

Factory inspection Report -LY factory**PART 1 Q&A****1. How big is the factory, how many factories and how many production lines**

LY Factory has two production workshops. One is about 1600 square meters which including administrative area + samples manufacturing area in floor 6. Another one is 1900 square meters for production in big quantity in floor 1 in same building. There are 22 production lines. They also have few automation production line but stop running which means they have the ability to boost their production capacity about 2000 sets motor daily.

2. How many employees are there? (what positions are there, how many R&D personnel are there, and the direction of R&D)

- There are 182+ people which do not include their share holders. I see most employees are young people. Those workers in the production line are around 25 years old. 60% are female. 40% are male. They works very hard, diligent and high efficient. This factory has standard management system to improve worker's efficient and make them work hard.
- In the last month of the previous year 2023, more than 50 people left for China Spring Festival holiday or asked for leave. Capacity fell down 1/3 at the end month of the year.
- They have Research and development about 7 people. Something innovation comes from zero to mass production. For Innovation ability, they reply on overseas brand technology e.g. Maxon and Escap from Switzerland, and Faulhaber from German. They learn foreign technology, and then break through foreign technology. That is how they do innovation

3. Working hours. Daily working time, weekly time, annual leave, overtime time (if the order is tight, will overtime be arranged?)

- Their working time is from 8:15PM-21:15PM daily, some day till to 22:15 PM. 6 days a week, closed on Sunday. For urgent orders, they also work on Sunday overtime. They closed from 2th, Feb to 17th, Feb 2021 for Chinese Spring Festival holiday. They has the ritual that to overwork for urgent order.
- To encourage work more regularly, they award USD100 for workers who works till the last day before holiday. And they award USD50 to welcome back if worker back to factory on time after holiday to maintain a stable production line.

4. In addition to mini service machines, what other products do they make

They Only make mini servo motor. Optional for encoder and gearbox

In past years, they make servo motor mostly for military project, medical treatment industry. They also has clients in drilling, polishing, etc

5. Can we customize the servo motor? Do you have a catalog for me

- Can be customized including from Installation structure to electrical parameters, how many revolutions, how much torque it is, etc.
- One important of product feature of LY Factory is that they can can do 2 pairs poles of magnet servo motor which means at the same shape size, under the same speed, the torque is 20% greater than 1 pair of pole kind motor. Most servo motor on the market has only 1 pair of pole.
- They have catalog on their official Wechat's account. Lee already followed their Wechat account. As products

always updated and there are many many design products, they don't have catalog in papery. So lee will manage download those E- catalog and share if necessary in English.

6. What is the annual output? We have ordered a total of 5 kinds of samples this time. Is the production time of each kind the same? Is someone a little fast, while some slow? How long does it take to finish fast kind mould, how long does it take for slow kind.? Which ones are slow, and why are some fast and some slow? How many production lines do we have for these 5 types of servo machines, and what is the monthly output?

- The annual output is 2,000,000.00 units Servo motor. In 2023 their real monthly average output is 100,000.00+ units.
- Now, most production line is manual kind. As most servo motor are lightly customized, manual has the most highly efficiency to produce for now. They have auto production line, but stopped. In case they got very big order e.g.2000+ units daily, they are able to re-start auto production line. They use auto line about two years ago for another big client.
- For our 5 types model motors, in theory they can produce in same time. Cause all of them are standard product without customized. One of them finished first cause there are one of their another client are making same model at the same time. So they make that one together with other client's. In general they can finish our samples in just 3 working days if they has raw material and no workers left in last month. They produce our motors in the sample production line. They has about 3 lines for sample manufacturing. There are about 4 workers in each sample line.

7. Do you accept large orders? (40,000 units), how much can be done for us each month?

Annual output of more than 2 million, 200,000 + per month.

They can provide 40,000 units for us yearly. And we can ask more as they have more ability to produce.

8. Do you sometimes have a shortage of raw materials that affects the delivery time?

Yes, it happened sometime for samples. But for big quality which arranged in advance, there is no such problem happen. They delivery big quantity order in time always according to their experience.

They outsource some raw material magnet and bearings, shell of motor. There is risk that magnet and bearings has quality problem during they material quality check process e.g. imbalance, imprecise bore diameter, surface problem,etc. And then it takes about 7-21 days to repair or replace raw material which meas will cause delay of final delivery. This scenario easily happen for sample orders in most situation.

They delayed to delivery our samples also because lacking of raw material in somehow. But mostly because 1/3 worker left at the last month before Chinese new year which influence their production capacity when we place the order this time. And there some some communication problem that happened between the seller Mr.Xing who works remotely and factory which also lead delay of sample in somehow.

And to avoid this delay of delivery, the solution is to place order in advance so that they can manage to prepare raw material in advance and take into counting the time of raw material reversal.

And of course, we will write compensate items clearly in contract for any delay.

9. How many orders do you have each month? Is the schedule up? Is it busy? When is the busiest time of the year? (easy ask)

The average order is more than 100,000.00 units for 2023. It is almost full, but there is still little surplus capacity. December and January is the most busy time. One reason is that 1/3 workers go to home to enjoy holiday in advance which cause capacity lower as most production line are manual.

So the best timing to place order is from middle of Feb to November, every year.

10. In case of late delivery, can we write a clause in the contract for compensation for late delivery? What is the compensation standard?

Yes. We can. And we get 1% of sales amount compensation daily

11. What are the terms of payment?

30% in advance and 70% at delivery.

PART 2 FACTORY VERIFICATION

1. Company basic information

Company name: LY Factory Technology Co.,Ltd

Website site:

Contact info as follow in picture

Elmo Huang is one of share holder of this company. He is a share holder occupy very little percent. He works as sales manager in this company. He joined in 2013 while this company set up at 2012. The founder is Mr.Yi Mingming. Huang is somekind co-founder of this company. Before that Mr.Huang and Mr.Yi, they work together for another motor manufacturing company.

Mr.Huang is 42 years old. He has 2 boys. One is 14 years old, another one is 12. He has independent office in the factory. So let's say he works in the forefront. He has the power to deal with raw material management, sales, production,administrative,etc in this company. We can trust his words regarding delivery time.

Before i visit him, he went to Shanghai to deal with patent litigation case. Another company prosecute the whole process how LY Factory make servo motor. Check more details at Item No.4 of Part 2

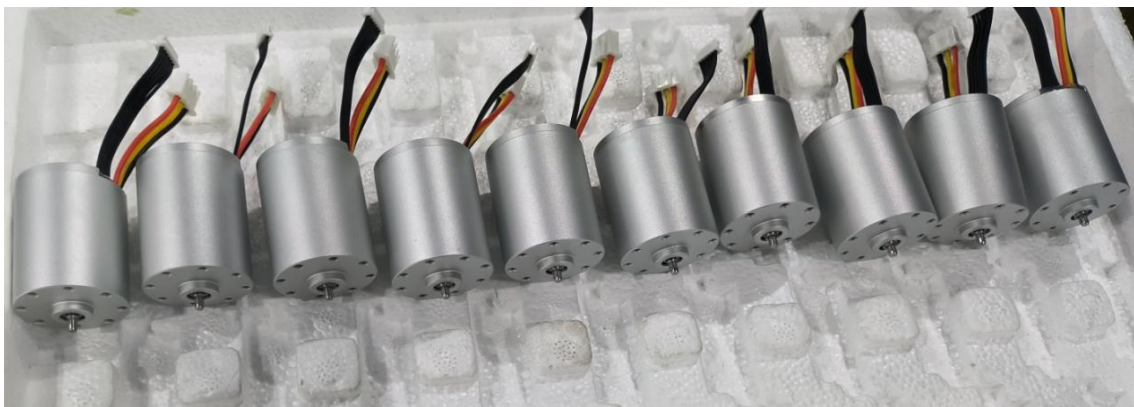


This is their business license. They are approved by China government to design, produce and sell servo motors. They are located in Dongyuan City which is 1 hour to Shenzhen by Car. So if we delivery from their factory to Shenzhen. We will have a lower cost for delivery.



This is Lee and Mr.Huang at the front of their company reception.

2. Production situation



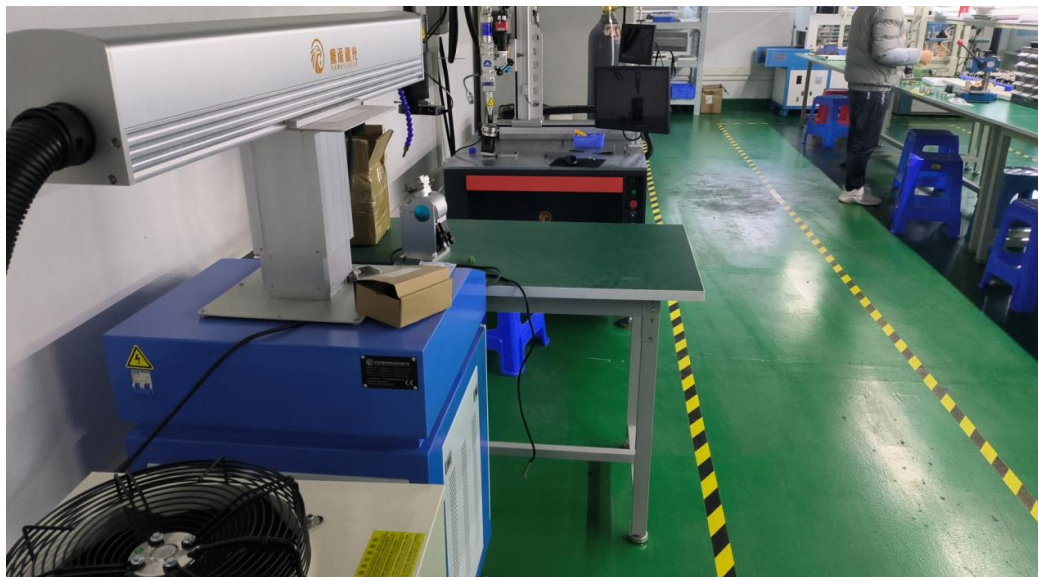
This is to show one of our product. They are quality checked of its working situation, surface,etc. They are good. And when we delivery we will have quality check report inside of our delivery box.



Product line



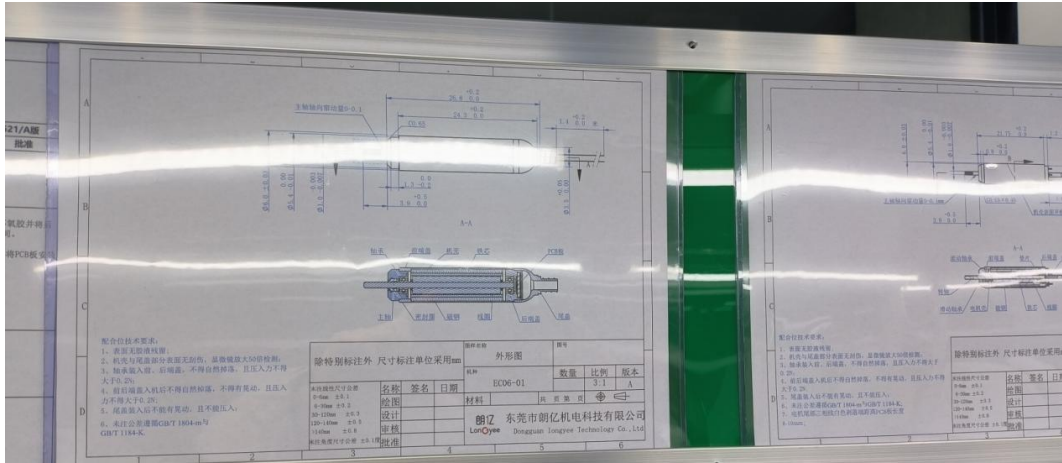
Product line



Sample product line

Here you are pictures of their production line and samples line for reference. With clean, and very brightness environment, there are daily work plan panel, efficiency management and quality control panel in side of each line and on the top middle of each work station.

Each line has about 5 to 7 worker, at the end of each line there are a quality control staff. There are total about 22 lines there.



This picture to show quality control standard



This picture to show workers the standard process how to assemble in a right way.

日期	型号	时效	工时	标准产出	实际产出	生产效率
星期	1715R2K-10A	22		700		
	1718R2K-70A	22		600		
	42260R2K-05A	18		600		
星期	1650R2K-25V/2825R2K-10A	21.5		300/500		
	1718R2K-14A	22	32H	700	700	100%
	1718R2K-65A	22	19H	420	415	99%
	1650R2K-25V	21.5	46.5H	1000	1000	100%
	2825R2K-10A	21.5	27.5H	600	600	100%

This picture is for work plan and efficiency control for working line. It indicate what products model they make, how many times it should spend to finish and how many actual spend in real. What is the standard output daily should be. How many produce in real in the day. And the percentage of working efficiency.



This picture is to row material that they out source which is being under raw material quality control.



This picture is to show that LY Factory was awarded high technology company by department of Science of Guangdong Province, China in 2017.

4. Technique patent issue



This is a civil ruling paper issued by Intellectual property court of Guangzhou, Guangdong Province. It say the plaintiff Shenzhen five stars motor co.,ltd canceled its prosecute of Dongguan LY Factory company. Mr.Huang told that 5 years ago Shenzhen five stars motor co.,ltd is one of their client. Shenzhen five stars motor co.,ltd buy servo motors from them. With time past by, Shenzhen five stars motor become more strong and start

produce themself.

And Shenzhen five stars applied for patent of their servo motor succeed in 2021. Then they start to prosecute LY Factory.

But finally, they canceled because no enough evidence.

Mr.Huang say in the future, LY Factory will also pay attention to protect its patent. Their company will give attention to this part.

5.Others things



Lee build personal relationship with Mr.Huang and Mr.Peng who is the chief production line manager.

Supplier is easy to communicate with. They have a good business logic. They also have positive,sunny philosophy for living.

Mr.Huang finally told Lee that we have space to negotiate the price for next order. And he has the willing to help us.

One more important thing is that to get delivery in time, please remember to place order in advance. It takes about 40 days to prepare raw material for first one or two orders.