 (NT\$ 65,655) (Notes 2 and 7)	48.34	\$ 57,626 (NT\$ 248,080) (Note 6)	N	N	Y	

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

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

Note 3: For short-term financing requirements, the endorsement limit for each endorsee should not exceed 50% of Strong H Machinery Technology (Cayman) Incorporation's net worth.

Note 4: For short-term financing requirements, the endorsement limit for each endorsee should not exceed 50% of Grand Strong Precision Machines Corp.'s net worth.

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

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

Note 7: The calculation was based on the exchange rate as of December 31, 2019.

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, 2019

(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 37,836 (NT\$ 168,527)	33.74	Net 30 days from the end of the month when invoice is issued	No significant difference	No significant difference	RMB (9,725) (NT\$ -41,868)	(39.6 7)	
Grand Strong Precision Machines Corporation	Strong H Machinery Technology (Laichou) Corporation	Fellow subsidiary	Sale	RMB 47,336 (NT\$ 216,111)	90.58	Net 30 days from the end of the month when invoice is issued	No significant difference	No significant difference	RMB 9,725 (NT\$ 41,868)	79.26	

Note 1: The calculation was based on the exchange rate as of December 31, 2019, except for purchases and sales items which are translated at the average exchanged rates for the period.

Note 2: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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	Interest income	\$ 3,064	General terms	0.18
1	Strong H Machinery Technology (Laichou) Corporation	Grand Strong Precision Machines Corporation	Fellow subsidiary	Purchase	168,527	General terms	10.19
		"	"	Trade payable	41,868	General terms	1.77
		Strong H Machinery Technology (Cayman) Incorporation	Parent entity	Sales	23,296	General terms	1.41
		"	"	Trade receivable	8,088	General terms	0.34
		"	"	Purchases	16,518	General terms	1.00
		"	"	Trade payable	2,237	General terms	0.09

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, 2019, while revenue, costs and expenses are shown as a percentage to consolidated total operating revenue for the year ended December 31, 2019.

Note 3: The amount was eliminated upon consolidation.

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(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, 2019			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount			
Strong H Machinery Technology (Cayman)	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 345,548 (NT\$ 1,487,583)	RMB 59,543 (NT\$ 265,213)	RMB 59,329 (NT\$ 264,259)	Notes 1 and 2
Incorporation	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 85,097 (NT\$ 366,341)	RMB 14,323 (NT\$ 63,798)	RMB 14,272 (NT\$ 63,568)	Notes 1 and 2

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

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

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

STRONG H MACHINERY TECHNOLOGY (CAYMAN) INCORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019**

(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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	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, 2019 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Strong H Machinery Technology (Laichou) Corporation	Manufacturing and sales of industrial sewing machine parts	US\$ 27,979 (Note 2)	Re-investment in mainland China through the establishment of holding company Vanden International Co., Ltd. and Faith Light International Corporation.	\$ -	\$ -	\$ -	\$ -	RMB 76,473 (NT\$ 340,624)	100	RMB 76,473 (NT\$ 340,624)	RMB 450,960 (NT\$ 1,941,382)	\$ -
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 (3,230) (NT\$ 14,388)	100	RMB (3,466) (NT\$ 15,438)	RMB 57,178 (NT\$ 246,152)	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	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\$22,979 to US\$27,979 through retained earnings.

Note 3: The calculation was based on the exchange rate as of December 31, 2019, 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