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# Taiwan Hon Chuan Enterprise Co., Ltd. Annual Report 2016



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**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.***

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**5. Overseas Securities Exchange : None**

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# 1. Letter to Shareholders

Looking back to the year of 2016, it had a modest economic recovery worldwide. Even though overall beverage industry of the FMCG sector is increasing persistently, market competition is getting intense. In this circumstance, our brand clients experience severe tests about their market sensitivity. Meanwhile, how Taiwan Hon Chuan handles key accounts and catches trends of end consumers becomes the critical success factors. In 2016, the price of raw materials was falling which indirectly impacted our products' price. As a result, the revenue a bit slid compared to 2015 even we got an increased sales volume. However, we still had a great achievement in 2016 by diversifying our client bases, adjusting production lines, enhancing capacity utilization, implementing budget control and purchase negotiation strategy and developing innovative products. In 2016, our consolidated sales totaled at NTD\$16,510,678,000, decreased by 0.41% from NTD\$16,578,377,000 in 2015. The profit before tax amounted to NTD\$1,497,823,000, increased by 45.27% from NTD\$1,031,083,000 last year. The profit after tax reached NTD\$1,190,294,000, 34.32% higher than NTD\$886,141,000 in 2015. The earning per share is 4.02 dollars for the year of 2016 conclusively.

In the recent years, Hon Chuan has strengthened our business competitiveness by diversifying our client bases, expanding into new market domains, adjusting production lines and optimizing products' combination. In 2016, our business in china had shown a turn from loss to profit and handed in a wonderful performance which presented a great animation. Although there are lots of challenges in 2017, Hon Chuan hopes to enhance overall performance by strengthening our business competitiveness and accomplishing strategic layout. The operations in Taiwan, China and South East Asia are expected to grow this year based on the backbone of increasing orders from investing advanced capacity, new market exploration and long-term committed clients. Last year, Hon Chuan extended its footprint to Mozambique in Africa, in which there are over one billion people craving for FMCG in the next decade. With dedication to the frontier of the African market, we are looking forward to a sustainably rapid growth for our packaging and beverage sectors. Besides, research & development and innovation are the lifeblood of Hon Chuan. We will continue to promote QR Code applications built into our packaging materials for emerging e-commerce, and creative designs of various caps and bottles in a move to

provide value-added service to our clients.

In response to ever-changing global markets, our management team will commit ourselves to product innovation, market expansion, cost reduction and personnel cultivation by way of expedient commercial strategies, steady growing path, and bottom-up resources integration. Hon Chuan will continue to commit itself to cost saving and budget controlling, in order to enhance our overall corporate competitiveness.

Looking ahead, Hon Chuan will strive to our belief; “focusing on our core business, developing global markets, respecting our customers, caring for our employees and paying more contributions to social responsibility”. We aim to develop our corporate base in Taiwan, and apply our successful experience into China, South East Asia, Africa and other potential regions. We look forward to entering into a new era of Hon Chuan through our continuing efforts in 2017.

Thank you very much for your supports and advices as shareholders of Taiwan Hon Chuan sincerely.

Chairman :  
Dai, Hung-Chuan

President :  
Tsao, Hsih-Chung

Chief Accounting officer :  
Cheng, Ya-wen

## 1.2 Business Report

### 1.2.1 2016 Operating Result

#### 1.2.1.1 2016 Execution of Business Plans

Consolidated revenue: NT\$ 16,510,678 thousand, reduction of 0.41% from 2015; consolidated income before tax: NT\$ 1,497,823 thousand, increase of 45.27% from 2015; consolidated income after tax: NT\$ 1,190,294 thousand, increase of 34.32% from 2015; earning per share (EPS): NT\$ 4.02.

#### 1.2.1.2 Budget Performance

Taiwan Hon Chuan Enterprise Co., Ltd (Hereinafter referred to as “Hon Chuan” or “the Company”) did not disclose financial forecasts in 2016.

#### 1.2.1.3 Financial Results and Profitability Analysis

Item		2016	2015
Finance Structure (%)	Debt to Assets Ratio	53.72	55.34
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio	98.13	98.75
Solvency (%)	Current Ratio	80.39	77.21
	Quick Ratio	52.97	51.22
	Interest Coverage (times)	7.46	5.34
Profitability (%)	Return on Assets	5.03	3.85
	Return on Equity	9.27	7.18
	Pre-tax Profit to Paid-in Capital Ratio	51.14	33.28
	Net Margin	7.21	5.35
	Earnings Per Share (NT\$)	4.02	3.26

#### 1.2.1.4 Research and Development

To ensure a leading position in technology, HON CHUAN not only applies the most advanced technologies and equipments from overseas but also cooperates with several R&D institutions, providing continuous training to R&D personnel. The R&D achievement for 2016 was as follows:

- (1) Mass production of 1810 BPKS one-piece plastic closure for cold-filling
- (2) Development of 1881 BPSJ one-piece closure for water
- (3) Development of 1881 one-piece closure for hot-filling
- (4) Development of multi-layered PE shrinkable film
- (5) Development of Australia PB 38, 48, 53, 58, 63, 70, 82 mm metal lug closure
- (6) Development of RTS, RSB, 63, 66 mm closure
- (7) Development and mass production of PET shrinkable films with metal luster label
- (8) Development and mass production of new PET shrinkable films of Japan compounded films with supplier



## 1.2.2 Outlines of Business Plans

### 1.2.2.1 Business Objectives

1. Strengthen core competency
  - (1) Actively promote In-House (Plant-Within-a-Plant) strategic coalitions with clients and provide high-quality packaging materials to scale up the business and achieve win-win situation for both HON CHUAN and clients.
  - (2) Continuously expand mid- or long-term strategic cooperation with clients.
  - (3) Strengthen business structure to achieve a high-efficiency operating environment.
  - (4) Continuously provide all kinds of employee training and actively recruit talents for business globalization and development.
2. Take action for globalization – foothold in Taiwan, harvest in Asia, aim to the world
  - (1) Establish headquarters to integrate resources.
  - (2) Apply innovative R&D technology to increase product value.
  - (3) Build strategic alliances with global giants. Apply experiences from Taiwan to China and Southeast Asia. Integrate resources and expand markets.

### 1.2.2.2 Sales Forecast and Sales Policy

1. The projected sales volume for 2017 is outlined as follows :

Unit : Thousand pcs/kg/bottle/box

Major Products	Sales Volume
Plastic Closures	24,901,145
PET Bottles	7,122,090
Labels	4,418,135
Aluminum Closures	642,769
Tobacco&Liquor Packaging	1,875
Beverage Filling OEM	1,573,061
TR Filling OEM	70,815
Metal Lug Caps	271,332
Others	55,903
Totals	39,057,125

2. HON CHUAN made sales forecasts according to the market movements, considering supply and demand in beverage and food industry and taking into account of changes in products and clients mix in recent years.

### **1.2.2.3 Key Production and Sales Strategies**

- 1.R&D: We aggressively approach new products, cultivate new customers, put equal emphasis on customer and product orientations, and develop innovative packaging materials to meet customers' requests and industry trends.
- 2.Manufacture: We cooperate with upstream material suppliers to secure high quality and sources of materials. We also strengthen the production management system, improve production lines, and automate production linkage. We establish computerized production and management feedback system and initiate cooperation with domestic and foreign organizations to improve production technology and equipment process to ensure a leading position in technology.
- 3.Sales: To cope with business expansion, we aggressively establish complete international marketing channels and logistics management and develop a robust supply and marketing system with world-leading beverage manufacturers.
- 4.Operations: We cultivate all-rounded talents to cope with challenges in the next century, capturing industrial trends and develop new products that adapt to the constant changing market demands.

### **1.2.3 Future development strategy**

#### **1.2.3.1 New product development**

We develop new packaging materials and aggressively develop lighter bottles, single-sheet plastic caps, eco trademarks, eco-friendly materials, PET beer bottles and plastic beer bottle caps to create corporate value with innovations and improve the company's core competitiveness.

We introduce new technologies including 3D printing, QR code, digital printing, laser security wrap, and PVC-free TPE composite materials to enhance product safety and improve product competitiveness.

#### **1.2.3.2 Continuously promote in-house and long-term strategic cooperation contracts**

In-housing enables customers to save capital expenditures on equipments and reduce transportation cost on packaging materials and warehouse costs. To Hon Chuan, streamline production can secure revenue and create a formidable barrier to entry for competitors. Through the price adjustment mechanism, we can avoid the risk of profit erosion as material prices fluctuate. Long-term strategic cooperation contracts can create a win-win situation for both customers and Hon Chuan as we help our customers quickly increase market share and guarantee Hon Chuan stable revenue and profit return.

#### **1.2.3.3 Vertical integration of multiple services**

Whether in Taiwan, mainland China, or Southeast Asia, we can provide 4-in-1 services that include bottle caps, bottle labels, PET bottles, and beverage filling so that our customers can focus on R&D, marketing, and brand channel, thus create a perfect partnership.

## **1.2.4 The Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Conditions**

### **1.2.4.1 External competitive environment**

In Taiwan, the beverage market is extremely competitive. As over one hundred new beverages are released every year, beverage companies must continuously release new products to maintain competitive strength and secure market share. As the leader of beverage packaging materials in Taiwan, we have the highest market share in bottle caps, bottle labels, and PET bottles. We continuously develop packaging materials with new functionality, new visuality, and new style to minimize the cost of packaging materials for beverage companies and increase the added value of their products, so that they can maintain their competitive strength in the market.

### **1.2.4.2 Regulatory environment**

In terms of the legal environment, the Legislative Yuan already largely amended relevant laws in 2005 to increase several legal requirements for corporate governance. In response to such legal environmental change, we have begun proactively to study measures for strengthening corporate governance and other ancillary measures.

### **1.2.4.3 Macroeconomic conditions**

We are in the fast moving consumer goods (FMCG) business; therefore, revenue is closely related with the demographic size and national GDP. As the birth-rate in Taiwan has been falling recently, an ageing society with population decline is expected in the future, which would limit the growth momentum of the FMCG market. This will indirectly influence our revenue growth. To mitigate the relevant impacts, apart from aggressively internationalizing our business, we implement vertical integration to expand the scope of our products and services to improve competitiveness and maintain revenue growth by offering all-rounded services to our key customers.

## 2. Company Profile

### 2.1 Company Profile

2.1.1 Date of incorporation : July 15, 1969

2.1.2 Company history :

Year	Milestones
1969	➤ “Hon Chuan Industrial Limited Company “with capital of NT\$ 600,000 was established in Chang Hwa City.
1982	➤ Moved to Shiou Shuei, Chang Hwa County due to continued expansion, and was renamed as Hon Chuan Enterprise Co., Ltd.
1983	➤ Expanded product lines to include Aluminum closures, Colored shrinkable labels.
1984	➤ Became a certified supplier of Aluminum caps and Labels in Taiwan for Coca Cola, Pepsi Cola, 7-up and other international beverage companies.
1987	➤ Acquired land and factory in Taichung Industrial Park.
1988	➤ Moved into Taichung Industrial Park to further expand production.
1990	➤ Tsao Hsih- Chung, CEO, was awarded for 13 <sup>th</sup> Model of Entrepreneurs Prize.
1991	➤ Renamed as Hon Chuan Metal Development Co., Ltd. ➤ By introducing High-speed Aluminum Cap Machine from Italy and Gravure Machine from UK, Hon Chuan became the largest closure manufacturer in Taiwan. ➤ Awarded as “Excellent Taxpayer” and “Golden Dragon Award in Precise Machinery”. ➤ Added Metal Lug Cap with Safety Button into product line by introducing UK advanced equipment and technology.
1992	➤ Acquired Taichung 2nd Plant. ➤ Started to develop Plastic cap, Deluxe Aluminum closure, Open pull caps. ➤ Awarded as “Excellence in harmony between Labor and Capital”.
1993	➤ Started to produce Deluxe Aluminum closure for deluxe wine by introducing automated European equipment.
1994	➤ Added multi-purpose bioriented polyolefin shrinkable film into product line by importing European manufacturing technologies. ➤ Acquired Plastic cap equipment and introduced overseas advanced technology. ➤ Acquired Open Pull Cap Equipment for the use of Juice and function drinks.
1995	➤ Won a series of awards including “Outstanding Management,” ”Product Development,” ”Exportation” and “Industry Automation” from R.O.C Packaging Association.
1996	➤ Our high quality plastic cap was approved and recognized by Coca Cola and Hon Chuan became the unique supplier which won this award. ➤ Received ISO 9002 accreditation.
1998	➤ Started to manufacture battery casing and accurate electronic parts.

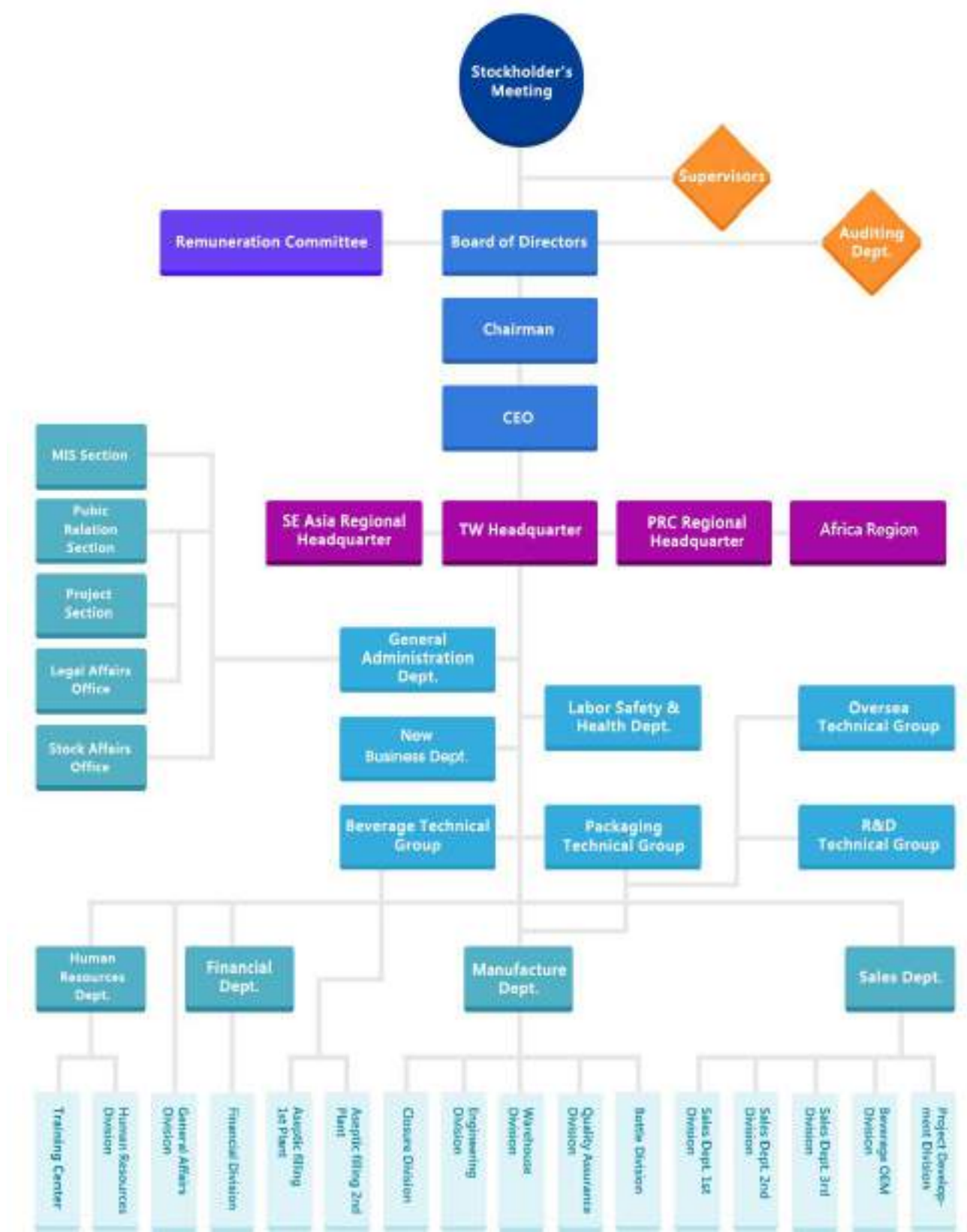
1999	➤ Renamed as “Taiwan Hon Chuan Enterprise Co., Ltd.” to strive for international recognition.
2000	➤ Expanded the facilities to produce PET bottles so that customer can acquire PET bottles in additions to plastic caps, aluminum closures and colored labels on a one-stop shopping basis.
2001	<ul style="list-style-type: none"> <li>➤ Listed on the Taiwan Stock Exchange on March 2.</li> <li>➤ Produced Anti-Static Materials and passed TFT-LCD customers’ certification.</li> <li>➤ Awarded “Outstanding Industry” by National Industry Awards.</li> </ul>
2002	<ul style="list-style-type: none"> <li>➤ Acquired the shares of Suzhou Hon Chuan to develop Great China market.</li> <li>➤ Received ISO 9001:2000 accreditation.</li> </ul>
2003	➤ Established “Hon Chuan (China) Holdings Co., Ltd.” under which subsidiaries in Suzhou, Changsha, Taiyuan and Jinan were set up to tap into China market.
2004	<ul style="list-style-type: none"> <li>➤ Set up In-House Bottling Lines at Uni-President, Yang Mei Plant and Uni-President, Rui Fang Plant.</li> <li>➤ Incorporated “Hon Chuan (Asia) Holdings Co., Ltd.,” which invested Hon Chuan (Thailand) plant, Hon Chuan FD plant, Hon Chuan (Indonesia) plant to explore South East Asia Market.</li> <li>➤ Established headquarter in Taiwan, overseeing the operations in Taiwan, China and South-East Asia.</li> </ul>
2005	➤ Set up Ningbo Hon Chuan to manufacture battery casing and accurate electronic parts in China.
2006	<ul style="list-style-type: none"> <li>➤ Set up 4 mineral water production lines in Suzhou Hongxing, Changsha Hon Chuan, Jinan Hon Chuan and Taiyuan Hon Chuan.</li> <li>➤ Established Taichung 1st Aseptic Filling Plant at Chungkang Export Processing Zone for aseptic co-packing businesses.</li> </ul>
2007	➤ Established “Hon Chuan (Vietnam) Ltd.” to explore Vietnam market.
2008	➤ Set up PET blowing production lines at Coke Cola, Taoyuan plant (In House) and Chen Kou Wei, Long Cyuan plant (In House).
2009	<ul style="list-style-type: none"> <li>➤ Set up Qingxin Hon Chuan at Guangdong, China to provide caps, preforms and beverage OEM service.</li> <li>➤ Built Tainan plant to provide beverage OEM service for Coke Cola.</li> </ul>
2010	<ul style="list-style-type: none"> <li>➤ Established HeySong Chungli (In-house) Plant and Kuang Chuan Jiayi (In-house) Plant.</li> <li>➤ Established Hon Chuan Indonesia Futami (In house) Plant.</li> <li>➤ Established Xian Coca Cola (In house) plant to provide preforms and water OEM service.</li> <li>➤ Established Kunming (In house) plant and Lanzhou (In house) plant for Pepsi China.</li> <li>➤ Won the 20th National Quality Award as recognition for Hon Chuan’s high product quality and excellent operational management.</li> </ul>
2011	<ul style="list-style-type: none"> <li>➤ Set up In-house plastic cap production line at Jing Mai Liang Company in China.</li> <li>➤ Built Vietnam plant and Malaysia plant to produce plastic cap and</li> </ul>

	<p>preform for local market.</p> <ul style="list-style-type: none"> <li>➤ Established In-house blowing bottle plant to cooperate with Cocoland Company in Malaysia.</li> <li>➤ HON CHUAN set up the 2nd aseptic filling beverage plant in Taichung.</li> </ul>
2012	<ul style="list-style-type: none"> <li>➤ Built aseptic filling beverage plant in Zhangzhou, China.</li> </ul>
2013	<ul style="list-style-type: none"> <li>➤ Received recognition from the Industrial Development Bureau.</li> <li>➤ Awarded SGS ISO-9001 certificate for International Quality of Assurance System and Quality of Sustainability Award.</li> <li>➤ Set up the 3rd aseptic filling beverage plant in Taichung.</li> <li>➤ Set up Chuzhou (In House) plant in Anhui, China.</li> <li>➤ Set up Hon Chuan Myanmar plant.</li> </ul>
2014	<ul style="list-style-type: none"> <li>➤ Set up aseptic filling beverage (In House) plant in Xiantao, Hubei, China.</li> <li>➤ Set up Aseptic filling plant in Surabaya in Indonesia.</li> <li>➤ Started a joint venture, Honly plant, with the local beverage producer in Cambodia.</li> <li>➤ Awarded for Occupational safety Investment in Traditional Industries awarded by Ministry of Labor.</li> </ul>
2015	<ul style="list-style-type: none"> <li>➤ Actively developed new products like hologram aluminum closure, digital printing plastic cap, digital printing label, QR code products, thermochromics label, and bag in box and PVC free LUG cap to add values.</li> <li>➤ Built up Auto Storage/Retrieval Warehouse at headquarter and aseptic filling beverage 2st plant.</li> <li>➤ Established In-house blowing bottle plant to cooperate with Foodstar Company in Thailand.</li> <li>➤ Awarded for Excellence Occupational Safety and Health from Health Promotion Administration, Ministry of Health and Welfare.</li> </ul>
2016	<ul style="list-style-type: none"> <li>➤ Established In-house blowing bottle plant to cooperate with KH Company in Myanmar.</li> <li>➤ Established Hon Shi Mozambique Co., Ltd., manufacturing beverage packaging, to develop Africa market.</li> <li>➤ To deal with the need of sales exploration in Vietnam, purchased the lands in VSIPZA of South Vietnam, and the land in industrial area of middle Vietnam.</li> </ul>

3. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart



### 3.1.2 Major Corporate Functions

Department	Functions
<b>General Administration Dept.</b>	Responsible for planning and execution of business objectives, internal control systems, performance analysis, ERP systems and project management.
<b>Auditing Dept.</b>	Ensure the effectiveness of internal control system, comprehensiveness of corporate governance, and the accuracy of financial and accounting data.
<b>Sales Dept.</b>	Responsible for formulating and implementing marketing strategies, maintaining customer's relationship as well as new customer development, and achieving sales targets.
<b>Manufacture Dept.</b>	Responsible for product manufacturing, production capacity allocation, inventory management and transportation scheduling.
<b>Financial Dept.</b>	Responsible for the summarization and supply of accounting information, management and operation of finance and investment, cost calculation and stockholding services.
<b>Packaging Technical Group</b>	Responsible for Integration of manufacturing, technology, R&D, QC, and relative affaires in packaging material sector.
<b>Beverage Technical Group</b>	Responsible for Integration of manufacturing, technology, R&D, QC, and relative affaires in beverage OEM sector.
<b>Human Resource Dept.</b>	Responsible for Human resource planning, recruitment, training, , career planning, employee's welfare, relationship, etc.
<b>Labor Safety &amp; Health Dept.</b>	Responsible for planning and execution of industrial safety sanitation, environmental protection.
<b>New Business Dept.</b>	Responsible for development of own brand beverage, promotion of IoT business, packaging design, marketing and advertising.



## 3.2 Information regarding directors, supervisors, management team and branch managers :

### 3.2.1 Information regarding Directors and Supervisors :

#### 3.2.1.1 Information regarding Directors and Supervisors :

April 17, 2017

Title	Nationality	Name	Gender	Date of Election (Inauguration)	Term of office	First elected	Shareholding when elected		Current shareholding		Spouse and minor children's current shareholdings		Shareholding by nominee arrangement		Education and Experience	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	R.O.C.	Dai, Hung-Chuan	M	2014.06.18	3 years	1996.10.4	1,804,712	0.69%	3,665,019	1.25%	670,352	0.23%	0	0	(1) Bachelor Degree in Civil Engineering, National Taiwan University, Taiwan (2) Master Degree in Structural Engineering, University of California, Berkeley, U.S.A. (3) MBA, Columbia University, U.S.A. (4) A Chartered Structural and Civil Engineer in ROC (5) Technical Specialist of Public Works Department, Taichung City Government (6) Associated Technical Specialist of Construction Management Division, Construction and Planning Agency Ministry of the Interior	(1) Chairman of Hon Chuan Investment Co., Ltd. (2) Chairman of Hon Tong Investment Co., Ltd. (3) Director of Ren Sun Construction Co., Ltd	Director  Chief Accounting Officer	Dai, Hung-I  Cheng, Ya-wen	Brother  Spouse
Director	R.O.C.	Tsao, Hsih-Chung	M	2014.06.18	3 years	1982.03.22	2,380,243	0.92%	4,372,243	1.49%	1,283,064	0.44%	0	0	(1) The recipient of the 13th China Youth Career Initiation Honor Award (2) Sun Yat-Sen Institute of Policy Research and Development (the tenth term) (3) Wharton School of the University of Pennsylvania, U.S.A. (4) The Outstanding Food Entrepreneur Award of Taiwan Association for Food Science and Technology in 2000 (5) Elite Presidents' Camp of Peking University, China	(1) General Manager of HON CHUAN (2) Chairman of Hsih-Yueh Development Co., Ltd. (3) The 13th Director of Cultural and Educational Foundation, Taichung City	Supervisor	Tsao, Yu-Yu	Daughter
Director	R.O.C.	Liu, Yun-Chang	M	2014.06.18	3 years	1911.04.20	597,350	0.23%	689,303	0.24%	98,641	0.03%	0	0	(1) EMBA, Beijing University, China (2) Department of Distribution Management, National Chin-Yi University of Technology, Taiwan (3) The Outstanding Enterprise Manager Award Of R.O.C in 1996 (4) The Outstanding Food Entrepreneur Award of Taiwan Association for Food Science and Technology in 2002 (5) The Distinguished Alumni Award of National Chin-Yi University of Technology in 2010	Vice President of HON CHUAN	—	—	—
Director	R.O.C.	Chang, Chun-Shu	F	2014.06.18	3 years	1993.12.17	2,657,234	1.02%	2,667,234	0.91%	416,089	0.14%	0	0	Graduated from National Taichung Institute of Commerce, Taiwan	Director of HON CHUAN	—	—	—

Title	Nationality	Name	Gender	Date of Election (Inauguration)	Term of office	First elected	Shareholding when elected		Current shareholding		Spouse and minor children's current shareholdings		Shareholding by nominee arrangement		Education and Experience	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Director	R.O.C.	Lin, Chuan-Nui	M	2014.06.18	3 years	1993.12.17	2,880,203	1.11%	2,780,795	0.95%	627,739	0.21%	0	0	Research class of General manager, Tunghai University, Taiwan	Director of HON CHUAN	—	—	—
Director	R.O.C.	Dai, Hong-I	M	2014.06.18	3 years	1996.10.4	3,400,434	1.31%	5,890,111	2.01%	890,364	0.30%	0	0	(1) Master Degree in urban design, University of Sydney, Australia (2) A Chartered Architect in ROC	(1) Director of HON CHUAN (2) Dai Hongyi Architects (3) Chairman of Ren Sun Construction Co., Ltd. (4) A member of Urban design advisory committee, Taichung City (5) Assistant professor, Department of Landscape design, National Chin-Yi University of Technology (6) An arbitrator of Chinese Arbitration Association, Taipei	Chairman  Chief Accounting Officer	Dai, Hung-Chuan  Cheng, Ya-wen	Brother  Relationship in law
Director	R.O.C.	CDIB Capital Group (Note)	F	2014.06.18	3 years	1995.11.30	1,477,626	0.57%	740,086	0.25%	0	0	0	0	—	—	—	—	—
	R.O.C.	Representative : Cheng, Chien-Hua					0	0	0	0	0	0	0	0	Master degree in Institute of Technology Management, National Tsing Hua University	(1) Manager of China Development Financial Holding Corporation (2) Representative of Beauty Essentials International Ltd.			
Supervisor	R.O.C.	Lin, Chun-Chih	M	2014.06.18	3 years	1999.04.20	85,317	0.03%	146,529	0.05%	2,497	0	0	0	(1) Bachelor Degree in Accounting, National Taiwan University, Taiwan (2) Partner of EnWise CPAs &Co.	Partner of EnWise CPAs &Co.	—	—	—
Supervisor	R.O.C.	Tsao, Yu-Yu	F	2014.06.18	3 years	2012.06.15	1,025,379	0.39%	2,177,414	0.74%	0	0	0	0	Graduated from University of Victoria, Canada	Director of Hsih-Yueh Development Co., Ltd.	President	Tsao, Hsih-Chuan	Father
Supervisor	R.O.C.	Hsih-Yueh Development Co., Ltd.	M	2014.06.18	3 years	2012.06.15	698,579	0.27%	1,113,115	0.38%	0	0	0	0	Graduated from China Medical University, Taiwan	(1) President of Honda Manpower Agency Co., Ltd. (2) Chairman of Mediation Committee of the Changhua City Government	—	—	—
	R.O.C.	Representative : Hsu, Cheng-Chuan					935	0	1,078	0	3,000	0	0	0					

Note : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.

### 3.2.1.2 Major shareholders of Institutional Shareholders :

Feb 28, 2017

<b>Institutional shareholders</b>	<b>Major shareholders of institutional shareholders</b>	<b>Shareholding ratio</b>
CDIB Capital Group	China Development Financial Holding Corporation	100%

<b>Name of Institutional Shareholders</b>	<b>Major Shareholders of Institutional Shareholders</b>	<b>Shareholding ratio</b>
China Development Financial Holding Corporation	1. Hsing Wen Investment Co., Ltd.	4.34%
	2. China Life Insurance Co., Ltd.	3.76%
	3. Fubon Life Insurance Co., Ltd.	3.05%
	4. Jing Kwan Investment Co., Ltd.	2.78%
	5. Cathay Life Insurance Co., Ltd.	2.46%
	6. KGI Securities Co., Ltd.	2.02%
	7. Citibank (Taiwan) in custody for Government of Singapore	1.91%
	8. Bank of Taiwan	1.59%
	9. Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	1.50%
	10. Citibank (Taiwan) in custody for Dimension Emerging Market Estimate Fund	1.06%

Note : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.

### 3.2.1.3 Criteria for Expertise and Independence of Directors and Supervisors :

Name	Qualifications	Meet One of the Following Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria ( Note 2 )										Concurrently Serving as an Independent Director / Number of Other Public Companies
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department elated to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Dai, Hung-Chuan			✓	✓					✓	✓	✓		✓	✓	0
Tsao, Hsih-Chuan				✓					✓	✓	✓		✓	✓	0
Liu, Yun-Chung	✓			✓			✓		✓	✓	✓	✓	✓	✓	0
Chang, Chun-Shu				✓	✓				✓	✓	✓	✓	✓	✓	0
Lin, Chuan-Nui				✓	✓				✓	✓	✓	✓	✓	✓	0
Dai, Hung-I			✓	✓					✓	✓	✓		✓	✓	0
CDIB Capital Group Representative : Cheng, Chien-Hua (Note 2)				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Lin, Chun-Chih	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Tsao, Yu-Yu				✓	✓		✓		✓	✓	✓		✓	✓	0
Hsih-Yueh Development Co., Ltd. Representative : Hsu, Cheng-Chuan				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0

Note 1 : A "✓" is marked in the space beneath a condition number when a director or supervisor has met that condition during the two years prior to election and during his or her period of service; the conditions are as follows:

- (1) Not an employee of the Company or any of its affiliated companies.
- (2) Not a director or supervisor of any of the Company's affiliates. The same does not apply, however, in case where the person is an independent director of the Company, or its parent company, or its any subsidiary.
- (3) Not an individual shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of issued shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial relationship with the Company.
- (7) Not a professional individual who, or an owner , partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or any affiliate of the Company, or a spouse thereof. The establishment of a remuneration committee for listed or over-the-counter market trading companies, as well as members of the remuneration committee exercising the powers of Article 7 in the performance of their duties, are not subject to the above restrictions.
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Code.
- (10) Not a government, institutional person or its representative as defined in Article 27 of the Company Act.

Note 2 : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.

### 3.2.2 Information Regarding Management Team :

April 17, 2017

Title	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse and minor children's current shareholdings		Shareholding by nominee arrangement		Education and Experience	Concurrent Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	R.O.C.	Tsao, Hsih-Chung	M	79.6.1	4,372,243	1.49%	1,283,064	0.44%	0	0	(1) The recipient of the 13th China Youth Career Initiation Honor Award (2) Sun Yat-Sen Institute of Policy Research and Development (the tenth term) (3) Wharton School of the University of Pennsylvania, U.S.A (4) The 18 <sup>th</sup> director of Food Industry Research and Development Institute (5) Elite Presidents' Camp of Peking University, China	(1) Chairman of Hsih-Yueh Development Co., Ltd. (2) The 13th Director of Cultural and Educational Foundation, Taichung City	-	-	-
Vice President	R.O.C.	Liu, Yun-Chang	M	82.3.1	689,303	0.24%	98,641	0.03%	0	0	(1) EMBA, Beijing University, China (2) Distribution Management Dept., National Chin-Yi University of Technology, Taiwan (3) The Outstanding Enterprise Manager Award Of R.O.C in 1995 (4) The Outstanding Food Entrepreneur Award of Taiwan Association for Food Science and Technology in 2002 (5) The Distinguished Alumni Award of National Chin-Yi University of Technology in 2010	-	-	-	-
Sales Dept. Executive Vice President	R.O.C.	Pai, Wen-Pin	M	82.6.1	12,693	0	0	0	0	0	(1) Graduated from Mingdao high school (2) Completed a Management course at Tunghai University	-	-	-	-
Sales Dept. Vice President	R.O.C.	Tseng, Wen-Hua	M	103.3.1	663	0	81,000	0.03%	0	0	(1) Graduated from National Chin-yi University of Technology. (2) Completed a Marketing Management course at Tunghai University	-	-	-	-
Financial Dept. Senior Vice President	R.O.C.	Cheng, Ya-Wen	F	97.1.1	670,352	0.23%	3,665,019	1.25%	0	0	(1) Graduated from Economics Dept., National Taiwan University (2) Master of Accounting, University of Illinois at Urbana Champaign, U.S.A (3) CPA of Taiwan, U.S.A and Australia	(1) Director of Hon Chuan Investment Co., Ltd. (2) Director of Hon Tong Investment Co., Ltd.	-	-	-
Packaging Technical Group Vice President	R.O.C.	Lee, Chin-Hsiung	M	103.3.1	1,299	0	16,769	0.01%	0	0	(1) Graduated from Electronics Dept., National United University (2) Completed a Management course at Asia University	-	-	-	-
Beverage Technical Group Vice President	R.O.C.	Lu, Jen-Yao	M	103.3.1	0	0	0	0	0	0	(1) Completed an EMBA course at National Cheng Kung University (2) Section manager of Uni President Co. Ltd. (3) Product Director of HEK group China	-	-	-	-
Sales Dept. Vice President	R.O.C.	Lai, Shen-Yuan	M	105.3.29	3,159	0	0	0	0	0	(1) Graduated from Sociology Dept., National Taiwan University (2) Special Assistant of Chairman, Chainan Construction Co., Ltd.	-	-	-	-

Auditing Dept. Senior Assistant Vice President	R.O.C.	Hsieh, Hung-Lung	M	98.8.11	613	0	489	0	0	0	(1) Graduated from Industrial Management Dept., National Taiwan University of Science and Technology (2) MBA of National Yunlin University of Science and Technology (3) The 1 <sup>st</sup> Taiwan industrial excellence manager Award	-	-	-	-
Title (Note)	Nationality	Name	Gender	Date of Inauguration	Shareholding		Spouse and minor children's current shareholdings		Shareholding by nominee arrangement		Education and Experience	Concurrent Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
					Shares	%	Shares	%	Shares	%			Title	Name	Shares
Sales Dept. Senior Assistant Vice President	R.O.C.	Fang, Yu-Lung	M	98.1.1	1,153	0	1,000	0	0	0	(1) Graduated from Chemical Engineering Dept., Shu-te University (2) Sales Manager, The Key Industrial Co., Ltd.	-	-	-	-
Aseptic Filling Plant Senior Assistant Vice President	R.O.C.	Lee, Ching-Hsiang	M	98.7.1	0	0	0	0	0	0	(1) Graduated from Chemical Engineering Dept., National Taipei University of Technology (2) Technical application Specialist, Tetra Pak (3) Manufacturing section manager, Concord Chemical Industrial Co., Ltd.	-	-	-	-
Aseptic Filling Plant Senior Assistant Vice President	R.O.C.	Lu, Ching-Chou	M	101.3.1	0	0	0	0	0	0	(1) Graduated from Mechanical Engineering Dept., National United University (2) Completed a Management course at Tunghai University	-	-	-	-
General Administration Dept. Senior Assistant Vice President	R.O.C.	Yen, Ching-Chuan	M	94.9.6	29,685	0.01%	0	0	0	0	(1) Graduated from Chemical Engineering Dept., Tunghai University (2) Vice General Manager, Daodi international Co., Ltd.	-	-	-	-
Financial Dept. Senior Assistant Vice President	R.O.C.	Chuang, Kuei-Ching	F	97.2.1	18,507	0.01%	0	0	0	0	(1) Graduated from Accountancy Dept., Chungyu Institute of Technology (2) Completed a Financial Management Training Program course at Tunghai University	-	-	-	-
R&D Technical Dept. Assistant Vice President	R.O.C.	Hung, Min-Hsiung	M	102.10.8	33,344	0.01%	103,560	0.04%	0	0	(1) Graduated from Electronics Dept., Mingdao high school (2) Completed a Management Training Program course at Tunghai University	-	-	-	-
Sales Dept. Assistant Vice President	R.O.C.	Ting, Chih-Hao	M	102.5.1	9,041	0.00%	0	0	0	0	Graduated from Business Administration Dept., Feng Chia University	-	-	-	-
Manufacture Dept. Assistant Vice President	R.O.C.	Tsao, Chien-Hsia	M	102.10.8	9,372	0.00%	0	0	0	0	Graduated from Chia Nan University of Pharmacy & Science	-	-	-	-
Aseptic Filling Plant Assistant Vice President (Note)	R.O.C.	Cheng, Chih-Hung	M	105.4.1	0	0.00%	2,461	0	0	0	Master degree of Food Science Dept., National Pingtung University of Science and Technology	-	-	-	-

Note : On April 01, 2017, Mr. Cheng, Chih-Hung was promoted from Manager to Assistant Vice President.

## 3.3 Remuneration of Directors, Supervisors, President, and Vice President in the most recent year

### 3.3.1 Remuneration of Directors

December 31, 2016

Unit: NT\$ thousands

Title	Name	Remuneration for Directors								Total of A, B, C and D as % of Net Profit		Compensation Earned as Employee of HON CHUAN or HON CHUAN Subsidiary Affiliates								A、B、C、D、E、F and G as % of Net Profit		Compensation Received from Non-consolidated From HON CHUAN Affiliates
		Salary (A)		Pension (B) (Note1)		Compensation (C)		Allowance (D)				Salary, Bonus etc. (E)		Pension (F)		Employee Profit Sharing (G)						
		From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN		From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities		
																Cash	Stock				Cash	
Chairmen	Dai, Hung-Chuan	0	0	0	0	9,704	9,704	0	0	0.82%	0.82%	7,942	15,553	101	101	2,438	0	2,438	0	1.71%	2.36%	—
Director and President	Tsao, Hsih-Chung																					
Director	Lin, Chuan-Nui																					
Director	Dai, Hung-I																					
Director	CDIB Capital Group Representative : Cheng, Chien-Hua (Note 2)																					
Director	Chang, Chun-Shu																					
Director	Liu, Yun-Chang																					

Note 1 : Pension was recorded as expenses and appropriated in 2016.

Note 2 : Note : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.

### Remuneration Brackets

Range of Remuneration	Names of Directors			
	Total Remuneration (A+B+C+D)		Total Remuneration (A+B+C+D+E+F+G)	
	From HON CHUAN	From All Consolidated Entities H	From HON CHUAN	From All Consolidated Entities I
NT\$ 0 ~ NT\$ 2,000,000	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note) Chang, Chun-Shu Liu, Yun-Chang	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note) Chang, Chun-Shu Liu, Yun-Chang	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note) Chang, Chun-Shu	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note) Chang, Chun-Shu
NT\$ 2,000,000 ~ NT\$ 4,999,999	Dai, Hung-Chuan Tsao, Hsih-Chung	Tsao, Hsih-Chung	Liu, Yun-Chang	Liu, Yun-Chang
NT\$ 5,000,000 ~ NT\$ 9,999,999	0	Dai, Hung-Chuan	Dai, Hung-Chuan Tsao, Hsih-Chung	Tsao, Hsih-Chung
NT\$ 10,000,000 ~ NT\$ 14,999,999	0	0	0	Dai, Hung-Chuan
NT\$ 15,000,000 ~ NT\$ 29,999,999	0	0	0	0
NT\$ 30,000,000 ~ NT\$ 49,999,999	0	0	0	0
NT\$ 50,000,000 ~ NT\$ 99,999,999	0	0	0	0
Over NT\$ 100,000,000	0	0	0	0
Total	7	7	7	7

Note : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.



### 3.3.2 Remuneration of Supervisors

December 31, 2016  
Unit: NT\$ thousands

Unit: HK\$ thousands

Title	Name	Remuneration for Supervisors						Total of A, B and C as % of Net Profit		Compensation Received from Non-consolidated From HON CHUAN Affiliates
		Salary (A)		Compensation (B)		Allowance (C)				
		From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	
Supervisor	Lin, Chun-Chih	0	0	900	900	0	0	0.08%	0.08%	None
Supervisor	Tsao, Yu-Yu									
Supervisor	Hsih-Yueh Development Co., Ltd. Representative : Hsu, Cheng-Chuan									

#### Remuneration Brackets

Range of Remuneration	Names of Supervisors	
	Total Remuneration (A+B+C)	
	From HON CHUAN	From All Consolidated Entities D
NT\$ 0 ~ NT\$ 2,000,000	Lin, Chun-Chih Tsao, Yu-Yu Hsih-Yueh Development Co., Ltd.	Lin, Chun-Chih Tsao, Yu-Yu Hsih-Yueh Development Co., Ltd.
NT\$ 2,000,000 ~ NT\$ 4,999,999	0	0
NT\$ 5,000,000 ~ NT\$ 9,999,999	0	0
NT\$ 10,000,000 ~ NT\$ 14,999,999	0	0
NT\$ 15,000,000 ~ NT\$ 29,999,999	0	0
NT\$ 30,000,000 ~ NT\$ 49,999,999	0	0
NT\$ 50,000,000 ~ NT\$ 99,999,999	0	0
Over NT\$ 100,000,000	0	0
Total	3	3

### 3.3.3 Compensation of President, and Vice President

December 31, 2016  
Unit: NT\$ thousands

Unit: NT\$ thousands														
Title	Name	Salary (A)		Pension (B)		Special allowances (C)		Profit Sharing- Employee Bonus (D)				Total of A, B,C and D as % of Net Profit		Compensation Received from Non-consolidated From HON CHUAN Affiliates
		From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities	From HON CHUAN		From All Consolidated Entities		From HON CHUAN	From All Consolidated Entities	
								Cash dividend	Stock dividend	Cash dividend	Stock dividend			
President	Tsao, Hsih-Chung	18,574	26,883	296	296	0	0	10,407	0	10,407	0	2.48%	3.19%	—
Vice President	Liu, Yun-Chang													
Vice President	Pai, Wen-Pin													
Vice President	Tseng, Wen-Hua													
Vice President	Cheng, Ya-Wen													
Vice President	Lee, Chin-Hsiung													
Vice President	Lai, Shen-Yuan													
Vice President	Lu, Jen-Yao													

Note : The Company has accrued pension expenses for 2016 and made pension contributions totaling NTD\$ 296 thousand (including NTD\$ 121 thousand under the new system and NTD\$ 175 thousand under the old system).

### Compensation Brackets

Range of Compensation	Names of President and Vice President	
	From HON CHUAN	From All Consolidated Entities
NT\$ 0 ~ NT\$ 2,000,000	Lai, Shen-Yuan	0
NT\$ 2,000,000 ~ NT\$ 4,999,999	Liu, Yun-Chang Pai, Wen-Pin Tseng, Wen-Hua Cheng, Ya-Wen Lu, Jen-Yao Lee, Chin-Hsiung	Liu, Yun-Chang Lu, Jen-Yao Lee, Chin-Hsiung Lai, Shen-Yuan
NT\$ 5,000,000 ~ NT\$ 9,999,999	Tsao, Hsih-Chung	Tsao, Hsih-Chung Pai, Wen-Pin Tseng, Wen-Hua Cheng, Ya-Wen
NT\$ 10,000,000 ~ NT\$ 14,999,999	0	0
NT\$ 15,000,000 ~ NT\$ 29,999,999	0	0
NT\$ 30,000,000 ~ NT\$ 49,999,999	0	0
NT\$ 50,000,000 ~ NT\$ 99,999,999	0	0
Over NT\$ 100,000,000	0	0
Total	8	8

### 3.3.4 Employees' Profit Sharing Bonus Paid to Management Team

December 31, 2016

Unit: NT\$ thousands

	<b>Title</b>	<b>Name</b>	<b>Stock</b>	<b>Cash</b>	<b>Total Employees' Profit Sharing Bonus</b>	<b>Total Employees' Profit Sharing Bonus Paid to Management Team as a % of 2015 Net Profit</b>
<b>Management Team</b>	President	Tsao, Hsih-Chung	-	14,078	14,078	1.19%
	Vice President	Liu, Yun-Chang				
	Sales Dept. Executive Vice President	Pai, Wen-Pin				
	Sales Dept. Vice President	Tseng, Wen-Hua				
	Financial Dept. Senior Vice President	Cheng, Ya-Wen				
	Packaging Technical Group Vice President	Lee, Chin-Hsiung				
	Beverage Technical Group Vice President	Lu, Jen-Yao				
	Sales Dept. Vice President	Lai, Shen-Yuan				
	Chief Auditor Senior Assistant Vice President	Hsieh, Hung-Lung				
	Sales Dept. Senior Assistant Vice President	Fang, Yu-Lung				
	Aseptic Filling Plant Senior Assistant Vice President	Lee, Ching-Hsiang				
	Aseptic Filling Plant Senior Assistant Vice President	Lu, Ching Chou				
	General Administration Dept. Senior Assistant Vice President	Yen, Ching-Chuan				
	Financial Dept. Senior Assistant Vice President	Chuang, Kuei-Ching				
	R&D Technical Dept. Assistant Vice President	Hung, Min-Hsiung				
	Sales Dept. Assistant Vice President	Ting, Chih-Hao				
	Manufacture Dept. Assistant Vice President	Tsao, Chien-Hsia				
	Aseptic Filling Plant Assistant Vice President (Note)	Cheng, Chih-Hung				

Note : On April 01, 2017, Mr. Cheng, Chih-Hung was promoted from Manager to Assistant Vice President.

**3.3.5 Analyze the ratio of the total remuneration paid to the Company's directors, supervisors, President, and Vice President in the last two years by the Company and all the consolidated subsidiaries to the net income in the proprietary or individual financial report. Explain the remuneration policy, standards, and combinations, remuneration determination procedures, and the relevance of operating performance and future risks :**

1. The percentage of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, president and vice president of the Company, relative to net income.

Title	Total Remuneration as % of 2016 Net Profit		Total Remuneration as % of 2015 Net Profit	
	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities
Directors	1.71%	2.36%	2.08%	3.84%
Supervisors	0.08%	0.08%	0.09%	0.09%
President and Vice President	2.48%	3.19%	2.12%	2.62%

2. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and correlation with business performance :
  - (1) According to the amended Article 28 of Articles of Incorporation, annual profit before income tax, employees' compensation, and directors' remuneration shall be resolved by the Board of Directors to set aside a maximum of 3% of said profit as remuneration to directors. This amended article was proposed by the Board of Directors and has yet to be resolved in the shareholders' meeting held in June, 2017.
  - (2) The above remuneration is determined mainly based on the Company's earnings, while taking into account each individual's participation, contribution and performance, as well as the level of remuneration paid by peers.

## 3.4 Corporate governance practices and status of compliance

### 3.4.1 Operations of the Board of Directors :

The Board held 7 meetings in 2016 with the attendance record of Board members as follows :

Title	Name	Actual attendance	Attendance by proxy	Attendance Rate (%)	Remarks
Chairman	Dai, Hung-Chuan	6	0	86	Re-elected from 2014.6.18
Director	Tsao, Hsih-Chung	7	0	100	Re-elected from 2014.6.18
Director	Liu, Yun-Chang	7	0	100	Re-elected from 2014.6.18
Director	Chang, Chun-Shu	5	1	71	Re-elected from 2014.6.18
Director	Lin, Chuan-Nui	4	1	57	Re-elected from 2014.6.18
Director	Dai, Hung-I	4	1	57	Re-elected from 2014.6.18
Director	CDIB Capital Group Representative : Cheng, Chien-Hua (Note)	5	0	71	Re-elected from 2014.6.18
Supervisor	Lin, Chun-Chih	7	0	100	Re-elected from 2014.6.18
Supervisor	Tsao, Yu-Yu	0	0	0	Re-elected from 2014.6.18
Supervisor	Hsih-Yueh Development Co., Ltd. Representative : Hsu, Cheng-Chuan	7	0	100	Re-elected from 2014.6.18

Note : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.

Other required information :

- If there is any circumstance below in the operation of the Board of Directors, the dates, sessions, contents of motion, all independent directors' opinions and the Company's response should be specified: None.
  - Article 14-3 of the Securities and Exchange Act.
  - Any resolution, to which an independent director objects or expresses reservations, has been recorded or declared in writing.
- If there is any directors' avoidance of motion in conflict of interest, the directors' name, content of motion, cause for avoidance and voting should be specified: None.
- Measures taken to strengthen the functionality of the board:
 

The Board of Directors has established a Remuneration Committee to assist the Board in carrying out its various duties.

The objectives to strengthen the functions of the Board of Directors in recent years include:

  - Build up and maintain corporate image and pay attention to social responsibility.
  - Supervise and manage any risks faced by the Company and ensure the Company to comply with related regulations.
  - Stipulate effective and reasonable internal control system.
  - Continuously update corporate website to maintain the latest business and financial information for shareholders.

Implementation status: Great.

### 3.4.2 Operations of the Audit Committee and the participation of supervisors in the Board operation :

1. Audit Committee: The Company does not have an Audit Committee.
2. The Board held 7 meetings (A) in 2016 with the attendance record of supervisors as follows:

Title	Name	Actual attendance (B)	Actual attendance Rate (%) (B/A)	Remarks
Supervisor	Lin, Chun-Chih	7	100	Re-elected from 2014.6.18
Supervisor	Tsao, Yu-Yu	0	0	Re-elected from 2014.6.18
Supervisor	Hsih-Yueh Development Co., Ltd. Representative : Hsu, Cheng-Chuan	7	100	Re-elected from 2014.6.18

Other required information :

1. The composition and duties of supervisors :
  - (1) Communication between the supervisors and the staff and shareholders of the Company :
    - 1-1 Supervisors can come to the Company and communicate with employees from time to time.
    - 1-2 The Company holds Board of Directors' Meetings and Shareholders' Meetings on a regular basis.
  - (2) Communication between the supervisors and the chief internal auditor and accountants :
    - 2-1 Supervisors communicate with external auditor about financial situation from time to time.
    - 2-2 The chief internal auditor submits internal audit reports and worksheets to each supervisor for review after audit procedures are conducted on a regular basis.
    - 2-3 The chief internal auditor attends board meetings and reports progress of ongoing audit tasks.
2. Concerning the statement made by the supervisors in the board meeting, the dates, sessions, contents of motion, board resolutions, and the Company's handling of the opinions of the supervisors should be clearly stated in the minutes of meeting : None.

### 3.4.3 The Company's implementation of corporate governance and its deviating from the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and the root cause :

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE Listed Companies
	Yes	No	Description	
1. Has the Company developed and disclosed corporate governance guidelines based on TWSE regulation?	V		The Company has drawn up "Corporate Governance Best Practice Principles" based on TWSE regulation. The principle has resolved in the shareholders' meeting on June 22, 2016. The Company has disclosed on its official website ( <a href="http://www.honchuan.com.tw">www.honchuan.com.tw</a> ) and the Market Observation Post System important management policies regarding protecting shareholders' rights, enhancing the responsibilities of the board of directors and functions of shareholders, respecting stakeholders' rights, elevating information transparency and so forth.	Conform to Corporate Governance Best Practice Principles.
2. Shareholding Structure & Shareholders' Rights: (1) Has the Company developed and implemented internal operating processes in managing shareholders' advice, doubt, argument and lawsuit? (2) Does the Company possess a list of major shareholders and a list of owners of these major shareholders? (3) Has the Company established and implemented with its affiliates risk management and firewall system? (4) Does the Company have a code of conduct to prevent the trading of company's stock by insiders with access to nonpublic information?	V		1. The Company has designated spokesperson and Acting Spokesperson for handling shareholders' proposal, doubts, disputes and other related matters. 2. The Company has professional stock transfer agency and designated department such as Investor Relations, Legal Department, to handle shareholders' suggestions, doubts, disputes and litigation. 3. It is included in the Company's internal control system. Personnel doing business within affiliates are considered as independent third party so as to prevent abnormal trading. 4. The Company has created proper management procedures to prevent insider trading.	Conform to Corporate Governance Best Practice Principles.  Conform to Corporate Governance Best Practice Principles.  Conform to Corporate Governance Best Practice Principles.  Conform to Corporate Governance Best Practice Principles.



Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE Listed Companies
	Yes	No	Description	
<p>3. Composition and Responsibilities of the Board of Directors:</p> <p>(1) Has the Board of Directors developed and implemented diverse corporate policies?</p> <p>(2) Besides existing Remuneration Committee and Audit Committee, is the company voluntarily setting up other committees?</p> <p>(3) Does the company have performance evaluation policy for the Board of Directors? Is the evaluation being conducted annually?</p> <p>(4) Does the Company evaluate certified public accountants' level of independence regularly?</p>	V		<p>1. The directors and the supervisors of the Company have professional industry background and practical experiences in business management, and they participate in further studies irregularly.</p> <p>2. The Company has set up remuneration committee and call meetings regularly in accordance with the regulations. All committees are in good operation.</p> <p>3. The operation of the board of directors is obeyed by laws, corporate articles and shareholder resolutions.</p> <p>4. Based on Corporate Governance Best Practice Principles, the Company assesses the independence of the respective certified accountants (Note). The CPAs were approved by the Company, do not act as director, independent director or shareholder of the Company, and do not get paid by the Company, either. Therefore, the independency of the CPAs should be admitted without any doubt.</p>	<p>Conform to Corporate Governance Best Practice Principles.</p> <p>Conform to Corporate Governance Best Practice Principles.</p> <p>Conform to Corporate Governance Best Practice Principles.</p> <p>Conform to Corporate Governance Best Practice Principles.</p>
4. Whether the listed company sets up full-time (part time) units or personnel responsible for corporate governance (Including but not limited to provide the information required by directors and supervisors, to handle the matters relating to the Board of Directors' and the shareholders' meeting and related matters)?	V		The Company has established Register Department to handle related business.	Conform to Corporate Governance Best Practice Principles.
5. Has the Company formed channel of communication with stakeholders (includes, but not limited to, stockholder, employee, customer, supplier), set up stakeholders section on the website, and responded properly to social issues of which they are concerned?	V		The Company has created effective communication channel with stakeholders including bank, creditor, employee, customer and supplier.	Conform to Corporate Governance Best Practice Principles.
6. Does the Company assign professional agencies in handling its stock affairs?	V		The Company has professional stock transfer agency to service shareholders and register department to handle related business.	Conform to Corporate Governance Best Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE Listed Companies
	Yes	No	Description	
7. Information Disclosure: (1) Has the Company set up website to disclose financial and management information? (2) Does the Company have any other way of information disclosure, such as setting up an English website, appointing professional personnel to collect and disclose information, fully implementing corporate spokesperson policy and disclosing investor conference details on the website?	V		The Company has set up official website to provide instant company information, finance and business performance and corporate governance information, which is also available in Market Observation Post System. The Company has spokesperson and designated personnel to collect related information of the Company.	Conform to Corporate Governance Best Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE Listed Companies
	Yes	No	Description	
8. Does the Company hold other important information regarding status of corporate governance(includes, but not limited to, employee rights & care, investor relation, supplier relation, rights of interested parties, extension education for director and supervisor, risk management policy, risk measurement standard, customer policy, liability insurance for directors and supervisors) ?	V		<p>1. Employees' rights: the Company has set up the Employee Welfare Committee to protect employees' rights and well-established personnel training and promotion system.</p> <p>2. Employee care: the Company has mature employee complaint system and personnel education training, providing employee dormitory and activity center in the hope of contributing to every employee's physical and mental health.</p> <p>3. Investor relations: the Company has created official website to provide instant company information and also make it available in Market Observation Post System. The Company has spokesperson to handle related matters.</p> <p>4. Supplier relations, stakeholders' rights: The Company has maintained efficient communication channel with its suppliers and stakeholders, including banks, creditors, employees and customers.</p> <p>5. Further studies of the board of directors and supervisors: the directors and the supervisors of the Company have professional industry background and practical experiences of business management, and they participate in further studies irregularly.</p> <p>6. Implementation of risk management policies and risk measuring standards: the Company has established robust risk management policies for every cycle in the internal control system and has been executing strictly.</p> <p>7. Execution of client policy: the Company focuses on improving quality and vertical integration, providing complementary measures in every aspect for customers to devoting to their own-brand managing and channel expanding, and thus being competitive in the markets.</p> <p>8. Purchasing of liability insurance for the board of directors and supervisors: the Company has purchased liability insurances for the board of directors and supervisors.</p>	Conform to Corporate Governance Best Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE Listed Companies
	Yes	No	Description	
Please review the results of the corporate governance evaluation issued by the Corporate Governance Center of the Taiwan Stock Exchange Co., Ltd. In the most recent year, and to give priority to matters and measures that have not yet been improved. According to recently published corporate governance evaluation in 2016, the results have multiple indicators about setting up independent board members as well as the audit committee as scoring index. The Company has set up independent director and Audit Committee, which was proposed by the Board’s meeting on March 24, 2017, and later, is proposed to the shareholders’ meeting on June 15, 2017 for ratification. This year the Company will declare major announcement and other disclosure of information in English at the same time, which will increase the scoring on the evaluation.				

Note: The criteria to examine the independency of the accountants

No.	Evaluation Item	Result	Independency
1	Whether the appointed accountant has a direct or significant indirect financial interest relationship with the Company.	No	Yes
2	Whether the appointed accountant has any inappropriate relationship with the Company.	No	Yes
3	Whether there is any financing or guarantee relationship between the appointed accountant and the Company or the supervisors of the Company.	No	Yes
4	Whether the appointed accountant will receive any commissions related to the business.	No	Yes
5	During the audit period, whether the appointed accountant oneself and one's spouse or dependent relatives is the supervisor, manager of the Company or serving the position which has significant impact on the audit case.	No	Yes
6	Whether the appointed accountant is the defendant of the Company or on behalf of the Company for coordinating the conflict with other third parties.	No	Yes
7	Whether the appointed accountant accepts any highly valuable gifts from the Company's supervisors or managers.	No	Yes
8	Whether the appointed accountant propagates or intermediate shares or other securities issued by the Company.	No	Yes
9	Whether the appointed accountant holds a part-time work at THC and receives fixed salary from the Company.	No	Yes
10	Whether or not the appointed accountant is jointly investing or sharing the interests of the Company.	No	Yes
11	Whether the appointed accountant is involved in the management competency of the Company.	No	Yes
12	Whether the title of appointed accountant has been used by others.	No	Yes

### 3.4.4 Composition, Responsibilities and Operations of the Remuneration Committee :

#### 3.4.4.1 Professional Qualifications and Independence Analysis of Remuneration Committee Members

Identity	Name	Over five years of experience and the following professional qualifications			Independence criteria (Note 1)								Serving as a Remuneration Committee member of another public company	Remarks (Note 2)
		University teaching in areas of commerce, law, finance, accounting or related corporate business	Working as a judge, attorney, lawyer, accountant or other positions that require professional certification	Work experience in commerce, law, finance, accounting or related corporate experiences	1	2	3	4	5	6	7	8		
Others	Gong, Ying-Zhong			✓	✓	✓	✓	✓	✓	✓	✓	✓	None	-
Others	Liu, Zi-Xing			✓	✓	✓	✓	✓	✓	✓	✓	✓	None	-
Others	Huang, Xiang-Ying	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	-

Note 1 : A “✓” is marked in the space beneath the respective column when a director or supervisor has met that condition during the two-year prior to election and during his or her period of service; the conditions are as follows.

- (1) Not employed by the Company or an affiliated business.
- (2) Not a director or supervisor of the Company or its affiliated company. This restriction does not apply to independent director who is established by the Company, or its parent company, or its subsidiary, in accordance with this provision or local laws.
- (3) Company shares or being a top-10 natural person shareholder in one's own name, held by a spouse or underage child, or held by nominee agreement.
- (4) Neither a spouse, second-degree relative, nor a fifth degree direct relative of the persons listed under the previous three items.
- (5) Neither a director, supervisor or employee of an institutional shareholder directly owning more than 5% of the company's outstanding shares, nor one of the company's top-five institutional shareholder.
- (6) Neither a director, supervisor, manager or shareholder holding more than a 5% stake in certain companies or institutions that have a financial or business relationship with the Company.
- (7) Not a professional who provides commercial, legal, financial, and accounting services or consulting to the Company or its affiliated companies, proprietor, partner, owner of a company or an institution, partner, director (executive), supervisor (executive), manager, and their spouses.
- (8) Standing does not match any of the scenarios described in Article 30 of the Company Law.

#### 3.4.4.2 Attendance of Members at Remuneration Committee Meetings

- (1) There are three members in Remuneration Committee of the Company.
- (2) Current term of office: June 18, 2014 ~ June 17, 2017.

A total of 2 (A) Remuneration Committee meetings were held in 2016. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remarks
Convener	Gong, Ying-Zhong	2	0	100%	Re-elected on 2014.6.18
Committee Member	Liu, Zi-Xing	2	0	100%	Re-elected on 2014.6.18
Committee Member	Huang, Xiang-Ying	2	0	100%	Elected on 2014.6.18

Other required information:

1. If the Board of Directors does not accept or amend the suggestions of the Remuneration Committee, please state the Board meeting date, term, the motions, content of the resolutions of the Board, and the Company's handling the opinions proposed by the Remuneration Committee: None.
2. For resolutions approved by the Remuneration Committee regarding which independent director objects or expresses reservations, and has been recorded or declared in writing, the Remuneration Committee meeting date, term, content of the resolution, opinions of all members, and the handling of the opinions of the members: None.

### 3.4.5 Corporate Social Responsibility :

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best- Practice Principles for TWSE Listed Companies
	Yes	No	Description	
<p>1. Corporate Governance Implementation:</p> <p>(1) Does the Company have corporate social responsibility policy and performance evaluation? If so, are the effect measured?</p> <p>(2) Does the Company regularly hold training program for social responsibility?</p> <p>(3) Has the Company set up specialized/non-specialized division in charge of social responsibility handled by senior managers authorized by the Board? If so, does the division report to the Board?</p> <p>(4) Has the Company established reasonable remuneration policy, combined performance evaluation system with social responsibility policy, and set up effective employee performance appraisal system?</p>	V		<p>1. The Company has stipulated corporate social responsibility practical principle in accordance with Corporate Government Best Practice Principles for TWSE/GTSM Listed Companies, and it has been approved by shareholders' meeting on June 22, 2016. Our company has also established Safety and Hygiene committee to prevent the accident in related working process.</p> <p>2. Push Self-protection System, Responsibility Care System, Contractors Management, Toxic Chemical Substances Control, Transportation safety management. The purpose is to reach zero occupational hazards, protect our employees and the publics.</p> <p>3. Our company has established "Human Resource development committee and the educational training is also held regularly to cultivate each kind of professional personnel and raised their working skills as well as management abilities.</p> <p>4. The employee's performance examination has been introduced to clarify the standard of being awarded and punished, and it also facilitates our company management.</p>	In conformity with corporate social responsibility practical principle.
<p>2. Environmental Sustainability and Responsibility:</p> <p>(1) Is the Company committed to enhancing efficiency of resource use and using renewable materials with less environmental impact?</p> <p>(2) Has the Company developed environmental protection policy suitable for its industry characteristics?</p> <p>(3) Is the Company aware of the impact environmental changes has on its operating</p>	V		<p>1. We aggressively introduce light-weighting products in Closure and PET bottle to reduce the material consumption and carbon emissions.</p> <p>2. By launching innovative business model, In-House, to reduce the energy consumption for packaging and transportation, carbon emissions also decreases.</p> <p>3. Adopting easy-tearing line label design to facilitate PET bottle recycling work which also purify the recycling materials.</p>	In conformity with corporate social responsibility practical principle.



Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best- Practice Principles for TWSE Listed Companies
	Yes	No	Description	
activities? (4) Does the Company monitor greenhouse emission and design CO2 reduction strategy?			<p>4. By doing the following actions of reconsidering, reducing, redesigning, recycling, recovering, and reusing, we do our best to protect environment as a part of the residence on earth.</p> <p>5. Our main research and development direction is to reduce the packaging material to keep up with the trend of light-weighting, recycling, and carbon footprint.</p> <p>6. In 2016, the Company participated “Energy saving and CO2 Reduction Technical team” held by Ministry of Economic Affairs. Detailed description is as below:</p> <p>(1) Energy saving measures</p> <ol style="list-style-type: none"> <li>1. Upgrade facility and increase efficiency: Replace outdated chiller with high efficiency model; Increase its spinning speed by variable frequency air pressure system; Replace old motor with IE3 motor; Transit to LED lighting.</li> <li>2. Improve machine operating efficiency: Adding coordinated control and adjustable temperature system to chiller; Adding coordinated control and variable frequency air pressure system.</li> <li>3. Energy management: Improve capacity on power load, manage air pressure and air conditioning system, and regulate air conditioning and lighting system.</li> <li>4. Sustainable energy: Install solar energy panel and apply greener energy.</li> </ol> <p>(2) Energy saving goals</p> <ol style="list-style-type: none"> <li>1. Energy saving volume: 930.9 KLOE (4,047,000 kwh).</li> <li>2. CO2 reduction: 2,108 tons.</li> <li>3. Reduce 5.11% of energy the entire corporate.</li> <li>4. Energy saving benefit: NTD 12.54 million.</li> </ol>	
3. Keeping social justice: (1) Has the Company designed management policy	V		1. Our company provides labor healthy insurance and allocate corporate pension plan to secure our	In conformity with corporate social

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best- Practice Principles for TWSE Listed Companies
	Yes	No	Description	
<p>and procedure in compliance with international human right and related regulation?</p> <p>(2) Has the Company set up channel for complaints for its employees? Does the company handle complaint with care?</p> <p>(3) Does the Company provide its employees with safe &amp; sanitary workplace and regular health educational training?</p> <p>(4) Has the Company developed employee communication mechanism? Does the Company inform employees of any operational changes that might impact them?</p> <p>(5) Does the Company offer career development training program to employees?</p> <p>(6) Does the Company's consumer protection policy cover areas such as research &amp; development, purchasing, production, processes, and service?</p> <p>(7) Does the Company comply with international standards regarding marketing strategy and label of its products and services?</p> <p>(8) Does the Company take into consideration suppliers' past record of negatively impacting the society and environment?</p> <p>(9) Does the Company include in its contract articles stipulating the termination of contract if the suppliers conduct any act against corporate social responsibility policy?</p>			<p>employees' benefit.</p> <p>2. Our company set up the general manager's mailbox to provider our employee a smoother channel of communication between managers and employees. Those issues will be raise during company's monthly regular meeting.</p> <p>3. We established Occupational Safety department to promote the related policies, and founded Infirmary to assist our employee's healthy management.</p> <p>4. Our company convenes a regular conference for all employees, and the top management will share some important information about operational performance and future direction with the employees. The employees are also free to talk in the reserved presentation section.</p> <p>5. Our company provides the occupational development plan according to the educational training system.</p> <p>6. Our company pays much attention on consumer's benefit. We set up a unitary window to take care of the customer's complaint which will be handled immediately.</p> <p>7. Our company acquired FSSC22000 and some international corporation's food safety system certificate, such as Coca-Cola and Pepsi, etc....; we will continue to maintain the quality to satisfy customer's need.</p> <p>8. While we introduce a new supplier, the investigation will be made to avoid those companies who do not obey CSR policy.</p> <p>9. Our CSR system will be planed and adjusted to fit the changes of CSR system development and corporate environment whether internationally and domestically.</p>	responsibility practical principle.
<p>4. Enhancing Information Disclosure:</p> <p>(1) Does the Company disclose corporate social responsibility information on the website and</p>	V		Our CSR implementation has been disclosed in the annual report and company website.	In conformity with corporate social responsibility practical principle.

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best- Practice Principles for TWSE Listed Companies
	Yes	No	Description	
Market Observation Post System?				
5. Please explain reason for deviation between Corporate Social Responsibility Best-Practice Principles for TWSE Listed Companies and the company's implementation status : In accordance with Corporate Social Responsibility Best-Practice Principles.				
6. Other helpful information in understanding corporate social responsibility : <ul style="list-style-type: none"> <li>• The numbers of our recruitment toward physically and mentally challenged workers and aboriginal workers has exceeded the quota in law. In addition, we have been awarded for the prize of exceeding quota of disables recruitment and excellent employment for public goods by Taichung city government.</li> <li>• We are the only Greater China group supplier awarded "Excellent Effort in Corporate Social Responsibility" from Coca-Cola.</li> <li>• We regularly apply activities of blood donation to respond to the concept of "giving blood, saving lives".</li> <li>• The Company and employee donated whether money or drinks to the area which had damaged by the natural disaster(ex: 9/21 earthquake, 8/8 flood, Sichuan earthquake, 3/31 earthquake in Japan, gas explosion in Kaohsiung; and donated to the charity irregularly, such as TCBC, Red Cross, World Vision, CCF and others.</li> <li>• After our aseptic filling plant and packaging museum had been completed, we could provide everyone to visit, and fulfill the educational function of the society.</li> <li>• Providing a safe and friendly environment and take care of the employees' healthiness, and achieved many awards from HPA, EPZA, Labor Affairs Bureau of Taichung, Minister of Labor, and achieved to the certification of OHSAS 18001 and TOSHMS.</li> </ul>				
7. Please illustrate if the Corporate Social Responsibility Report has been certified : None.				

### 3.4.6 Ethical Corporate Management :

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
<p>1. Establishing ECM Best-Practice Principles policy and practice:</p> <p>(1) Has the Company disclosed ethical corporate management policy and conduct in its internal regulations and external papers, as well as implementation promises made by management team and the Boards?</p> <p>(2) Has the Company formulated unethical behavior preventive measures listed with clarity operating process, code of conduct, violation punishment and appeal process? Are the measures being fully implemented?</p> <p>(3) Has the Company taken preventive measures for operating activities with higher risk of unethical behavior stipulated by ECM Best-Practice Principles for TWSE/GTSM Listed Companies Article 7 Paragraph 2?</p>	V		<p>1. The Company made the Principle of Ethical Management and Guidelines which has been resolved by the shareholders' meeting on June 22, 2016. The articles could be found on the official website (<a href="http://www.honchuan.com.tw">www.honchuan.com.tw</a>), to describe the policy and method. Also, the honest business policy and prevention strategy will be made by the Audit Department, and reported to the Board of Directors regularly.</p> <p>2. Through the principle of ethical management, guidelines and internal regulation, we have conducted the specification of discipline and appeal. Also, prohibited our employee from receiving rebate and gift of supplier. If any violated, the employee would be punished and the relationship with the supplier would be cancelled.</p> <p>3. In order to fulfill the principle, we establish the effective system of accounting and internal control; the internal auditor will audit regularly to check if the system has been followed.</p>	Same as the principle of ethical management and guidelines.
<p>2. Implementation of ECM Best-Practice Principles:</p> <p>(1) Does the Company evaluate trading counterparties' ethical record and include articles of ethical conduct in the contract?</p> <p>(2) Has the Company set up specialized unit to promote ethical corporate management? If so, does the unit report to the Board of Directors its execution status regularly?</p> <p>(3) Has the Company established policy to prevent conflict of interest, provide petition channel and execute implementation?</p> <p>(4) Has the Company established an effective</p>	V		<p>1. Before we conduct the business activity, we had evaluated the necessary ethical record, and had the contract with our customer and set the ethical clause.</p> <p>2. We don't have the specific department to boost the ethical management; each department will make their effort to fulfill the responsibility.</p> <p>3. The handbook for our employee has described clearly that the employees are prohibited to keep the payment secretly. Also, it is prohibited that the Company has any transaction with specific person or employee's relatives, in order to avoid the damage of company's</p>	Same as the principle of ethical management and guidelines.

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
accounting system and internal control system of best practices? If so, is it audited by internal auditors or accountant agency regularly? (5) Does the Company hold internal and external ethical corporate management training course regularly?			benefit. 4. In order to make sure the implementation of honest business policy, the Company has established effective accounting system and internal control system. Also, internal audit dept. would check the implementation regularly and irregularly. 5. The Company holds courses irregularly for directors, supervisors, managers, and employees.	
3. Impeachment policy: (1) Has the Company create a practical impeachment and reward system, and nominated the ad hoc person to handle the case? (2) Has the Company developed standardized investigation process and confidential agreement? (3) Does the Company have protection mechanism for the impeacher who report violation cases?	V		1. We have general manager's mail box for clients, suppliers and employees to report or appeal. 2. We have made the related specification in the internal system, and described the discipline and system of appeal clearly while violating the principle of the ethical management. 3. The reporter's identification and the content would be totally secured and investigated by the designated person.	Same as the principle of ethical management and guidelines.
4. Enhancing Information Disclosure: (1) Does the Company disclose ECM Best-Practice Principles details and its execution result on its website and Market Observation Post System?	V		1. We enclose our business culture and the direction of management on our website, and will show the condition of the ethical management on the annual report. 2. We have Administration Department to collect and publish the company's information, establish and report the information of the spokesman by following the rule.	Same as the principle of ethical management and guidelines.
5. Please explain reason for deviation between ECM Best-Practice Principles execution results and the provisions of ECM Best-Practice Principles for TWSE/GTSM Listed Companies: In accordance with ECM Best-Practice Principles.				
6. Other helpful information in understanding ECM Best-Practice Principles such as changes made to ethical management principles : (1) In order to fulfill the foundation of ethical management, we followed the Company Act, Securities and Exchange Act, Commercial Account Law, the regulation of TWSE/GTSM Listed Companies and other related business law. (2) Rules of Procedure for Board of Directors Meetings have the system of interest avoidance, it prohibited someone who had the interest relationship between himself or his representative can't engage the discussion and vote at the meeting. (3) We have Operating Procedure for Preventing Insider Trading to prohibit the directors, supervisors, managers and employees cannot disclose the internal material information to anyone. We will have the training and education to our directors, supervisors, managers and employees regularly.				

### 3.4.7 Corporate Governance Guidelines and Regulations:

In order to fulfill the management system of Board, the function of supervision and strength the management function, we had established the Regulation of Board of Directors Meetings by following Regulations Governing Procedure for Board of Directors Meetings of Public Companies. Besides, Rules of Procedure for Shareholders Meetings, Remuneration Committee Charter were all published on the official website and MOPS.

### 3.4.8 Other Important Information Regarding Corporate Governance:

All the Directors and Supervisors have industrial background and management skills, and their continuing education in 2016 was as Follows:

Title	Name	Date of Election	Date of Course	Organizer	The course name	Duration
Director	Dai, Hung-Chuan	2014.6.18	2016.11.29	Taiwan Institute of Directors	The 5th Chinese family business annual forum	3 hours
Director	CDIB Capital Group Representative : Cheng, Chien-Hua	2014.6.18	2016.12.16	Taiwan Academy of Banking and Finance	Corporate Governance Forum – Wealth management and taxation planning for high assets clients	3 hours
Director	CDIB Capital Group Representative : Cheng, Chien-Hua	2014.6.18	2016.12.21	Taiwan Academy of Banking and Finance	Corporate Governance Forum –Corporate regulatory compliance	3 hours
Supervisor	Lin, Chun-Chih	2014.6.18	2016.7.1	R.O.C. CPAs Association	The evaluation and application of stock related tool for retaining staff	3 hours
Supervisor	Lin, Chun-Chih	2014.6.18	2016.10.4	R.O.C. CPAs Association	Cases study about estate tax, gift tax and trust	3 hours
Supervisor	Lin, Chun-Chih	2014.6.18	2016.10.11	R.O.C. CPAs Association	Cases study and analysis about disciplinary actions to CPAs	6 hours
Supervisor	Lin, Chun-Chih	2014.6.18	2016.11.30	R.O.C CPAs Association	Common mistake and prevention of Labor Inspection	4 hours

### 3.4.9 The implementation of the internal control system :

#### 3.4.9.1 Statement of Internal Control System

### **Taiwan Hon Chuan Enterprise Co., Ltd. Statement of Internal Control System**

Date : March 24, 2017

Based on the findings of a self-assessment, Taiwan Hon Chuan Enterprise Co., Ltd. (HON CHUAN) states the following with regard to its internal control system during the year 2016 :

1. HON CHUAN's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with applicable rulings, laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and HON CHUAN takes immediate remedial actions in response to any identified deficiencies.
3. HON CHUAN evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.
4. HON CHUAN has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, HON CHUAN believes that, on December 31, 2016, it has maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable rulings, laws and regulations.
6. This Statement will be an integral part of HON CHUAN's Annual Report for the year 2016 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been resolved by the Board of Directors in the meeting held on March 24, 2017, with none of the seven attending directors expressed dissenting opinions, and meanwhile, approved the content of this Statement.

Taiwan Hon Chuan Enterprise Co., Ltd.

Chairman : Dai, Hung-Chuan

President : Tsao, Hsih-Chung

**3.4.9.2 If a CPA is commissioned to review internal control system specifically, the review report should be disclosed:** None.

**3.4.10 The Company and its internal staff being punished lawfully, the punishment given by the Company to the violators of internal control system, major nonconformity, and the improvement in the most recent year and up to the publication of the annual report:**  
None.

**3.4.11 Significant resolutions reached in the Shareholders' meeting and Board meeting in the most recent year and up to the publication of the annual report :**

**3.4.11.1 Significant resolutions reached in the Shareholders' meeting :**

Date	Important Resolution	Condition of Execution
June 22, 2016	<ol style="list-style-type: none"> <li>Approval of 2016 Financial Statements.</li> <li>Status report about the first domestic unsecured convertible bond issued by the Company</li> <li>Resolution of "Corporate Governance Best Practice Principles".</li> <li>Approval of 2016 Profit Distribution Proposal.</li> <li>Resolution of amendment to Articles of Incorporation.</li> <li>Resolution of "Corporate honesty and integrity best practice".</li> <li>Resolution of "Corporate Social Responsibility Best practice".</li> </ol>	<ol style="list-style-type: none"> <li>Not applicable.</li> <li>Bondholders applied for redemption totaling 4,245 units upon the maturity of three years in July 2014. Remaining 5,755 units has been matured on July 15, 2016.</li> <li>Not applicable.</li> <li>July 30, 2016 is the ex-dividend date.</li> <li>Not applicable.</li> <li>Not applicable.</li> <li>Not applicable.</li> </ol>



### 3.4.11.2 Significant resolutions reached in the Board meeting :

Date of Meeting	Major Proposals
February 4, 2016	<ol style="list-style-type: none"> <li>1. Approved the cancellation of buy-back shares totaling 16,969 thousand shares.</li> <li>2. Approved increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
March 29, 2016	<ol style="list-style-type: none"> <li>1. Approved the compensation of employees and remuneration of directors and supervisors.</li> <li>2. Acknowledged the 2015 business report and consolidated financial statements.</li> <li>3. Approved the appropriation of 2015 earnings.</li> <li>4. Approved to hold Shareholders' Meeting on June 22, 2016.</li> <li>5. Approved the amendments to the Company's "Articles of Incorporation".</li> <li>6. Approved the acquisition of 60% Hon Chuan (Africa) Holdings Co., Ltd. 's ownership in Hon Shi (Samoa) Holdings Limited.</li> <li>7. Approved the status regarding proposal for Company's capabilities to self-prepare financial statements.</li> <li>8. Approved increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
May 12, 2016	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the 1th quarter of 2016.</li> <li>2. Approved the capital injection of Hon Shi (Samoa) Holdings Limited.</li> <li>3. Approved the increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
May 31, 2016	<ol style="list-style-type: none"> <li>1. Resolution of amendments to Articles of Incorporation.</li> </ol>
June 22, 2016	<ol style="list-style-type: none"> <li>1. Resolution of 2015 record date of cash dividend distribution.</li> <li>2. Resolution of investment on Paeon International Co., Ltd. incorporated in Repiblik Sesel, by the Company's subsidiary Hon Chuan Holding Limited.</li> <li>3. Approved the increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
August 10, 2016	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the first half year of 2016.</li> </ol>
November 11, 2016	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the 3th quarter of 2016.</li> <li>2. Resolution of acquiring 35% common stock from Mary Group to raise the shareholding ratio of HONLY HOLDING CO., LTD.</li> <li>3. Approval of the establishment of a Joint Venture Company named Hon Hua (Samoa) Holding Limited at Samoa.</li> <li>4. Resolution of cash capital increase of Hon Chuan Vietnam Co., Ltd.</li> <li>5. Resolution of the subscription of the second series domestic convertible issued by ADIMMUNE Corporation.</li> <li>6. Resolution of the increase (decrease) of corporate guarantee for subsidiaries.</li> <li>7. Resolution of 2017 Audit plan.</li> <li>8. Resolution of amendments to Internal Control Policy.</li> <li>9. Resolution of cash capital increase of HONLY HOLDING CO., LTD.</li> </ol>

Date of Meeting	Major Proposals
March 24, 2017	<ol style="list-style-type: none"> <li>1. Resolution of 2016 Employees' Compensation and Directors' Remuneration.</li> <li>2. Approval of 2016 Consolidated Financial Statements and Business Report.</li> <li>3. Resolution of 2016 Profit Distribution.</li> <li>4. Resolution of convene 2017 Annual Shareholders' Meeting on June 15, 2017.</li> <li>5. Resolution of amendments to "Articles of Incorporation", "Procedures for Acquisition or Disposal of Assets", "Rules and Procedures for shareholders' meeting", "Rules for Election of Directors and Supervisors", "Procedures for Loaning of Company Funds to other Parties", "Procedures of Endorsements and Guarantees" and "Procedures for Trading Derivatives".</li> <li>6. Resolution of Directors Election.</li> <li>7. Resolution of Release New Directors and Its Representatives from Non-Competition Restrictions.</li> <li>8. Resolution of cash capital increase of HC (Asia) Holding Co., Ltd. which is the Company's sub-subsidiary.</li> <li>9. Resolution of cash capital increase of Hon Chuan Asia Holding Co. Ltd.</li> <li>10. Resolution of the increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
May 2, 2017	<ol style="list-style-type: none"> <li>1. Resolution of Directors Election.</li> <li>2. Resolution of amendments to Rules for Election of Directors and Supervisors.</li> </ol>
May 11, 2017	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the 1th quarter of 2017.</li> <li>2. Resolution of the status regarding proposal for Company's capabilities to self-prepare financial statements".</li> </ol>

**3.4.12 The contents of the board resolutions regarding which independent directors have voiced opposing or qualified opinions on the record or in writing in the most recent year or up to the publication of the annual report :** None.

**3.4.13 The resignation or dismissal of the Company's Chairman, President, Accounting Officer, Finance Office, Internal Audit Director, and R&D Director in the most recent year or up to the publication of the annual report :** None.

### 3.5 Information Regarding the Company's Audit Fee and Independence :

3.5.1 Non-audit fees paid to CPA, accounting firm and affiliated companies thereof that amount to more than 1/4 of audit fees : None.

3.5.2 Changes in the accounting firm that result in lesser audit fees paid in comparison to the previous year : None.

3.5.3 Reduction of audit fees by more than 15% compared to the previous year : None.

Unit: NT\$ thousands

CPA Firm	Name of CPAs	Audit Fee	Non-Audit Fee					Audit Period	Note
Deloitte & Touche	Yen, Hsiao-Fang	5,200	Policy Design	Business Registration	Human Resource	Other (Note 1)	Subtotal	Jan 01, 2016 ~ Dec 31, 2016	None
	Tseng, Done-Yuin		0	15	0	263	278		

Note 1: Services relate to transfer pricing report, maintenance service charges of Hon Chuan Holding Limited, Hon Hsing (Samoa) Holding Limited and Honly Holding Co., Ltd. in 2016, and registration fees for amendments to Articles of Association in 2016.

Unit : NT\$ thousands

Amount range		Fees	Audit fees	Non-audit fees	Total
1	Less than \$ 2,000 thousand			✓	
2	\$ 2,000 thousand (inclusive) ~ \$ 4,000 thousand				
3	\$ 4,000 thousand (inclusive) ~ \$ 6,000 thousand		✓		✓
4	\$ 6,000 thousand (inclusive) ~ \$ 8,000 thousand				
5	\$ 8,000 thousand (inclusive) ~ \$ 10,000 thousand				
6	More than \$ 10,000 thousand (inclusive)				

## 3.6 Replacement of CPAs :

### 3.6.1 Regarding former CPA

Date of change	November 04, 2014		
Reason of change	Internal adjustments within the certifying accounting firm		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties		
	Status	CPA	The Company
	Termination of appointment	N/A	N/A
	No longer accepted (continued) appointment	N/A	N/A
Other issues (except for unqualified issues) in the audit reports within the last two years	None		
Differences with the company	Yes		Accounting principles or practices
			Disclosure of Financial Statements
			Audit scope or steps
			other
	None	✓	
	Remarks/specify details:		
Other Revealed Matters	None		

### 3.6.2 Regarding the successor CPA

Name of accounting firm	Deloitte & Touche
Name of CPA	Yen, Hsiao-Fang and Tseng, Done-Yuin (Note)
Date of appointment	November 04, 2014
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

Note : The change of financial statement auditor was the result of an internal job rotation that took place within Deloitte accounting firm from Yen, Hsiao-Fang and Cheng, Te-Jun to Yen, Hsiao-Fang and Tseng, Done-Yuin.

### 3.6.3 The reply in accordance with Article 10.6.(1)(2-3) from the former CPAs: None.

## 3.7 The Company's Chairman, President, and Finance or Accounting Officer have held a position in the independent auditing firm or its affiliates over the past year : None.

### 3.8 Changes in the shares held and pledged by directors, supervisors, managers, and major shareholders holding over 10% of outstanding shares in the most recent year and up to the publication of the annual report :

#### 3.8.1 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders :

Unit : Share

Title	Name	2016		As of April 30, 2017	
		Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged	Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged
Chairman	Dai, Hung-Chuan	(46,267)	0	0	0
Director and President	Tsao, Hsih-Chung	43,000	0	0	0
Director	Lin, Chuan-Nui	(30,000)	0	(20,000)	0
Director and Executive Vice President	Liu, Yun-Chang	0	0	0	0
Director	Dai, Hung-I	435,103	0	148,000	0
Director	CDIB Capital Group (Note 1) Representative : Cheng, Chien-Hua	(582,000)	0	0	0
Director	Chang, Chun-Shu	0	0	0	0
Supervisor	Lin, Chun-Chih	5,000	0	0	0
Supervisor	Hsih-Yueh Development Co., Ltd. Representative : Hsu, Cheng-Chuan	0	0	0	0
Supervisor	Tsao, Yu-Yu	0	119,000	0	119,000
Executive Vice President	Pai, Wen-Pin	0	0	0	0
Chief internal Auditor/ Senior Assistant Vice President	Hsieh, Hung-Lung	0	0	0	0
Vice President	Tseng, Wen-Hua	0	0	0	0
Senior Vice President	Cheng, Ya-Wen	(46,267)	0	0	0
Vice President	Lee, Chin-Hsiung	0	0	0	0
Vice President	Lu, Jen-Yao	0	0	0	0
Vice President	Lai, Shen-Yuan	0	0	0	0
Senior Assistant Vice President	Lee, Ching-Hsiang	0	0	0	0
Senior Assistant Vice President	Yen, Ching-Chuan	0	0	0	0
Senior Assistant Vice President	Lu, Ching-Chou	0	0	0	0
Assistant Vice President	Hung, Min-Hsiung	0	0	0	0
Assistant Vice President	Tsao, Chien-Hsia	(15,000)	0	0	0
Assistant Vice President	Ting, Chih-Hao	(25,000)	0	9,000	0
Senior Assistant Vice President	Chuang, Kuei-Ching	0	0	0	0
Senior Assistant Vice President	Fang, Yu-Lung	0	0	0	0
Assistant Vice President	Cheng, Chih-Hung (Note 2)	0	0	0	0

Note 1 : Regarding the approval of Financial Supervisory Commission R.O.C., China Development Industrial Bank have changed its name to CDIB Capital Group from March 15, 2017.

Note 2 : On April 01, 2017, Mr. Cheng, Chih-Hung was promoted from Manager to Assistant Vice President.

#### 3.8.2 The counterparty of the equity transfer or equity pledge is a related party: None.

### 3.9 The Top-10 shareholders who are the spouses or relatives within second-degree to each other :

April 17, 2017

Name	Shareholding of the Principal		Shareholdings by spouse and underage children		Shareholding by nominee arrangement		Spouse, relative of second degree or closer, and relationships among top 10 Shareholders		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Chunghwa Post Co., Ltd. Representative : Weng, Wen-Chi	9,741,964	3.33 %	0	0	0	0	None	None	
Tsao, Hung-Yu	6,679,134	2.28%	0	0	0	0	Tsao, Hsih-Chung	Father and son	
Shin Kong Life Insurance Co., Ltd. Representative : Wu, Tung-Chin	6,125,000	2.09%	0	0	0	0	None	None	
Dai, Hung-I	5,890,111	2.01%	890,364	0.30%	0	0	Hon Yi Investment Co., Ltd. Dai, Hung-Chuan	Chairman Brother	
Citibank in custody for Norges Bank Investment Account	5,828,857	1.99%	0	0	0	0	None	None	
Tsao, Hsih-Chung	4,372,243	1.49%	1,283,064	0.44%	0	0	Tsao, Hung-Yu	Father and son	
Hon Yi Investment Co., Ltd. Representative : Dai, Hung-I	4,103,453	1.40%	0	0	0	0	Dai, Hung-I	Chairman	
Dai, Hung-Chuan	3,665,019	1.25%	670,352	0.23%	0	0	Dai, Hung-I	Brother	
Hon Chuan Investment Co., Ltd. Representative : Dai, Hung-Chuan	3,381,123	1.15%	0	0	0	0	Dai, Hung-Chuan	Chairman	
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	3,283,000	1.12%	0	0	0	0	None	None	

## 3.10 Ownership of Shares in Affiliated Enterprises:

December 31, 2016

Unit : Share; %

Affiliated Enterprises (Note1)	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Share	%	Share (Note2)	%	Share (Note2)	%
Hon Chuan Holding Limited	299,080,843	100%	—	—	299,080,843	100%
Hon Chuan (China) Holding Co., Ltd.	—	—	98,150,376	82.67%	98,150,376	82.67%
Kai Gang Industries Limited	—	—	907,201,807	82.67%	907,201,807	82.67%
Hon Hsing (Samoa) Holding Limited	—	—	126,006,000	82.67%	126,006,000	82.67%
Hon Chuan Enterprise (Suzhou) Company Limited	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Honly Holding Co., Ltd.	—	—	7,020,000	60%	7,020,000	60%
Hon Chuan (Africa) Holding Co., Ltd.	—	—	10,944,118	100%	10,944,118	100%
Hon Shi Mozambique Limitada (Hon Shi Samoa)	—	—	1,038,790	60%	1,038,790	60%
Hon Chuan Food Packing (Qingxin) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Food Packing (Zhangzhou) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Food Packing (Chuzhou) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Food Packing (Xiantao) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Suzhou Hongxin Food Packing Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Enterprise (Changsha) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Food Packing (Jinan) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Food Packing (Taiyuan) Co., Ltd.	—	—	(Note 2)	82.67%	(Note 2)	82.67%
Hon Chuan Technologies (Ningbo) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
HC (Asia) Holdings Co., Ltd.	—	—	171,592,505	100%	171,592,505	100%
Hon Chuan Malaysia Sdn. Bhd.	—	—	81,259,900	100%	81,259,900	100%
Hon Chuan Vietnam Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
PT Hon Chuan Indonesia	—	—	83,984,413	100%	83,984,413	100%
Hon Chuan (Thailand) Co., Ltd.	—	—	137,000,000	100%	137,000,000	100%
Hon Chuan FD Packaging Co., Ltd.	—	—	12,666,225	65%	12,666,225	65%
Hon Chuan (Myanmar) Co., Ltd.	—	—	89,524,394	70%	89,524,394	70%
Honly International Co., Ltd.	—	—	490	49%	490	49%
Honly Food & Beverage Co., Ltd.	—	—	6,000,000	60%	6,000,000	60%
Quanhe Investment (Suzhou) Co., Ltd.	—	—	(Note 2)	76.84%	(Note 2)	76.84%
Hon Chuan Food Packing (Anyang) Co., Ltd.	—	—	(Note 2)	76.84%	(Note 2)	76.84%

Note 1 : These are long term investments accounted for using equity method by the Company.

Note 2 : It is not applicable for limited companies.

## 4. Capital Overview

### 4.1 Capital and Shares :

#### 4.1.1 Sources of capital

##### 4.1.1.1 History of Capitalization

April 17, 2017  
Unit : Share/NT\$

Month / Year	Issuing price	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Source of Capital	Pay for stock shares with property other than cash	Other
May 2015	10	350,000,000	3,500,000,000	309,847,879	3,098,478,790	Capitalization by cash NT\$ 500,000,000	None	Order No. Economic-Authorization-Business-10401088210 in May 20, 2015 Order No. Financial-Supervisory-Securities-Futures-1030042045 in October 30, 2014 and Order No. Financial-Supervisory-Securities-Futures-104000004 in January 07, 2015
Feb 2016	10	350,000,000	3,500,000,000	292,878,879	2,928,788,790	Cancellation of buy-back shares NT\$ 169,690,000	None	Order No. Economic-Authorization-Business-10501031560 in February 22, 2016

##### 4.1.1.2 Type of Stock

April 17, 2017  
Unit : Share

Type	Shares	Authorized Capital			Remark
		Issued Shares	Un-issued Shares	Total	
Common shares		292,878,879	57,121,121	350,000,000	Listed stock

##### 4.1.2.3 Information for Shelf Registration : None.

#### 4.1.2 Shareholder structure

April 17, 2017  
Unit : Person / Share

QTY	Structure of Shareholder	Government institutions	Financial institutions	Other juristic person	Natural person	Foreign institution & foreigners	Total
Number of persons		1	37	101	24,247	186	24,572
Shareholding		20	23,513,080	32,495,343	172,138,087	64,732,349	292,878,879
Shareholding ratio		-	8.02%	11.09%	58.79%	22.10%	100%



## 4.1.3 Status of Ownership Dispersion

### 4.1.3.1 Common shares :

April 17, 2017

Unit : Person / Share

Shareholding bracket	Number of shareholders	Shareholding	Shareholding ratio (%)
1 ~ 999	6,915	1,202,652	0.41%
1,000 ~ 5,000	13,088	26,790,652	9.15%
5,001 ~ 10,000	2,178	16,432,999	5.61%
10,001 ~ 15,000	825	10,163,994	3.47%
15,001 ~ 20,000	379	6,812,207	2.33%
20,001 ~ 30,000	389	9,491,897	3.24%
30,001 ~ 40,000	195	6,917,454	2.36%
40,001 ~ 50,000	125	5,645,537	1.93%
50,001 ~ 100,000	203	14,628,033	4.99%
100,001 ~ 200,000	111	15,327,882	5.23%
200,001 ~ 400,000	69	19,836,161	6.77%
400,001 ~ 600,000	29	14,659,562	5.01%
600,001 ~ 800,000	11	7,432,290	2.54%
800,001 ~ 1,000,000	4	3,524,664	1.20%
Over 1,000,001	51	134,012,895	45.76%
Total	24,572	292,878,879	100%

### 4.1.3.2 Preferred shares : None.

## 4.1.4 List of major shareholders

April 17, 2017

Name of major shareholders	Shares	Shareholding	Shareholding ratio (%)
Chunghwa Post Co., Ltd. Representative : Weng, Wen-Chi		9,741,964	3.33%
Tsao, Hung-Yu		6,679,134	2.28%
Shin Kong Life Insurance Co., Ltd. Representative : Wu, Tung-Chin		6,125,000	2.09%
Dai, Hung-I		5,890,111	2.01%
Citibank in custody for Norges Bank Investment Account		5,828,857	1.99%
Tsao, Hsih-Chung		4,372,243	1.49%
Hon Yi Investment Co., Ltd. Representative : Dai, Hung-I		4,103,453	1.40%
Dai, Hung-Chuan		3,665,019	1.25%
Hon Chuan Investment Co., Ltd. Representative : Dai, Hung-Chuan		3,381,123	1.15%
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund		3,283,000	1.12%

### 4.1.5 Market price, net worth, earnings, and dividends of per share

Item \ Year		2015	2016	As of March 31, 2017
Market price per share	Maximum	68	55.60	62.5
	Minimum	42.80	44.20	52.7
	Average	55.98	49.52	58.08
Net worth per share	Before distribution	41.09	40.14	39.92
	After distribution	-	-	-
Earnings per share	Weighted average shares	Before adjustment	290,686,986	292,878,879
		After adjustment	290,686,986	N/A
	Earnings per share	Before adjustment	3.26	4.02
		After adjustment	3.26	-
Dividend per share	Cash dividend		2	N/A
	Stock dividend	Stock Dividend from Retained earnings	-	N/A
		Stock Dividend from additional paid-in capital	-	N/A
	Cumulative un-paid dividend		-	-
Return on investment analysis	Price-Earnings (P/E) Ratio		16.67	12.17
	Profit Ratio		27.18	-
	Cash Dividend Yield		3.68%	-

### 4.1.6 Dividend Policy and Distribution

#### 4.1.6.1 Dividend Policy in Articles of Incorporation is as follows:

- (1) Annual profit before income tax, employees' compensation, and directors' remuneration shall be resolved by board of directors to set aside no less than 1% of said profit as employee compensation and a maximum of 3% of said profit as remuneration to directors.  
Employee's compensation may be distributed in the form of shares or in cash, and employees qualified to receive such compensation may include employees from affiliates companies who meet certain qualifications.  
The issues relevant to distribution of employee compensation and director remuneration shall be set by resolutions of the Board of Directors. If the Company has accumulated losses, it shall first deduct the accumulated losses, and then calculate the compensation from the remaining amount.
- (2) Upon closing of accounts, if there shall be any net profit, the Company shall make up the losses for the preceding years, then set aside a legal reserve of 10% of the net profit unless the statutory surplus reserve has reached the total capital and then set aside or rotate special reserves; Any further remaining amount shall be added to the unallocated surplus from the prior year as shareholder dividend and bonus. The Board of Directors shall draft a proposal to distribute the surplus, which shall be approved at a shareholders' meeting. The dividend policy of the Company shall be made according to the Company's

current and future plan, considering investment environment, fund requirements, overall competition and taking into account the interests of shareholders. The Company may appropriate more than 30% of net profits of current year for dividends to shareholders. However, when accumulated un-appropriated earnings are less than 10% of capital, the Company may decide not to distribute dividend.

The shareholder dividend shall be in the form of cash dividend or stock dividend. More than (or equal to) 50% of the total amount of shareholders dividend shall be in the form of cash dividend.

**4.1.6.2 Proposal for Distribution of 2016 Profits:**  
**(Resolved by the Board of Directors, proposed to the 2017 Annual shareholders' meeting for ratification)**

<b>Items</b>	Unit : NTD
<b>Amount</b>	
<b>Unappropriated retained earnings of previous years</b>	2,501,996,524
Loss of disposing treasury stock	(380,173,808)
Remeasurement of defined benefit obligation	<u>(6,130,833)</u>
<b>Unappropriated retained earnings after adjustment</b>	2,115,691,883
Net Income of 2016	1,178,223,666
10% for legal capital reserve	(117,822,367)
Special reserve	<u>(776,159,774)</u>
<b>Retained Earnings Available for Distribution as of 2016</b>	2,399,933,408
Shareholders' Dividend (NTD\$ 2.5 per share)	<u>(732,197,198)</u>
<b>Unappropriated Retained Earnings</b>	<u><u>1,667,736,210</u></u>

**4.1.6.3 If expecting any significant change about dividend policy, it shall give explanation:** None.

**4.1.7 Impact to Business Performance and EPS resulting from Stock Dividend Distribution:** Not applicable.

#### **4.1.8 Employees' Compensation and Directors' and Supervisors' Remuneration :**

##### **4.1.8.1 The policy of Employees' Compensation and directors' and supervisors' remuneration as stated in the Articles of Incorporation :**

Annual profit before income tax, employees' compensation, and directors' remuneration shall be resolved by board of directors to set aside no less than 1% of said profit as employee compensation and a maximum of 3% of said profit as remuneration to directors.

Employee's compensation may be distributed in the form of shares or in cash, and employees qualified to receive such compensation may include employees from affiliates companies who meet certain qualifications.

The issues relevant to distribution of employee compensation and director remuneration shall be set by resolutions of the Board of Directors. If the Company has accumulated losses, it shall first deduct the accumulated losses, and then calculate the compensation from the remaining amount.

##### **4.1.8.2 Basis for estimating employees' compensation, directors' and supervisors' remuneration and stock dividends, and accounting treatments for any discrepancies between the amounts estimated and the amounts paid :**

If a different amount is resolved during the shareholders' meeting, the difference shall be treated as a change in accounting estimates and recognized as gains or losses in the year of 2017.

##### **4.1.8.3 2016 employees' compensation and directors' and supervisors' remuneration proposal resolved by the Board of Directors :**

- (1) Disclose the amount, cause and treatment for any difference that arise between the amount proposed and estimated in the year it was recognized as an expense.  
2016 Employees' compensation: NT\$ 23,750,500 in Cash.  
2016 Directors' and Supervisors' remuneration: NT\$ 10,604,013 in Cash.  
There was no difference between the amount proposed and estimated in the year it was recognized as an expense.
- (2) The percentage of proposed employee bonus paid in shares, relative to the sum of standalone after-tax net income plus total employee bonus: not applicable.

#### 4.1.8.4 Actual distribution of 2015 employees' compensation and directors' and supervisors' remuneration :

Units : NTD

Items	2015			
	Recorded amount	Actually paid	Difference (Note)	Remark
Employees' compensation	20,240,705	20,090,205	150,500	Recorded as Other revenue
Directors' and supervisors' remuneration	8,540,682	8,540,682	0	-

Note: The reason of difference is the payment of resigned employees.

#### 4.1.9 Shares Buyback Execution Report :

April 17, 2017

Number of Transactions	1st Share Buy-back Status	2nd Share Buy-back Status
Purpose of the share Buy-back	To stabilize stock price by maintaining company credibility and shareholders rights.	To stabilize stock price by maintaining company credibility and shareholders rights.
Buy-back period	From Aug 24, 2015 to Oct 08, 2015	From Nov 10, 2015 to Dec 10, 2015
Price range of Buy-back shares	NT\$ 42.80 ~ NT\$ 50.50	NT\$ 48.64 ~ NT\$ 50.63
Number of buy-back shares	7,436,000 shares of Common stock	9,533,000 shares of Common stock
Total amount for buy-back shares	NTD\$ 361,190,457	NTD\$ 474,144,323
Number of Buy-back shares that have been cancelled and transferred	7,436,000 shares of Common stock	9,533,000 shares of Common stock
Accumulated Number of buy-back shares	-	-
Accumulated Number of buy-back shares as a percentage of total issued shares (%)	-	-

## 4.2 Issuance of Corporate Bonds :

### 4.2.1 Issuance of Corporate Bonds

Type of Corporate Bond		The First Domestic Unsecured Convertible Bonds in 2011
Issuing Date		July 15, 2011
Denomination		NT\$ 100,000 / 1,000 shares
Listing		N/A
Offering Price		Par
Total Amount		NT\$ 1 billion
Coupon		0% coupon
Tenor and Maturity Date		Five years ; Maturity Date is July 15, 2016
Guarantor		None
Trustee		Trust Division, First Commercial Bank
Underwriter		Yuanta Securities Co., Ltd.
Legal Counsel		Hon Der Law Firm Lu, Kung Der Lawyer
Auditor		Deloitte & Touche CPA: Tseng, Done-Yuin and Cheng, Te-Jun
Repayment		100% principal repayment upon maturity, except for redemption or conversion of convertible bonds provided in the agreement.
Outstanding		None
Redemption or Early Repayment Clauses		Please refer to Article 18 of Terms and Conditions of the Bonds.
Covenants		Please refer to Article 7 of Terms and Conditions of the Bonds.
Credit Rating		None
Other rights of Bond Holders	Amount of Converted or Exchanged Common Shares, ADRs or other Securities	In July 2014, bondholders applied for redemption at the end of third year with total number of 4,245,000 shares, totaling NT\$ 424,500 thousand dollars. Transferred to common stock up to the publication of the annual report : 0 share.
	Terms or Conditions	Please refer to the Article 9 and 10 of Terms and Conditions of the Bonds.
Dilution Effect and Other Adverse Effect on Existing Shareholders		The purpose of this issuance is for building new factory, purchasing production equipment, investing in subsidiaries and increasing working capital. Also, according to the analytic report released by Yuanta Securities Co., Ltd., this issuance of corporate convertible bonds has very limited dilution on current shares and has no adverse impact on existing shareholders equity.
Custodian		None

## 4.2.2 Information of Corporate Bonds

Type of Corporate Bonds		1 <sup>st</sup> Domestic Unsecured Convertible Bonds in 2011	
Year		2015	2016
Item			
Market Price	Maximum	103.60	100
	Minimum	98.15	99.10
	Average	100.06	99.33
Convert Price		Convert Price has been adjusted to NT\$ 71.90 since August 02, 2015.	Convert Price has been adjusted to NT\$ 71.90 since August 02, 2015.
Issue Date and Convert Price at Issue Date		Issue Date : July 15, 2011 Convert Price at Issue Date : NT\$ 96.4	
Method of Conversion		Issuance of new shares	

**4.2.3 Exchangeable Bond :** None.

**4.2.4 Shelf Registration :** None.

**4.2.5 Bond with Warrants :** None.

**4.3 Preferred Shares :** None.

**4.4 Global Depositary Receipts :** None.

**4.5 Employee Warrants :** None.

**4.6 Subscription of New Shares by Employees and Restricted Shares :** None.

**4.7 Mergers, or Issue New Shares by the Company for Its Acquisition of the Shares of Another Company :**

**4.7.1 Completed Mergers, or Issue New Shares by the Company for Its Acquisition of the Shares of Another Company, up to the date of printing of the annual report:**

1. Evaluation opinion issued by Securities firms which organized the most recent quarter of Mergers, or Issue New Shares by the Company for Its Acquisition of the Shares of Another Company: None.
2. The state of implementation for the most recent quarter. If the progress or benefits of such implementation were not as good as expected, please explain specifically how the situation is likely to affect shareholders' equity, and shall put forward a plan for corrective action: Not applicable.

**4.7.2 The state of Mergers, or Issue New Shares by the Company for Its Acquisition of the Shares of Another Company which resolved by the Board of Directors, up to the date of printing of the annual report:** None.

## **4.8 Financing plans and Implementation**

For the period as of the quarter preceding the date of printing of the annual report, with respect to public issue that were completed in the most recent 3 years was the cash capital increase carried out in 2014. The details of the plan and the implementation of this cash capital increase are as follows:

### **4.8.1 Content of Plan**

**4.8.1.1 Date of approval by governing agency: October 30, 2014.**

**4.8.1.2 Total fund required for this plan: NT\$ 2,600,000 thousand.**

**4.8.1.3 Source of Funds :**

- (1) Regarding this cash capital increase, 50,000 thousand new shares were issued at NT\$ 10 par value, at the offering price of \$52 per share, estimated to raise NT\$ 2,600,000 thousand dollars.
- (2) When the Issue price of this cash capital increase is adjusted due to the fluctuation of stock market and the fund is not completely raised, the Company would reduce the amount for repayment of bank loans. Whereas the fund is raised above expectation, the Company would use the proceeds to repay the bank loans.

**4.8.1.4 Items of plans and Estimated schedule of fund application :**

Unit : NT\$ thousands

Items of Plans	Expected Completion Date	Total Fund Required	Estimated Schedule of Fund Application
			4 <sup>th</sup> Quarter, 2014
Repayment of Bank Loan	4 <sup>th</sup> Quarter, 2014	2,600,000	2,600,000
Total		2,600,000	2,600,000

Note : This capital increase was approved by Financial Supervisory Commission, R.O.C. (Taiwan) with letter No. 1030042045 on October 30, 2014, and was approved to extend another three months with letter No. 1040000046 on January 07, 2015.

**4.8.1.5 Expected benefits :**

The fund totaling NT\$ 2,600,000 thousand was used to repay the bank loan to reduce interest expenses and fortify financial structure. By using current interest rate, it is estimated to reduce interest expense of NT\$ 1,832 thousand dollars for 2014 save NT\$ 43,974 annually in subsequent years.

**4.8.1.6 Any Change relating to this Cash Capital Increase :** None.

**4.8.1.7 Date of Public Disclosure:** October 30, 2014.



## 4.8.2 Implementation

This capital increase was granted by Financial Supervisory Commission, R.O.C. (Taiwan) to extend another three months for public offering with letter No. 1040000046 on January 07, 2015. The Company completed the rights issue at the end of April 2015 and repaid the bank loans on May 08, 2015.

Implementation of 2014 capital increase: Totally completed in 2nd quarter of 2015.

## 4.8.3 Comparison of estimated and real benefits

Unit : NT\$ thousands

Year		2013 (before rights issue)	January to August, 2014 (before rights issue)	January to March, 2015 (before rights issue)	April to June, 2015 (after rights issue)
Item					
Basic financial information	Current assets	2,230,017	3,129,718	2,193,402	2,714,646
	Current liabilities	2,222,663	4,007,561	3,000,776	3,189,898
	Total debt	5,890,955	7,430,426	6,419,774	5,317,976
	Sales revenue	7,365,859	5,436,190	1,495,778	1,982,312
	Interest expense	62,970	50,786	19,192	15,230
	EPS (NT\$ dollar per share) (Note)	4.27 元	3.79	0.97	1.40
Financial structure	Debt ratio (%)	23.43	41.85	37.71	29.54
	Long term investment/fixed assets (%)	236.06	266.76	285.30	301.55
Ability to repay debt	Current ratio (%)	108.8	78.1	73.09	85.10
	Quick ratio (%)	65.28	56.44	38.91	50.91

Source of data : Audited non-Consolidated Financial Statements of 2013, Reviewed non-Consolidated Financial Statements of the 1st and 2nd quarter of 2015, Company's Management accounts of January to August, 2015.

Note : For January to August, 2014, the figure was pretax EPS.

The proceeds from this cash capital increase were used to repay the bank loan in the 2<sup>nd</sup> quarter of 2015 and reduced interest expenses by NT\$ 3,962 thousand in the 2<sup>nd</sup> quarter, which compared with that in the 1<sup>st</sup> quarter. Also, the debt ratio was 41.85% at the end of August 2014 and 37.71% at the end of 1<sup>st</sup> quarter of 2015, which reduced to 29.54% at the end of the 2<sup>nd</sup> quarter of 2016. Both current ratio and quick ratio have enhanced to 85.10% and 50.91% respectively, compared to the figures at the 1<sup>st</sup> quarter of 2015, representing that short-term repayment capabilities has improved. Besides, the reasons why the reduction of interest expenses is not as good as expected are due to the increase of loans borrowed for increasing investment on subsidiaries and payment of cash dividend. However, the interest expenses are reducing year by year.

## 5. OPERATION HIGHLIGHTS

### 5.1 Business Activities

#### 5.1.1 Business Scope

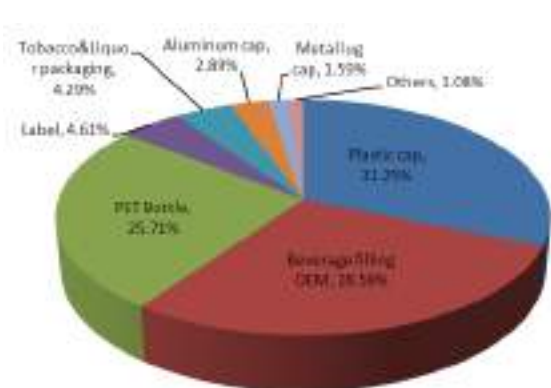
##### 5.1.1.1 Major Business of Hon Chuan :

1. C805010 Plastic Sheets, Pipes and Tubes Manufacturing.
2. C805990 Other Plastic Products Manufacturing.
3. C110010 Beverage Manufacturing.
4. C102010 Dairy Products Manufacturing.
5. CB01010 Machinery and Equipment Manufacturing.
6. CB01990 Other Machinery Manufacturing Not Elsewhere Classified.
7. F206030 Retail Sale of Die.
8. F206010 Retail Sale of Ironware.
9. CA02990 Other Fabricated Metal Products Manufacturing Not Elsewhere Classified.
10. CA02010 Metal Architectural Components Manufacturing.
11. CA02060 Metal Containers Manufacturing.
12. C801100 Synthetic Resin & Plastic Manufacturing.
13. C701010 Printing.
14. C805020 Plastic Sheets & Bags Manufacturing.
15. C805030 Plastic Made Grocery Manufacturing.
16. CC01090 Batteries Manufacturing.
17. CC01080 Electronic Parts and Components Manufacturing.
18. F401010 International Trade.
19. F102030 Wholesale of Tobacco Products and Alcoholic Beverages.
20. F102040 Wholesale of Nonalcoholic Beverages.
21. F401171 Alcohol Drink Import.
22. C801010 Basic Industrial Chemical Manufacturing.
23. F213080 Retail Sale of Machinery and Equipment.
24. F299990 Retail Sale of Other Retail Trade Not Elsewhere Classified.
25. CA01990 Other Non-ferrous Metal Basic Industries.
26. CZ99990 Other Industrial Products Manufacturing Not Elsewhere Classified.
27. IZ06010 Cargoes Packaging.
28. F103010 Wholesale of Animal Feeds.
29. F202010 Retail sale of Animal Feeds.
30. F107050 Wholesale of Manure.
31. F207050 Retail Sale of Manure.
32. F121010 Wholesale of food additives.
33. F221010 Retail of food additives.
34. F102180 Wholesale of Ethanol.
35. F203030 Retail Sale of Ethanol.
36. F203020 Retail Sale of Tobacco and Alcoholic Drinks.
37. F401161 Tobacco Products Import.
38. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

### 5.1.1.2 Major products and Revenue distribution

Major products of 2016 sales :

Unit : NT\$ thousands



2016	Net Sales	Percentage
Plastic cap	5,157,774	31.25%
Beverage filling OEM	4,718,929	28.58%
PET Bottle	4,244,667	25.71%
Label	761,866	4.61%
Tobacco&Liquor packaging	708,984	4.29%
Aluminum cap	476,577	2.89%
Metal lug cap	263,235	1.59%
Others	178,646	1.08%
Total	16,510,678	100.00%

### 5.1.1.3 Information of the Group Segments

Products		ITEM
Cap Products	Aluminum cap	Aluminum closure for hot-fill, carbonated drink, functional beverage, chicken essence, compulsive vacuum closure, open pull cap, deluxe aluminum closure with pen liner, Metal cap (box), aluminum cap (box), aluminum cap for I.V. injection bottle
	Plastic cap	Plastic cap for carbonated drink, mineral water, hot fill drink & aseptic drink
	Metal lug cap	Metal lug cap with safety button
Label Products		PVC/OPS/PET shrinkable colorful label, OPP clear based & white based colorful label, LDPE shrinkable film for multipack
PET Bottle/Preform Products		PET bottle for water product, PET bottle for aseptic product, PET bottle for CSD product, HR PET bottle, HPR PET bottle. Preform
Beverage Filling OEM		PET Aseptic /Hot-fill/TR beverage filling OEM
Tobacco&Liquor Packaging Products		White acetate tow filter rod, Tipping paper, Cigarette paper, Plug wrap paper, Shrinkable BOPP film, High wet strength aluminum vacuum metallized paper, High wet strength coated paper, Malt, Environmentally-friendly liner
Other Products		LDPE shrinkable film for multipack

#### 5.1.1.4 New Products Development

Item	Estimated Amount
1. Development of barrier bottle for high nutrient fluid	NT\$ 61,190,000
2. Development of 1810 BPKS 2.15g one-piece plastic closure for cold-filling	
3. Development of plastic closure for soy sauce	
4. Development of 1881 double-piece plastic closure for hot-filling	
5. Development of plastic closure for Chili sauce / Ketchup	
6. Development of 1881 oxygen-barrier pad plastic closure	
7. Development of digital printing closure	
8. Development of 38mm aseptic closure	
9. Development of closure for Self-standing bag (flexible packaging)	
10. Development of multi-barrier film	
11. Mass production of 42mm TPE ring pull closure	
12. Mass production of 30x60mm aluminum closure for carbonated wine	
13. Mass production of 30x35mm laser bronzing closure for TTL	
14. Mass production of RSB 63mm metal lug closure	
15. Development and mass production of RSB 66mm metal lug closure	
16. Development of 30*60 bronzing closure	
17. Evaluation and application of new equipment for metal lug closure	
18. Mass production of plating OPP film	
19. Evaluation, development and mass production of PP shrinkable film 0.015mm light weight	
20. Evaluation, development and mass production of white barrier PET shrinkable label	

#### 5.1.2 Market and Sales Conditions

##### 5.1.2.1 The Current Status and the Development of the Industry

According to the 2016 annual report by ITIS, Taiwan's Beverage Industry belongs to the domestic demand oriented industry with a highly concentrated market, and the top eight manufacturers make up for over 70% of the entire market scale; Furthermore, in the aspect of the packaging materials, the product containers are diversified as new packaging materials continue to be brought forth through the old ones, and this has become one of the main sources of product differentiation.

As a whole, Taiwan's Beverage Industry is a stable and mature industry, and according to the 2016 Food Industry Year Book by the Food Industry Research and Development Institute, the scale of the beverage market was approximately 51.7 billion dollars, increased by 0.4% from the previous year. Tea is the leading product which stands at around \$19.36 billion with 37.5% market share of the non-alcoholic beverages, up by 3.5% from the previous year. Coffee follows, stands at \$6.77 billion with 13.1% market share, decreased by 15.7% from the previous year. Vegetable juice takes the third place and represents 11.0% market share, down by 3.0% from the previous year. Sport drinks is the product with highest growth rate, increased by 10.2% from the previous year.

Due to the fact that the industry technology is maturing, the competition in the overall beverage market has become relatively fierce, so all competitors in the market need to invest lots of efforts in the aspects of marketing and product innovation. In addition, in the recent years, the society has placed great emphasis on food safety; our company is actively reinforcing the supplier's source management, applying the SAP system to completely track each product's traceability, and strictly controlling the product quality for you.

It is already the global trend for the beverage packaging to develop towards lightweight, eco-friendly, carbon footprint and carbon labeling, etc. In the recent years, in the domestic market, due to factors such as competition, etc., the relevant industry operators have had limited investment in the new type of production lines; therefore, with the existing packaging equipment, the reduction of packaging material has become the major development. In the recent years, our company, through the cooperation with the leading brands in the beverage market, has controlled the mainstream products in the market, so our revenues have still maintained a sustainable growth.

The Company's major product categories are hereby analyzed as the follows:

#### (1) Cap Products

The closure is an important part of food and beverage packaging, and is also the customer's first contact with the product; the closure has the characteristics to keep the products airtight and to stabilize the quality, and it also has the functions in terms of pilfer-proof opening and safety, so it is extensively used in the bottled products with content. Therefore, the closure is the upstream industry for food industry, beverage industry, chemical industry, pharmaceutical industry and pickles industry, and is also the key product for the packaging of bottled containers.

The early developments of the closure involved the use of cork materials, SPTE (Steel Plated-Tin, Electrolytic) crown closure and iron spiral closure, and they were all imported from places such as Japan and Germany, etc. With the introduction of cap production technology, there are about 30 to 40 cap production operators, and so far, they have gradually developed products such as long neck aluminum closures, carbonated beverage aluminum closures, hot-fill aluminum closures, injection aluminum closures, medicine bottle closures, open pull ring covers, metal lug closure with safety button, and plastic closures, etc. However, as the majority of manufacturers are unable to continue their investments in R&D and quality improvement, they would withdraw from the cap market due to lack of competitiveness. Additionally, there are higher barriers to enter the domestic cap manufacturing industry with the characteristics of economies of scale, so the market is highly concentrated.

As the closure plays an important part in the beverage packaging industry, upwardly connecting the metal and plastic raw material industry, downwardly closely related to the beverage industry, the change of demand intensity in the downstream consumption market would directly affect the market demand for closures; and the booming of beverage industry has higher and higher requirements for product packaging, and which also drives the demand for cap products. And cap products stand in a key position in the beverage packaging industry, so the development trend of the beverage industry would directly affect the demand for cap products.

In the cap product market, the demand is stable and showing a growing trend, except for the fact when the packaging materials change, the structure of cap product category would also change accordingly; overall, the use of plastic closures increases

proportionally. Even though aluminum closures are partially replaced by plastic closures, it is mainly used in alcohols and functional beverages, and its demand is steadily growing; and the proportional demand for metal lug closures has not changed very much.

## (2) Label Products

Plastic colorful labels are mainly used in the external packaging of food and beverage, such as beverage, food, chemical drugs and dairy products, etc. The functions are high elongate strength, impact-resistance, oil-proof, water repellent, etc., so the shiny and remarkable labels can also, at the same time, bring out the products' sense of value to attract consumers; so the color and gloss control are extremely important for the printing of plastic colorful labels. According to the different materials, plastic colorful labels can be categorized into PET shrinkable colorful labels, OPP colorful labels, OPS shrinkable colorful labels, PET +PS co-extrusion shrinkable colorful labels, PVC colorful labels and PLA shrinkable colorful labels.

Conventionally, paper was pasted onto the PET bottles and glass bottles to identify or label the product description. As paper materials are not humidity-resistant, can easily fall off, and would appear to be corroded or turn yellow over a longer storage time, they are not excellent material for external packaging. And the materials used for colorful labels are PET, OPP, etc., they not only have extremely good hot-shrinkable property and can be pasted unto products in various shapes, but also have features such as not falling off easily and with bright appearance, so they are extensively used by all kinds of beverage and food and replace the traditional paper materials.

As the plastic material has features such as impact-resistance, oil-proof, water-repellence, soaking resistance, water temperature resistance, and etc., plastic colorful labels have a more extensive range of applications than does the general labels printed on paper, and can increase the sense of value for packaged products. Therefore, plastic colorful labels play a very important role in the packaging material for the basic commodity industry. Along with the economic development of Taiwan and the increase of gross national income, consumers' taste for the products' packaging selection also gets higher. And for the industry operators in the beverage, food and general supplies industries, while facing the fierce competition in the market, they also have higher demands for the design and requirements of the product packaging materials, so the plastic colorful labels have become one of the indispensable packaging materials. In the recent years, the plastic colorful labels have been paired with PET bottles, PE bottles, PVC bottles and other various types of bottle and jars as supporting marketing to highlight the image and value of packaged products.

## (3) Multilayer LDPE Shrinkable Film

The original monolayer film has poor homogeneity and cannot highlight the properties of the materials. In order to meet the client's requirement specifications, special raw materials of higher unit prices need to be added, and the effects are limited and cannot achieve both elongate strength and shrinkage ratio at the same time. Recently, multilayer LDPE shrinkable films were implemented: for materials LDPE, LLDPE, LLDPE and HDPE, the elongate strength and shrinkage ratio can be adjusted between the layers according to the clients' specification requirements, and the homogeneity is better and the properties required for each layer can be highlighted, and the recycled materials can also be added into the middle layer to reduce the raw material costs.

#### (4) PET Bottles

PET bottles' technical trends of the functions such as transparency, lightweight, good preservability, emphasized heat-resistance, reseal ability, pressure-resistance, etc., make them grow continuously in the soft drinks market. Today, PET bottles have become the mainstream packaging for beverages (please refer to the figure below for the Evolution of Packaging Materials in the World). Many kinds of beverages that need to be sterilized at high temperature in order to be filled, such as flavored water, juice, dairy products, tea drinks, sports drinks, etc. have also started, one after the other, to be packaged in PET bottles, so PET bottles have just become the mainstream packaging material for beverage products.

As PET bottles have properties that can reduce environmental pollution and energy wasting, at the rise of environmental awareness like today, they have gradually replaced the conventional packaging materials. With functions such as heat-resistance, pressure-resistance and etc., in the recent years, they have replaced various types PVC bottles, Tetra Pak, aluminum cans, tin cans, glass bottles, etc., and have become the packaging material with the most growth potential.

## The Evolution of Packaging Materials in the World

Evolution	Glass Bottle (About 250 years)	Metal Can (About 200 years) Aluminum Can (About 60 years)	Carton Box & Tetra Pak (About 60 years)	PET Bottle (About 30 years)
Advantage	<ul style="list-style-type: none"> <li>★ Good Permeability</li> <li>★ Heat Resistance and Wear Resistance</li> </ul>	<ul style="list-style-type: none"> <li>★ Light-blocking</li> <li>★ High Temperature Resistance</li> <li>★ Not easy to break or damage</li> </ul>	<ul style="list-style-type: none"> <li>★ Low cost and light-weight</li> <li>★ Low shipping cost</li> </ul>	<ul style="list-style-type: none"> <li>★ Low cost</li> <li>★ Recyclable, can be used repeatedly</li> <li>★ Form is easy to shape, diversified shapes</li> </ul>
Disadvantage	<ul style="list-style-type: none"> <li>★ Heavier, easy to break or damage</li> <li>★ Higher shipping costs</li> </ul>	<ul style="list-style-type: none"> <li>★ Poor Chemical Stability</li> <li>★ Easy to have peculiar smell</li> </ul>	<ul style="list-style-type: none"> <li>★ Fixed form</li> <li>★ Easy to be crushed, damaged and deformed</li> </ul>	<ul style="list-style-type: none"> <li>★ Shorter shelf life, less than 6 months</li> </ul>
Range of Application	<ul style="list-style-type: none"> <li>★ Alcohols and etc.</li> </ul>	<ul style="list-style-type: none"> <li>★ Carbonated drinks, beer and etc.</li> </ul>	<ul style="list-style-type: none"> <li>★ Dairy products, juice, Tea drinks and etc.</li> </ul>	<ul style="list-style-type: none"> <li>★ 1<sup>st</sup> Generation – bottled water (30 years)</li> <li>★ 2<sup>nd</sup> Generation – carbonated drinks (25 years)</li> <li>★ 3<sup>rd</sup> Generation – heat-resistant crystallized bottles (20 years)</li> <li>★ 4<sup>th</sup> Generation – beer (already a small amount available in the market, moving towards universal development)</li> </ul>

### (5) Beverage Filling

The aseptic beverage plants adopt the newest generation of French Sidel beverage aseptic filling equipment, and can produce low acid beverages (products such as tea, coffee, milk tea, etc.)

The features of the aseptic PET bottle filling:

- ① The weight of the PET bottles used accounts for 60% of the hot-fill lines, with lower material costs.
- ② In addition to high acid products, low acid products can also be filled.
- ③ The filling temperature is room temperature, so the flavor of the products can be maintained.
- ④ The products can be stored in room temperature.



- ⑤ The products need to be strictly controlled from raw materials, packaging materials to manufacturing process, so the consumers have more quality assurance.
- ⑥ A more extensive range of products can be packaged.
- ⑦ Higher level of processing technology.

### 5.1.2.2 The correlation among the upstream, midstream and downstream of the industry :

Our company's business is mainly in the packaging materials, and due to the fact that the packaging methods for various downstream products are different, our product categories also appear to be diversified. The materials and the manufacturing processes of each product are quite different due to the different requirements of the downstream manufacturers. Therefore, we would only explain the correlations among the upstream, midstream and downstream of the industries for our main products, such as cap category, label category, PET bottles and beverage filling, etc.

#### (1) Cap Category

##### ① Raw Material Suppliers

The upstream supplier of closures provides the closure manufacturers the raw materials required for the production of the products, and the raw materials are generally divided into two types: one is the metal material industry, and the other is the plastic material industry. Among them, the metal material operators provide materials required to produce closures, such as aluminum sheets, iron sheets and SPTE, etc.; the plastic material operators would provide all types of plastic materials, such as plastic grains, Polyester grains, etc., for the production of all types of plastic closures.

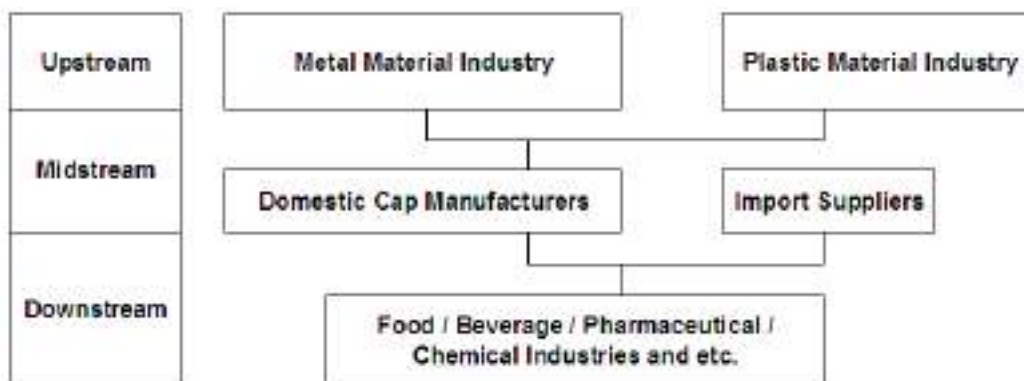
##### ② The Manufacturers and the Import Suppliers

The closure manufacturers are the production operators that integrate raw materials, technology and production equipment; and the import suppliers are the vendors that import all types of closures from abroad in order to meet the domestic demand.

##### ③ The Procurement User or the Final Demander

This type of operators usually belongs in the food industry, beverage industry, pharmaceutical and chemical industries, etc., and their demand for the specification category of closures varies according to the types of products. The types of closures required for all industries can be broadly divided into functional aluminum closures, biotech aluminum closures, high temperature resistant aluminum closures, alcohol long neck aluminum closures, plastic closures and metal lug closures, etc.

The relationships among the closure manufacturers and sellers are as follows:



## (2) Label Category

### ① Raw Material Suppliers

The upstream raw material suppliers of labels belong in the plastic material industry, and the materials can be divided into POLYETHYLENE TEREPHTHALATE (hereinafter referred to as PET), ORIENTED POLYSTYRENE (hereinafter referred to as OPS), POLYVINYL CHLORIDE (hereinafter referred to as PVC) and ORIENTATION POLYPROPYLENE (hereinafter referred to as OPP), and other eco-friendly materials (such as ORIENTATION PET, C-PET, OPS and PLA shrinkable film), to provide the raw materials for shrinkable films in order to supply for the production of labels.

### ② The Manufacturers and the Import Suppliers

Domestically, there are many manufacturers that produce label products, so the competition is fierce in the market; in addition to the domestic labels, our country also imports labels from abroad annually to supply for the demand in the domestic market.

### ③ The Procurement User or the Final Demander

Labels are mainly used in the external packaging for food, beverage, pharmaceuticals, chemicals and other bottles.

The relationships among the label manufacturers and sellers are as follows:



### (3) PET Bottles

#### ① Raw Material Suppliers

The upstream raw material suppliers of PET bottles belong in the plastic material industry, and the material is Polyester grains, the major raw material for PET bottles.

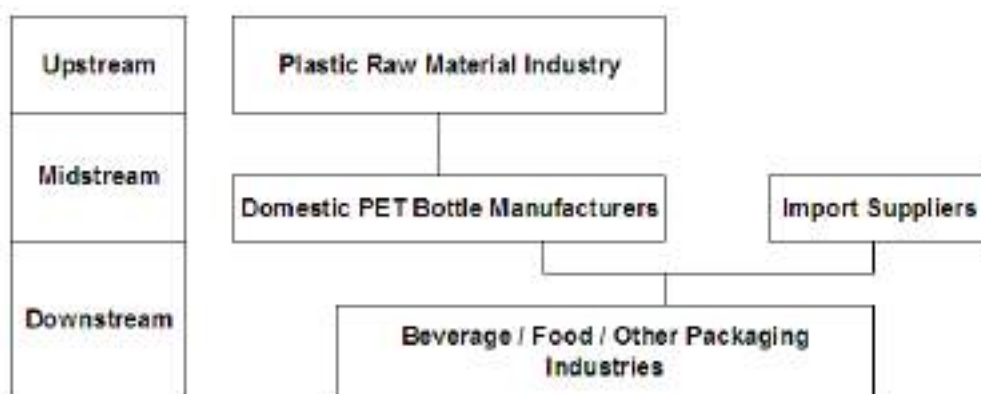
#### ② The Manufacturers and the Import Suppliers

Domestically, there are quite a few PET bottle manufacturers, and their experience and technology are maturing; our country also imports PET bottles from abroad annually to supply for the demand in the domestic market.

#### ③ The Procurement User or the Final Demander

PET bottles are considerably used in low temperature and hot-fill juice, tea, mineral water, and sports drinks.

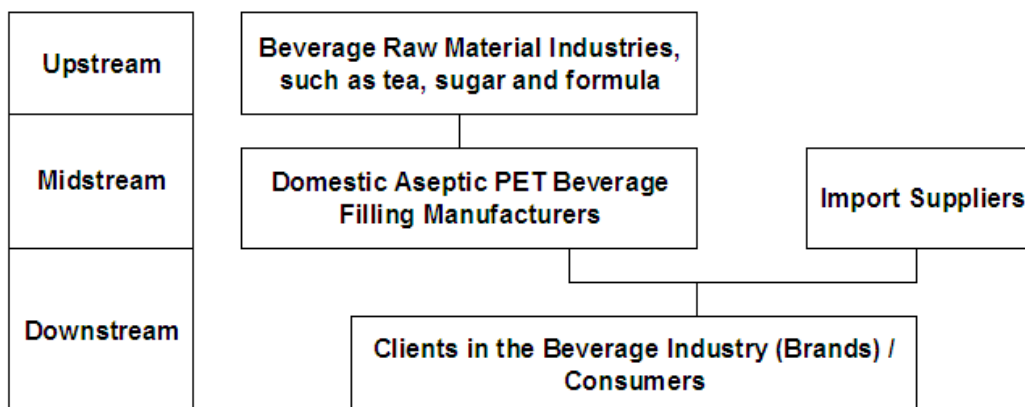
The relationships among the PET bottles manufacturers and sellers are as follows:



### (4) Beverage Filling

The clients entrust our company for beverage OEM, so we can form a strategic cooperation of work specialization; the clients can provide us the professional R&D formula and raw material suppliers, and HON CHUAN can provide high quality and sufficient packaging and filling OEM services, so the clients can dedicate themselves to the brand marketing and channel development of beverages. The integration of two parties can complement each other and create an impressive synergy.

The relationships among the Beverage Filling manufacturers and sellers are as follows:



### 5.1.2.3 Development Trend and Competitive Situation of Major Products

#### (1) The Development Trends of the Products

##### ① Cap Category

As closure is an indispensable part of beverage packaging, the development trends in the cap industry are closely related to the development trends in the beverage packaging industry. The development trends of beverage packaging are analyzed as follows:

##### a. The Sales Overview of the Beverage Industry

The beverage industry develops rapidly in our country, and there are great varieties of beverage products. As there are many product brands, the degree of substitutability for one another is very high, and as the target markets for all manufacturers are very close, the competition is very fierce. Therefore, more emphasis is placed on the importance of closures in the overall beverage packaging function and design. In the recent years, QR CODE was also introduced to provide the clients more diversified marketing activities, and at the same time to acquire the collection and statistical analysis of large data, along with the latest aluminum closure stamping anti-fraud technology, new type eco-friendly liner style PTE pull closures and lug closure, in order to increase the competitiveness of beverage products in the market.

##### b. The Packaging Trends of Beverage Products

Currently, the beverage packaging, commonly seen in the market, according to the materials, can be divided into four categories, including paper packaging, plastic packaging, metal packaging and glass packaging. As for the opinion which category of packaging material is suitable for which beverage packaging method, following the continuous improvement of the material technology, has changed greatly. However, as the packaging material must match the product characteristics and consumption patterns of the beverage itself, each type of packaging material still has different market shares in all kinds of beverage market segments. Nevertheless, plastic and glass material packaging can also use plastic closures or metal closures, and the key is determined by the characteristics of the beverage products themselves; metal packaging, due to its material characteristics, are mainly used in metal closures and closures bottles, and the cap products it can also use are aluminum closures and SPTE (Steel Plated-Tin, Electrolytic) closures.

##### c. Our people have upgraded their concept for health care, so the demand for biotech type healthy food is also increasing day by day; as the products require the feature of high temperature sterilization, the market demand for aluminum closure will be driven up again in the future.

The market shares of PET bottles packaging in the beverage market is increasing and it is currently the mainstream packaging material. Furthermore, when it is paired with the same material plastic closures, during the recycling process, the PET bottle, as a whole, can be recycled completely, and this further enhances the added value of PET bottle packaging. With the development prospects that the market share of PET bottle packaging continues to increase and that the beverage packaging tends to continuously get smaller bottles, plastic cap products are the mainstream in the market.

## ② Label Category

Since 2007, the Environmental Protection Bureau has been vigorously promoting for the beverage industry to change the labels from the previous PVC material to a material that is suitable for recycling and eco-friendly. Our company has fully cooperated in the label conversion to the eco-friendly replacement labels material PET and OPS, etc. and also the design of labels that are easy to remove.

Nowadays, Environmental Protection Administration, in response to the price fluctuations of the international raw materials and to promote the eco-friendly design for container products, has further considered the overall objective and subjective factors, by revising the container recycling cleaning and processing fees to be effective on July 1, 2012; and for those who adopt easy to remove design for PET containers labels, there were programs to provide them with preferential fees, in order to stabilize the resource recovery fund and the operation of the recycling and processing system, and to enhance the benefits from recycling and processing waste containers. For those who still use containers with PVC material attachments, twice of the processing fees would be imposed on them, as the expectation is for the beverage plants to replace the PVC shrinkable films with PET shrink labels and increase the use of easy to tear lines.

In 2014, approximately 90% of the market used PET labels, and the rest of 10% used OPS or other materials.

## ③ PET Bottles

In the recent years, PET bottles have gained a pivotal position in the development of the beverage industry, according to the survey by relevant research institute, such as Canadian Ltd., half of the soft drinks globally adopt PET as the packaging material.

PET first appeared in the United States, and later was promoted in Europe and Asia, and further became a global packaging material, as the application and function of PET kept growing, it is now extensively used in the beverage market. Among the very many types of packaging, the usage of PET bottles has been the fastest growing. Soft drinks and mineral water are the two kinds of beverages that use the PET bottles the most globally. Many brewers have even started to identify the feasibility of PET bottled beers, as, in addition to glass bottles, PET bottles can also be used to enrich the packaging style of beers to cater to some special occasions.

PET bottles have features such as lightweight, good preservability, convenience to use and ship, and when it is paired with the same material plastic closures, during the recycling process, the PET bottle, as a whole, can be recycled completely, and this further enhances the added value of PET bottle packaging. Furthermore, as PET bottles have properties that can reduce environmental pollution and energy wasting, at the rise of environmental awareness like today, they have gradually replaced the conventional packaging materials. Therefore, at the present stage, PET bottles have become the mainstream packaging material for global beverage products.

#### ④ Beverages Filling

During the aseptic filling manufacturing process, the products would undergo an ultra-high temperature sterilization of 130°C instantaneously and then after rapid cryogenic cooling, they are sent directly for filling at the PET filling machine in the clean room, and the process can fully preserve the aroma and flavor of tea. The advantages of aseptic filling method are not only of sterilization function but also ensuring the original flavor and aroma of products, so it is suitable for sensitive beverage. Its shelf life is longer than hot filling method and filling at room temperature then sterilization, so the development of aseptic filling is the milestone of the development technology for PET bottles. As PET aseptic filling have functions such as sterilization and keeping the original aroma and flavor of products, in addition, in the recent years, the booming of tea drinks, fruit & vegetable juice and coffee beverage, etc. globally has helped PET gradually gain the market recognition, and its growth is expected to continue to rise up.

#### (2) The Competition Situation of All Types of Products

As our company's cap category products are of excellent quality and complete specifications, and we can provide a complete set of comprehensive services to our clients, so we are in a leading manufacturer position in the domestic cap market. In the recent years, as PET bottles have become the mainstream in the beverage packaging market, our company can not only produce the PET bottles that are suitable for high temperature filling or beverage that required high temperature processing (such as carbonated beverage, tea drinks, juice and etc.), but also can further develop aseptic PET bottles and be the OEM of aseptic filling beverage at higher technical levels. As our company can provide our clients related packaging materials such as PET bottles, closures, labels, etc., and can provide filling OEM services for the clients; our comprehensive services can let clients save costs with one-stop shopping, so the competitiveness has increased greatly.

### 5.1.3 Technology and R&D Overview

The R&D expenses and the technology or products successfully developed in the recent fiscal year and up to the annual report printing date:

Unit: NT\$ thousands

Year	R&D Fee	R&D Achievements
2016	64,680	1. Mass production of 1810 BPKS 2.53g one-piece plastic closure for cold-filling 2. Development of 1881 BPSJ one-piece closure for water
As of March 31, 2017	16,290	3. Development of 1881 one-piece closure for hot-filling 4. Development of multi-layered PE shrinkable film 5. Development of Australia PB 38, 48, 53, 58, 63, 70, 82 mm metal lug closure 6. Development of RTS, RSB, 63, 66 mm closure 7. Development and mass production of PET shrinkable film with label metal luster 8. Development and mass production of Japan mutil-film new PET shrinkable film with supplier

### 5.1.4 Long-Term and Short-Term Business Development Plans

#### 5.1.4.1 Short-Term Business Development Plans:

- (1) Apply routine management; reinforce personnel training, sales & marketing capabilities, depth management and the concept of cost of sales, to enhance the competitiveness.
- (2) Actively research and develop all types of niche products to maintain the leading position in the market.
- (3) Adopt the winning strategy by fulfilling our role in the industry, paying attention to customer services, satisfying the customers and making the customers feel touched, in order to gain the trust of the customers, and actively develop the domestic and international markets.
- (4) Emphasize on the external market mechanism, get closer to customers' needs, and reinforce the upgrade of all management core competencies internally.

#### 5.1.4.2 Long-Term Business Development Plans:

- (1) Diversified operation, commitment to vertical integration, to establish product differentiation and competitive advantage.
- (2) Actively cooperate with major international brand, and establish global action arrangements.
- (3) Continuously promote the IN-HOUSE innovative commercial business model to domestic and international customers, and build long-term stable cooperative relationships with the customers by providing packaging materials of high quality and low costs, in order to ensure the company's future growth and profitability.
- (4) Sign the supply contracts that guarantee both prices and quantities, adjust OEM prices with the price fluctuations of the raw material to ensure the company's revenues and profits, and at the time, assist the customers broaden their market shares, to achieve win-win co-operations.



## 5.2 Markets and the Overview of Production and Sales

### 5.2.1 Market Analysis

#### 5.2.1.1 The Sales (Providing) Regions of the Major Products (Services)

Our company's major products in year 2016 were: all types of aluminum closures, plastic closures, lug closures, labels, performs, PET bottles, beverage filling, and etc., and for the markets, except for Mainland China, Thailand, Malaysia, Cambodia, Indonesia, Vietnam, Myanmar and Mozambique where there were mainly considered local domestic sales, we sold to the remaining countries by export.

#### 5.2.1.2 The Market Share of the Major Products in the Domestic Market

Item		Sales of Domestic Market (NT\$ Thousand)	Market share (%)
Closure Products	Aluminum Caps	650,000	65%
	Plastic Caps	1,100,000	60%
	Metal Lug caps	280,000	66%
PET Bottles		2,252,000	50%
Labels		1,050,000	35%

#### 5.2.1.3 The Future Market Supply and Demand and Growth

The major products of our company are closures, labels, PET bottles and beverage filling, and etc., and the future market supply and demand and growth for each major product are explained as follows:

(1) Cap Category

The cap products include all kinds of materials such as aluminum closures, lug closures, plastic closures, etc., and the range of application covers industries such as beverage industry, food industry, alcohols, and etc.; under the demand for packaging material diversification and small-scale bundled sales, the sales volume of the overall cap category is estimated to show a stable growth trend.

(2) Label Category

By coordinating with PET bottles the company is actively developing, and by developing the trends of supplying the clients' need with bundled sales and all large labels, the sales volume is predicted to grow slightly.

(3) PET Bottles

As the modern people pay more and more attention to healthy appeals (including tea beverage, juice beverage, etc.) with a growing trend every year, plus the two-day weekend system, the consumers now have more leisure time for outing, so relatively, the convenience to carry personally and the PET bottles that can transform the shapes of containers have become the trends for packaging bottles.

(4) Beverage Filling

The future packaging trend in Taiwan's beverage market is predicted to be aseptic filling oriented, and this will also be the common trend around the world. There is a lot of room for growth in the future beverage market, so HON CHUAN will increase market share with strategic alliance.



### 5.2.1.4 Competitive Niche

- (1) It is our company's business model to continuously innovate, focus on the clients and provide customer-oriented services.  
Our company grasps the market development trends and customer service needs in each stage, from the single-item sales (closures or labels or PET bottles), to all-in-one packaging sales (closures + labels +PET bottles), to full bundled package sales (closures + labels+ PET bottles + filling OEM+ packaging + warehousing), to manufacturing as a service (OEM with materials included, ODM, resident inspector coalition services, etc.), to provide satisfactory services to the clients.
- (2) Actively broaden the market share with the IN-HOUSE model:
  - ① HON CHUAN Enterprise, with more than 40 years' excellent technology and credibility guarantee, in addition to providing the three-in-one products and services consisting of closures, PET bottles, labels, in order to serve the clients, to enhance clients' market competitiveness, and to establish closer partnership with the clients, has further actively created resident inspection IN-HOUSE strategic alliances with the clients.
  - ② The IN-HOUSE model refers to HON CHUAN investing in the PET bottle blowing equipment and has them installed right inside the clients' plants and have them connected with the clients' filling machine for production, and the closures, labels, preforms, and etc. are also provided by HON CHUAN.  
  
The advantages of IN-HOUSE coalition production are as follows:
    - Ensure the sufficient supply and uniformity specification of the PET bottles.
    - The adoption of the most advanced equipment can enhance production efficiency and reduce defect ratio.
    - Coalition production provides more assurance in terms of quality control and safety and health than the purchased bottles.
    - With coalition production, the production of lightweight PET bottles can be realized to economize on raw material costs and environmental recycling expenses.
  - ③ Re-Evolution of IN-HOUSE model: To extend the services from installing the original closures, preforms, and glass-blowing equipment to beverage filling equipment, to provide the clients the full bundled package and services, including injection at the front end, bottle blowing, to filling at the final end.
- (3) Our company thinks highly of putting the spirit of "Innovation" into action, and actively research and develop all types of new niche products and new niche technology to elevate the product functionality and added value, such as anti-fraud aluminum closures, aluminum closures stamping/transfer printing, digital print plastic closures, laser QR code plastic closures, thermal sensitive ink labels, PVC Free lug closures, and to serve the clients' needs and guarantee our company's leadership position.
- (4) Provide comprehensive services to our clients, through vertical integration and bundled sales, to strengthen customer relations.
- (5) The industry is with the vision for growth, so we actively move towards

international development.

- (6) With the foundation such as Taiwan's talent advantage and the management teams, etc., we actively develop the markets in Greater China and Southeast Asia, and the growth potential can be expected.
- (7) HON CHUAN Enterprise adopts the winning strategy by focusing on the present industry, paying attention to customer services, diversifying operation, committing to vertical integration and product differentiation, practicing the strategy to cooperate with major brands, emphasizing on the external market mechanism, getting closer to customers' needs, and strengthening to enhance all management core competencies internally as the direction to put in our efforts.

### 5.2.1.5 The Favorable factors and Unfavorable Factors of the Development Prospect and the Countermeasures

Items	Favorable Factors	Unfavorable Factors	Countermeasures
1. The future development situations of business operations	<ol style="list-style-type: none"> <li>1. The products have eco-friendly appeals and are easy to be accepted by the consumers, so the future prospects look good.</li> <li>2. Actively develop the international market and expand export business.</li> <li>3. With the bundling and integration of packaging materials, the clients are provided with even more convenient services.</li> </ol>	There is labor shortage, so the wage costs are increasing.	<ol style="list-style-type: none"> <li>1. Actively improve existing machinery and equipment and strive to move towards the direction of high level of automation. Cooperate with China Productivity Center to carry out the improvement of production processes, and conduct the research of material formula with Plastics Industry Development Center to enhance output efficiency.</li> <li>2. To respond to the demand for labor by introducing part of foreign laborers to help with production and to improve the situations with labor shortage and wage increases.</li> </ol>
2. The sales status of the major products	1. The packaging products we produced spread around an extensive range, so by the same token, we can satisfy our clients' need for all kinds of packaging materials; as the extensive range of products can be applied to the use of various types of packaging containers, the business risks can be diversified.	Our company's products belong in the packaging industry. Even though our products do not change as rapidly as the electronic products, the packaging products do change	<ol style="list-style-type: none"> <li>1. To establish the R&amp;D department, actively recruit talents, and apply foreign technology in order to improve professional qualities and product standards.</li> <li>2. Constantly pay attention to the market trends, and participate in exhibitions overseas to collect relevant</li> </ol>

Items	Favorable Factors	Unfavorable Factors	Countermeasures
	<p>2. The equipment for the major products aluminum closures, plastic closures, and lug closures have high utilization rates, and their productions have reached the scale of mass production, so the costs can be effectively reduced and the products have great price competitiveness.</p> <p>3. It has leading advantages in terms of technology and the marketing system, and has been granted the patents for all kinds of cap products in Taiwan, Mainland China, Japan and USA, etc., so the product synergy can be put into action.</p>	<p>rapidly as the consumption habits change quickly; we need to constantly develop new products to satisfy the clients' demand for diversification.</p>	<p>information.</p>
3. Our position in the industry	<p>1. Our products are the leading brands domestically, received certification from international well-known beverage plants, and have vast marketing channels.</p> <p>2. We have leading R&amp;D technology, high degree of facility automation, and good process capabilities, so we are in the leading position of the industry.</p>	<p>There are quite a few small plants and which could easily result in pricing competition of products.</p>	<p>1. Develop products with high added value and high quality.</p> <p>2. Actively develop the international markets, constantly develop new products and become the leader in the integrated packaging industry.</p>
4. The supply status of the major raw materials	<p>All the suppliers of our company's major raw materials are domestic or foreign well-known manufacturers, (such as C.S. Aluminum Corporation, Formosa Oil, Korean HYOSUNG), and we maintain good long-term cooperative relationships with all of the suppliers.</p>	<p>The increase of raw material prices causes the increase of costs.</p>	<p>Sign long-term purchase contracts with both domestic and foreign well-known manufacturers to ensure price stability.</p> <p>Actively develop alternative materials and formula to reduce the costs.</p>
5. Financial condition	<p>The financial structure of our company is sound with good solvency, and the short-term capital turnover is also good, the ratio of long-term capital to fixed assets has also achieved a reasonable level, and the sales and profitability both show stable growth.</p>	<p>Our company constantly invests in new products and needs to purchase new equipment, so we need a considerable amount of capital.</p>	<p>As our company is a public listed company, the fund-raising channels from the capital market are increased, and this will be beneficial for our company's long-term stable development.</p>

## 5.2.2 The Important Applications and the Production Processes of the Major Products

### 5.2.2.1 The Important Applications of the Major Products:

(1) Aluminum Cap Category:

The products include hot-fill temperature resistant aluminum closures, carbonated beverage aluminum closures, injection pilfer-proof aluminum closures, chicken essence bottle closures, pull ring covers, long neck anti-fraud aluminum closures, biotechnology category, functional beverage, etc., and the wide variety are applicable for the demand of all types of products, such as healthy food, alcohols, medicines, healthy food, etc.; each item of product has pilfer-proof function, so the safety of the products is guaranteed; the domestic monopoly bureau, and all major beverage, food, and pharmaceutical manufacturers are our clients.

(2) Plastic Cap Category:

They are made of special synthetic PP and PE plastic materials, with better anti-impact effect and heat resistance than other plastic materials. They are available in all types of specifications, such as 28 m/m, 30 m/m, 38 m/m, 45 m/m, lightweight plastic closures, etc., and the leakage angle of the new style patented design is greater than its breakage angle, so it can effectively protect the quality and safety of the content. So far, we have developed, on our own, a variety of different specifications for lightweight closures, such as BUUV type, BP type, BHUV type, BHC type, BHP type, BHA type, BC type, YPL type, 1881 type, 3025 type, KBPV type, BPKS type, etc., and we have been granted several patent rights and were approved by Coca-Cola & Pepsi-Cola international to be qualified; they are extensively used for products such as mineral water, carbonated beverages, hot-fill beverages, etc., and there is great development potential with excellent prospects.

(3) Lug Cap Category:

They are applicable for all types of products, such as pickles and healthy food, as the most advanced food-grade eco-friendly rubber and liner are used and they can resist high temperature treatment and maintain the standard degree of vacuum; with the vacuum safety button, there is an additional layer of safety assurance for the products.

(4) Label Category:

They are suitable external packaging for soft drinks, beverage, mineral water, chemicals, food, instant noodles, medicines, etc.; with great elongate strength, impact resistance, oil-proof, water repellence, the shiny and remarkable labels can increase the sense of value for products.

(5) PET Bottles:

They can be used for mineral water, carbonated beverage, high temperature sterilization and hot fill beverage, and the range is extensive, such as mineral water, flavored water, tea drinks, juice, coffee, sports drinks, juice flavored soft drinks, dairy products, etc.

(6) Beverage Filling:

In addition to high acid products, low acid products can also be filled (tea, coffee, dairy products, etc.), so the consumers are provided with products with

good flavor and safety; as the production process is room temperature filling, so the packaging container (PET bottles) can be lightweight, and which reduces the costs and has more eco-friendly effects.

### 5.2.2.2 The Production Processes of the Major Products:

- (1) Aluminum Cap Category  
Aluminum sheet → raw material aluminum sheet – coating & printing → automatic slitting → automatic cap pressing → automatic knurling → high frequency liner forming → computer visual inspection → finished product
- (2) Plastic Cap Category  
Material casting → injection, press molding → shape modifying → cutting → printing → liner forming → computer visual inspection → finished product
- (3) Lug Cap Category  
Printing and coating iron sheet → cap pressing → pre-rolling → forming → gluing → oven → computer visual inspection → finished product
- (4) Label Category  
Draft creation → copperplate → printing → automatic inspection machine → slitting → center-seal and gusset → slicing → inspection → finished product
- (5) PET Bottles  
Raw material continuous drying treatment → preform injection and molding → automatic inspection machine → preform crystallization (applicable for hot-fill beverage) → automatic inspection machine → glass blowing → automatic inspection machine → labeling → inspection → finished product
- (6) Beverage Filling  
Material casting → blending → sterilization → aseptic filling → capping → jet printing → labeling → finished product

### 5.2.3 The Supply Status of the Major Raw Materials:

Major Products	Major Raw Material	Major Soppier	Supply Situation
Aluminum Caps	Aluminum sheets	CSAC, Laminazione sottile spa	Good
Plastic Caps	PP chips, PE chips, Liner, Slip agent	Samsung, USI, Min Yen, Shin, Kuan Yeh, Nantex, LCY, Hyosung, Basell, Formosa plastics	Good
Metal Lug Caps	SPTE	Sumitomo, Uni-president	Good
Labels	PET film, PVC film, OPP film, Pearlized film, Ink	SKC, Far Eastern, Poly, Topglow, General Ink, YC, Champoin Ink & Paint, Sungbo	Good
PET Bottles	PET resins	Nan Ya(Tai Ya), Nan Yan(Sun Vic), Shinkong, Far Eastern	Good
Beverage Filling OEM	Tea, Fructose, Sugar, Condensed milk, Milk powder, Carton and etc.	Li Yu, Tairoun, Taisugar, Tigercorp, Fonterra Limited, TetraPak	Good

## 5.2.4 List of Major Suppliers/ Customers in one of the past two years

### 5.2.4.1 List of Major Suppliers :

List of Major Suppliers with over 10% of the total Purchases in one of the last two years :

Unit : NT\$ Thousands

	2015				2016				As of March 31, 2017			
Item	Name	Amount	Percentage of the annual net purchase (%)	Relationship with the issuer	Name	Amount	Percentage of the annual net purchase (%)	Relationship with the issuer	Name	Amount	Percentage of the last quarter of the year (%)	Relationship with the issuer
1	A	1,071,463	13%	None	A	637,867	8%	None	A	220,800	9%	None
2	Others	7,476,664	87%	None	Others	7,766,895	92%	None	Others	2,309,916	91%	None
	Net Purchase	8,548,127	100%		Net Purchase	8,404,762	100%		Net Purchase	2,530,716	100%	

### 5.2.4.2 List of Major Customers :

List of Major Customers with over 10% of the total sales in one of the last two years :

Unit: NT\$ Thousands

	2015				2016				As of March 31, 2017			
Item	Name	Amount	Percentage of the annual net sales (%)	Relationship with the issuer	Name	Amount	Percentage of the annual net sales (%)	Relationship with the issuer	Name	Amount	Percentage of the last quarter of the year (%)	Relationship with the issuer
1	X	2,962,749	18%	None	X	2,916,493	18%	None	Y	640,493	15%	None
2	Y	2,244,800	13%	None	Y	2,017,704	12%	None	X	432,746	10%	None
3	Others	11,370,828	69%	None	Others	11,576,481	70%	None	Others	3,205,474	75%	None
	Net Sales	16,578,377	100%		Net Sales	16,510,678	100%		Net Sales	4,278,713	100%	

## 5.2.5 Production over the Last Two Years :

Unit: 1,000 pcs/ 1,000 boxes/ NT\$ Thousands

Year Category	Unit	2015			Unit	2016		
		Capacity	Quantity	Value		Capacity	Quantity	Value
PET Bottle	pcs	10,818,089	4,170,638	4,381,496	pcs	11,652,903	4,418,706	4,090,878
Beverage OEM	pcs	3,306,250	1,025,714	3,528,559	pcs	3,394,441	1,056,160	4,969,345
Cap	pcs	51,758,592	26,472	5,028,596	pcs	55,980,523	27,993,298	5,431,382
Label	pcs	12,115,687	874	1,181,395	pcs	12,511,117	2,814,194	955,597
Tobacco&Liquor Packaging		61,960	2,836,052	747,287		61,960	15,711	706,327
Aluminum Cap	pcs	819,060	16,549	292,570	pcs	819,060	597,165	313,197
Metal Lug Cap	pcs	268,056	549,595	155,612	pcs	268,056	244,485	164,943
TR Filling OEM	box	100,000	60,382	341,842	box	100,000	73,060	431,641
Other		-	278	55,256		-	6,547	50,285
Total				15,712,613				17,113,595

## 5.2.6 Net Sales over the Last Two Years :

Unit : 1,000 pcs/ 1,000 boxes/ NT\$ Thousands

Year Category	Unit	2015				Unit	2016			
		Domestic		Overseas			Domestic		Overseas	
		Quantity	Value	Quantity	Value		Quantity	Value	Quantity	Value
PET Bottle	pcs	2,857,823	3,743,243	470,379	766,324	pcs	3,403,882	3,859,019	299,237	451,246
Beverage OEM	pcs	1,022,376	4,084,974	1,209	9,606	pcs	1,162,824	4,175,639	1,214	9,944
Cap	pcs	17,869,767	4,743,781	1,124,273	326,286	pcs	20,183,221	4,908,630	1,006,673	260,366
Label	pcs	2,602,836	839,695	116,325	50,000	pcs	2,304,700	637,294	105,639	44,202
Tobacco&Liquor Packaging		1,667	309,124	583	436,156		1,801	229,359	224	479,625
Aluminum Cap	pcs	475,790	389,578	72,149	48,787	pcs	501,989	425,204	70,580	48,548
Metal Lug Cap	pcs	179,013	173,852	46,199	56,283	pcs	189,678	198,238	51,823	65,158
TR Filling OEM	box	60,371	414,954	-	-	box	73,019	533,335	-	-
Other		247	175,324	12	10,410		7,907	181,365	-	3,506
Total			14,874,525		1,703,852			15,148,083		1,362,595



## 5.3 Human Resources

Human resources information in the last two years and up to the date of printing this annual report:

As of March 31, 2017

Year		2015		2016		As of March 31, 2017	
Number of Employees	Direct	2,499		2,579		2,703	
	Indirect	2,026		1,753		1,858	
	Total	4,525		4,332		4,561	
Average Age		32.07		32.56		32.68	
Average Years of Service		4.04		4.72		4.68	
Education	Ph.D.	0	0.00%	0	0.00%	0	0.00%
	Masters	70	1.61%	76	1.75%	81	1.78%
	Bachelor's Degree	1,660	35.66%	1,630	37.63%	1,716	37.62%
	Senior High School	2,067	43.12%	1,865	43.05%	1,991	43.65%
	Below Senior High School	728	19.61%	761	17.57%	773	16.95%

## 5.4 The Measures for Environmental Protection and Employee Safety and Health

In the most recent year and up to the date of printing this annual report, the total amount of loss (including compensation) and fine which caused by polluting environment, and please describe countermeasure (including improvement) and possible expenditure:

**5.4.1** In accordance with Water Pollution Control Act, the Company is located in Taichung Industrial Park, where the discharge of waste water is the duty of Waste Water Processing Unit set up by Taichung Industrial Park Service Center. In November 1999, the Company has approved by Industrial Park Service Center for management license. In 2013, the new building and factory of Taichung Plant were completed. In order to cope with national environmental policy, the Company re-applied management license to Industrial Park Service Center, passed the examination on 1st Plant and obtained permission (license Order No. Taichung Industrial Park-Service-103010) in January 2014. Later in April 2014, the Company obtained Water Pollution Prevention License which issued by Environmental Protection Bureau, Taichung City (Order No. Taichung-Environment-Water-1030013602). In 2017, the 2nd Plant of the Company passed the examination of Sewage treatment plant of Taichung Industrial Park, and authorized to management license (Order No. Taichung Industrial Park-Service-106035).

**5.4.2** For air pollution control, the Company sets up air pollution control equipment in accordance with Environmental Protection Act. In October 2012, the Company was permitted by Environmental Protection Bureau and authorized to management license (Order No. Taichung City Government- Environment-Air-Operation-0419-00). In order to strengthen the air pollution control, the Company has budgeted more than



NTD\$ 10 million dollars to update air pollution control equipment in April 2014 (has applied to Environmental Protection Bureau, Taichung City for update).

### **5.4.3 Countermeasure (including improvement) and possible expenditure in the future:**

1. Set up protection and facility in accordance with Occupational Safety and Health Act, in order to reduce work injury.
2. Strengthen environmental awareness, reduce the total of waste and increase total recovery.
3. Continue to push OHSAS18001:2007+CNS15506(TOSHMS) of Occupational Safety and Health Management System.
4. Update air pollution control equipment.

### **5.4.4 Policy of Environmental Protection and Employee Safety and Health**

1. Actively engage in employee safety and health accident prevention, emergency response and fire safety.
  - (1) Safety and health patrol; periodic plant safety and health patrol and inspection by the supervising staff and professional safety and health personnel.
  - (2) Set automatic inspection plans and implement the automatic inspection on all safety and health machinery and equipment.
  - (3) Develop safety and health handbooks and distribute to every employee, so it can provide them the reference to apply and to truly follow the related precautions; hopefully all kinds of possible accidents and injuries can be prevented and the occurrence of accidents can be reduced.
  - (4) Each year, our company sets the training program for occupational safety and health education, and implements according to the occupational safety and health education training program. For the general safety education training, the entire staff, the new hires and before change of jobs, they would receive the safety and health education training required for each job, and the training time, according to job attributes, would be 3-6 hours, so the employees would have the awareness for safety and health operation procedures in order to reduce the occurrence of occupational hazards.
  - (5) Our company implements, according to the “fire protection program” we developed, the actions required for fire management, relevant for our company, in order to achieve the goals of the prevention of fire, earthquake and other disasters, protection of life and safety and the reduction of accidents.
  - (6) As for the fire safety training for all plant and office employees, our company conducts two fire drills every year, four hours each time, to reinforce the employees’ fire safety knowledge and their capability to respond to accident prevention.
2. Apply the improvement of working environment, and effectively enhance the working environment safety and health promotion; we received the Healthy Workplace Navigation Award of Year 2015 and the Merit Workplace Health Initiation Certification and Health Navigation Award of Year 2015 issued by the Ministry of Health and Welfare. In 2017, THC re-achieved Taichung LOHAS Workplace One-Star Award from Taichung City Government.
  - (1) Implement 6S competition activities inside the plant to promote a clean environment in the plant, and set up the Safety and Health Committee

- meetings to improve working environment to effectively enhance the working environment safety inside the plant.
- (2) Our company, surpassing the Occupational Safety and Health Act, regardless of workers' age, conducts physical examinations every year; in addition, according to laws and regulations, for work of special nature, we follow the related provisions of the Labor Health Protection Rules to conduct special physical examinations annually (such as: implementation of hearing tests for noise operations).
  - (3) Our company, in accordance with the laws and regulations, periodically commissions licensed professional work environment monitoring company to perform work operation environment monitoring, and according to the sampling strategy, plans and performs work environment monitoring twice annually, to assess whether the concentration of hazards at work environment meets the requirements of laws and regulations. With the work environment monitoring report, the workers would know their workplace is within the value of allowed range, so the workers can work with peace of mind.
  - (4) Our company, in accordance with the laws and regulations, periodically commissions occupational safety and health doctors for in-plant inquiry services and assessment of working environment, once a month, to care for the employees' physical and mental health.
3. Promote specific achievements including self-protection system, accountability care system, contractor management, toxic chemical substance management and transportation safety management, etc.
- (1) Self-Protection System:  
According to the existing condition of the plant, incorporate all the tasks into the safety and health code of practice, and revise periodically. And request all employees to understand the provisions of the code of practice, and conduct the related tasks according to the provisions.
  - (2) Accountability Care System:  
In order to avoid unnecessary injuries, after joining the company, all employees would receive a series of education training and personal coaching, before they can officially start working on the production line; there are also personnel in charge of all production lines, and they are responsible for the safety of all the personnel, products and machinery, etc. on the production line, and they report to the unit supervisor at any time.
  - (3) Contractor Management:  
To prevent the contractor's construction resulting in accident or fire and threatening company employee lives and property loss, our company sets "P-009 Contractor Management Measures", so the contracting department would be responsible to set the responsibilities and obligations of the contracting safety responsibility management, in the related contracts, with the construction contracting firms, and holds annual pre-operation safety and health education training and the joint operation protocol organization formulation meeting, to prevent the contractors from having any accidents during operation.
  - (4) Toxic Chemical Substance Management:  
Our company uses class 4 toxic chemical substances, and according to the law, dedicated personnel for toxic chemical substances are not required. The quantity used in the previous month shall be declared before the 10th day of each month.

#### 4. Apply the Establishment and Execution of Occupational Safety and Health Management System

- (1) Promote the establishment of OHSAS18001&CNS15506 occupational safety and health management system, so the company employees, in the working environment, would comply with the management items of the occupational safety and health management system, and adopt the P, D, C, a management cycles to enhance the level of work safety and reduce the occurrence rate of occupational accidents.
- (2) Develop safety and health management plans and auto-check plans, using those effective and suitable management methods to be the basis for workplace and equipment inspection, in order to maintain the safety of the lives of employees and the equipment and to prevent the accidents from occurring.
- (3) For hot work operation control, before the operation, the plant personnel and contracting personnel should apply for hazardous operation permit; during the hot work operation, where the spark could spread over, there should not be any inflammable or other operation of inflammable, with fire extinguishing facility placed aside and additional specific personnel employed to monitor the fire during the entire production process; after the operation, the fire source should be checked to ensure it is put out completely.
- (4) Certificate Training  
According to the law and regulation, send personnel to trainings, and set up relevant dedicated personnel and relevant certificates, such as first aid personnel, organic solvent operation supervisor, forklift operators, fixed crane personnel, fire prevention management personnel and etc.

#### Relevant certificates:

- ▲ Occupational safety and health management personnel, total 8 people.
- ▲ Occupational safety and health nurses, total 2 people.
- ▲ Organic operation supervisor certificate, total 5 people.
- ▲ Fire prevention management personnel, total 2 people.
- ▲ First-aid personnel, total 22 people.
- ▲ Specific chemical substance operation supervisor, 1 person.
- ▲ Forklift operation certificate, total 130 people.
- ▲ Fixed forklift (over 3 tons) certificate, 19 people.
- ▲ Small boiler operator, 1 people.

5. Establish the Department of Occupational Safety and Health according to Occupational Safety and Health Act: established the Department of Occupational Safety and Health on March 06, 2012.

## 5.5 Labor Relations

### 5.5.1 The employee welfare measures, continuing education, training, retirement systems and the implementation situations, the agreement between the employees and the employers, and the status of the employees' rights and interest maintenance measures :

- (1) Employee Benefits:
  1. Offering health insurance, labor insurance and group insurance to employee in accordance with regulations.

2. To maintain employees' good health, THC provides free Health Examination every year.
3. THC provides a safe work environment. The company arranges fire compartment in office area and sets adequate Fire Extinguisher in accordance with Fire Act. Also, the company organizes the Self-defense fire team as well as carries out training of fire prevention on a casual basis to reinforce employees' abilities to respond to emergencies.
4. THC serves employee reading materials like magazines and professional publications.
5. THC offer Lactation Room.
6. THC provides dormitory for non-local employee to lower their financial burden and risk while commuting.
7. THC offers Parking lot and buffet-style meals in canteen for employees.

(2) Subsidies of Employees' Welfare Committee:

1. Offering Birthday Bonus, Marriage Subsidy, Childbirth Subsidy, Death Subsidy and Three Chinese festival grants.
2. Incentive Tour, Year-End Banquet and raffle.
3. Other various subsidies.

(3) Pension System:

To protect workers' livelihood after retirement, THC contributes labor pension to Bank of Taiwan Trusts Dept. on a monthly basis in accordance with Labor Standards Act and Labor Pension Act. Also, for the person chooses to be applicable to the pension system of this Labor Pension Act after July 1, 2005, THC will on a monthly basis contribute six percent of the worker's monthly wage to individual accounts of labor pension at the Bureau of Labor Insurance according to Table of Monthly Contribution Wages of Labor Pension.

(4) Education and Training:

Since the company was founded in 1969, we have treated our employees with honesty and have regarded our employees as assets and partners to grow together, through the welfare measures, to enrich and stabilize the employees' lives, and good education training, to establish good relationships of mutual trust and interdependence with the employees.

To nurture the company for sustainable business development, human resources department established a training center in order to actively cultivate the talents needed for the future, and the employee education training measures, normative education training system and training norms were also established as the basis to conduct training and to reserve professional management talents.

There are three categories in our company's year 2016 education training courses, and their titles and the implementations status are as follows:

Name of courses	Number of courses	Total participants	Total hours
Professional	173	2,302	6,520
management	52	2,970	16,176
Labor safety	114	6,100	10,814
Total	339	11,372	33,510

Improve the education training system, enhance employees' professional skills and personal growth; good working environment would enable employees to work with peace of mind.

### 5.5.2 In the most recent fiscal year and up to the end of the annual report printing date, the loss suffered as a result of labor disputes, and the possible amounts and countermeasures for the possible occurrences now and in the future :

So far, there has been no occurrence of labor dispute circumstances.

## 5.6 Major Contracts

March 31, 2017

Agreement	Counterparty	Period	Major Contents	Restrictions
Sales	Taipei Tobacco Factory	2014.05.07 ~2016.05.06	Filter Paper	None
Sales	Jhunan Brewery	2014.08.13 ~2016.04.30	Wrap Film	None
Sales	Taiwan Tobacco & Liquor Corporation	2014.12.08 ~2016.06.07	BOPP Film	None
Sales	Taiwan Tobacco & Liquor Corporation	2014.10.30 ~2016.01.29	Cigarette Paper	None
Sales	Taipei Tobacco Factory	2014.09.09 ~2016.09.08	Filter Head	None
Sales	Taipei Tobacco Factory	2014.09.23 ~2016.09.22	Filter Head	None
Sales	Wuri Brewery	2014.10.29 ~2016.04.28	Wrap Film	None
Sales	FongYuan Cigarette Plant	2014.12.11 ~2016.12.10	Filter Head	None
Sales	Nantou Winery	2015.03.13 ~2017.03.12	Oak Barrel	None
Sales	Taiwan Tobacco & Liquor Corporation	2015.02.10 ~2016.08.09	Aluminum Cap with long screw thread	None
Sales	Taipei Tobacco Factory	2015.02.26 ~2017.02.25	Filter Paper	None
Sales	Taipei Tobacco Factory	2015.02.17 ~2017.02.16	BOPP Film	None
Sales	Taipei Tobacco Factory / Neipo Cigarette Plant	2015.05.13 ~2016.11.12	Filter Head	None
Sales	Taipei Tobacco Factory / FongYuan Cigarette Plant	2015.04.07 ~2016.10.06	Filter Head	None

Sales	Taipei Tobacco Factory	2015.06.02 ~2017.06.01	Filter Paper	None
Sales	Taipei Tobacco Factory	2015.05.25 ~2017.05.24	Filter Paper	None
Sales	Neipo Cigarette Plant	2015.08.29 ~2017.02.28	Filter Paper	None
Sales	Taiwan Tobacco & Liquor Corporation	2015.07.21 ~2017.01.20	Casein glue	None
Sales	Wuri Brewery	2015.11.12 ~2017.06.11	Wrap Film	None
Sales	Taiwan Tobacco & Liquor Corporation	2016.03.16 ~2017.09.15	Long Aluminum Cap	None
Sales	Kinmen Winery	2016.01.26 ~2017.10.31	Aluminum Cap	None
Sales	Taichung Winery	2016.05.11 ~2017.5.10	Free+ Coconut water and Kumquat Lemon of TTL	None
Sales	Tongxiao Salt Refinery Plant	2016.09.26 ~Settlement	Plastic cap for PET bottle	None
Sales	Taipei Tobacco Factory	2016.10.27 ~2018.4.26	Filter Paper	None
Sales	Taiwan Tobacco & Liquor Corporation	2017.3.8 ~2018.11.7	Filter Head	None
Sales	Taiwan Tobacco & Liquor Corporation	2017.3.1 ~2019.2.28	Filter Head	None
Sales	Taoyuan Winery	2017.2.7 ~2018.12.31	Aluminum Cap	None
Sales	Wuri Brewery	2017.3.14 ~2018.9.13	Wrap Film	None
Sales	Syndicated Loan of Land bank and other	2013.12.30 ~2018.12.30	To repay loan and Enrich capital	Yes

## 6. Financial Information

### 6.1 Five-Year Financial Summary

#### 6.1.1 Condensed Consolidated Balance Sheet and Comprehensive Income Statement

##### 6.1.1.1 Condensed Consolidated Balance Sheet – IFRS

Unit: NT\$ thousands

Year		Financial data within the last 5 years (Note 1)					As of March 31, 2017 (Note 1)
		2012	2013	2014	2015	2016	
Item							
Current assets		5,966,046	7,417,713	7,951,069	8,067,666	7,757,428	8,863,819
Property, plant, and		14,179,711	16,963,110	19,139,083	18,796,260	17,991,011	17,136,903
Intangible assets		78,811	78,928	77,698	76,484	388,673	364,661
Other assets		878,348	899,435	2,029,116	2,177,210	1,254,194	1,405,722
Total assets		21,102,916	25,359,186	29,196,966	29,117,620	27,391,306	2,771,105
Current Liabilities	Before distribution	7,486,331	8,812,180	11,309,968	10,448,772	9,649,899	9,482,583
	After distribution	8,265,875	9,461,800	11,991,633	11,034,530	(Note 2)	9,482,583
Noncurrent liabilities		3,131,091	5,602,626	6,217,608	5,665,851	5,065,234	5,594,298
Total liabilities	Before distribution	10,617,422	14,414,806	17,527,576	16,114,623	14,715,133	15,076,881
	After distribution	11,396,966	15,064,426	18,209,241	16,770,381	(Note 2)	15,076,881
Shareholder's equity		9,562,919	9,945,006	10,623,481	11,945,505	11,755,680	11,692,330
Capital stock		2,598,479	2,598,479	2,598,479	3,098,479	2,928,789	2,928,789
Additional paid-in capital		3,283,868	3,283,868	3,283,868	5,412,868	5,127,397	5,127,397
Retained earnings	Before distribution	3,803,291	4,133,366	4,446,978	4,713,939	4,920,100	5,294,248
	After distribution	3,023,747	3,483,746	3,765,313	4,128,181	(Note 2)	5,294,248
Other equity		(122,719)	(70,707)	294,156	(444,446)	(1,220,606)	(1,658,104)
Treasury stock		—	—	—	(835,335)	—	—
Non-controlling equity		922,575	999,374	1,045,909	1,057,492	920,493	1,001,894
Total equity	Before distribution	10,485,494	10,944,380	11,669,390	13,002,997	12,676,173	12,694,224
	After distribution	9,705,950	10,294,760	10,987,725	12,417,239	(Note 2)	12,694,224

Note 1: The Company has adopted IFRS since 2012. For above data, expect Annual Financial Statements of March 31, 2017 is reviewed by CPA, others are all audited by CPA.

Note 2: Proposal for Distribution of 2016 Profits has not yet to be resolved in the shareholders' meeting.

### 6.1.1.2 Condensed Consolidated Balance Sheet – ROC GAAP

Unit: NT\$ thousands

Unit: NT\$ thousands

Year Item		Financial data within the last 5 years (Note 1)				
		2012	2013	2014 (Note 2)	2015 (Note 2)	2016 (Note 2)
Current assets		5,979,922	—	—	—	—
Fund and investment		44,982	—	—	—	—
Fixed assets		14,660,223	—	—	—	—
Intangible assets		498,164	—	—	—	—
Other assets		81,521	—	—	—	—
Total assets		21,264,812	—	—	—	—
Current liabilities	Before distribution	7,460,730	—	—	—	—
	After distribution	8,240,274	—	—	—	—
Long-term liabilities		2,964,190	—	—	—	—
Other liabilities		146,058	—	—	—	—
Total liabilities	Before distribution	10,570,978	—	—	—	—
	After distribution	11,350,522	—	—	—	—
Capital stock		2,598,479	—	—	—	—
Additional paid-in capital		3,315,659	—	—	—	—
Retained earnings	Before distribution	3,625,361	—	—	—	—
	After distribution	2,845,817	—	—	—	—
Unrealized gains/losses on financial instruments		—	—	—	—	—
Cumulative Translation Adjustment		145,741	—	—	—	—
Unrealized revaluation increment		86,019	—	—	—	—
Net loss not recognized as pension cost		—	—	—	—	—
Total shareholder's equity	Before distribution	10,693,834	—	—	—	—
	After distribution	9,914,290	—	—	—	—

Note 1 : 2012 Financial Statements were audited by CPA.

Note 2 : 2013-2016 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.



### 6.1.1.3 Condensed Consolidated Comprehensive Income Statement – IFRS

Unit: NT\$ thousands

Item \ Year	Financial data within the last 5 years					As of March 31, 2017 (Note 1)
	2012	2013	2014	2015	2016	
Operating income	15,584,967	16,605,620	17,226,474	16,578,377	16,510,678	4,278,713
Gross profit	2,855,002	2,896,799	2,800,934	3,065,672	3,402,415	816,166
Operating profit or loss	1,568,884	1,436,049	1,149,533	1,264,115	1,671,197	403,242
Non-Operating income and expenses	(74,021)	(78,534)	(8,349)	(233,032)	(173,374)	142,782
Net income before tax	1,494,863	1,357,515	1,141,184	1,031,083	1,497,823	546,024
Net income form Continuing Operations	1,235,873	1,130,253	935,284	886,141	1,190,294	429,145
Income (or Loss) form Discontinued Operations	—	—	—	—	—	—
Net Income (Loss)	1,235,873	1,130,253	935,284	886,141	1,190,294	429,145
Other Comprehensive Income (Loss) (After-Tax)	(180,720)	122,834	415,743	(869,561)	(969,372)	(475,394)
Total Comprehensive Income (Losses)	1,055,153	1,253,087	1,351,027	16,580	220,922	(46,249)
Net Income Attributable to the Parent	1,138,895	1,110,310	966,212	948,965	1,178,224	374,148
Net Income Attributable to Non-Controlling Interests	96,978	19,943	(30,928)	(62,824)	12,070	54,997
Total Comprehensive Income Attributable to the Parent	1,016,695	1,161,631	1,328,095	210,024	395,933	(63,350)
Total Comprehensive Income Attributable to Non-Controlling Interests	38,458	91,456	22,932	(193,444)	(175,011)	17,101
Earnings per Share(NT\$)	4.38	4.27	3.72	3.26	4.02	1.28

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2017 is reviewed by CPA, others are all audited by CPA.

### 6.1.1.4 Condensed Consolidated Comprehensive Income Statement – ROC GAAP

Unit: NT\$ thousands

Item \ Year	Financial data within the last 5 years (Note 1)				
	2012	2013 (Note 2)	2014 (Note 2)	2015 (Note 2)	2016 (Note 2)
Operating income	15,584,967	—	—	—	—
Gross profit	2,855,002	—	—	—	—
Operating profit	1,581,179	—	—	—	—
Non-Operating income	101,654	—	—	—	—
Non-Operating expenses	(175,675)	—	—	—	—
Pre-tax income from continuing operations	1,507,158	—	—	—	—
After-tax income from continuing operations	1,151,190	—	—	—	—
Profit/Loss from discontinued operations	—	—	—	—	—
Extraordinary gains/losses	—	—	—	—	—
Accumulated adjustments due to changes of accounting principles	—	—	—	—	—
Net Income	1,151,190	—	—	—	—
Earnings per Share(NT\$)	4.43	—	—	—	—

Note 1 : 2012 Financial Statements were audited by CPA.

Note 2 : 2013-2016 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.

## 6.1.2 Condensed Non-Consolidated Balance Sheet and Income Statement

### 6.1.2.1 Condensed Non-Consolidated Balance Sheet – IFRS

Unit: NT\$ thousands

Item \ Year		Financial data within the last 5 years (Note 1)				
		2012	2013	2014	2015	2016
Current assets		2,080,772	2,230,017	2,109,244	2,741,611	2,383,278
Fixed assets machinery and equipment(Note 1)		4,446,693	5,088,933	4,927,412	4,750,140	4,609,382
Intangible assets		20,601	14,483	8,802	5,654	1,992
Other assets		5,940,517	8,502,528	9,861,732	10,084,786	10,415,111
Total assets		12,488,583	15,835,961	16,907,190	17,582,191	17,409,763
Current liabilities	Before distribution	1,912,400	2,222,663	2,704,531	2,488,911	3,193,278
	After distribution	2,691,944	2,872,283	3,386,196	3,074,669	(Note 2)
Non-current liabilities		1,013,264	3,668,292	3,579,178	3,147,775	2,460,805
Total liabilities	Before distribution	2,925,664	5,890,955	6,283,709	5,636,686	5,654,083
	After distribution	3,705,208	6,540,575	6,965,374	6,222,444	(Note 2)
Equity attributable to owners of the parents (Before distribution)		9,562,919	9,945,006	10,623,481	11,945,505	11,755,680
Capital		2,598,479	2,598,479	2,598,479	3,098,479	2,928,789
Capital reserve		3,283,868	3,283,868	3,283,868	5,412,868	5,127,397
Retained earnings	Before distribution	3,803,291	4,133,366	4,446,978	4,713,939	4,920,100
	After distribution	3,023,747	3,483,746	3,765,313	4,128,181	(Note 2)
Other equity		(122,719)	(70,707)	294,156	(444,446)	(1,220,606)
Treasury stock		—	—	—	(835,335)	0
Non-controlling equity		—	—	—	—	0
Total equity	Before distribution	9,562,919	9,945,006	10,623,481	11,945,505	11,755,680
	After distribution	8,783,375	9,295,386	9,941,816	11,359,747	(Note 2)

Note 1: The Company has adopted IFRS since 2012. All the Annual Financial Statements above have audited by CPA.

Note 2: Proposal for Distribution of 2016 Profits has not yet to be resolved in the shareholders' meeting.

## 6.1.2.2 Condensed Non-Consolidated Balance Sheet – ROC GAAP

Unit: NT\$ thousands

Item \ Year		Financial data within the last 5 years (Note 1)				
		2012	2013 (Note 2)	2014 (Note 2)	2015 (Note 2)	2016 (Note 2)
Current assets		2,083,176	—	—	—	—
Funds & Oing-term investments		5,724,618	—	—	—	—
Fixed assets		4,793,161	—	—	—	—
Other assets		57,171	—	—	—	—
Total assets		12,658,126	—	—	—	—
Current Liabilities	Before distribution	1,886,799	—	—	—	—
	After distribution	2,666,343	—	—	—	—
Long-term liabilities		934,127	—	—	—	—
Other liabilities		65,941	—	—	—	—
Total liabilities	Before distribution	2,886,867	—	—	—	—
	After distribution	3,666,411	—	—	—	—
Capital		2,598,479	—	—	—	—
Capital reserve		3,315,659	—	—	—	—
Retained earnings	Before distribution	3,625,361	—	—	—	—
	After distribution	2,845,817	—	—	—	—
Unrealized gains (loss) from financial products		—	—	—	—	—
Accumulated translation adjustments		145,741	—	—	—	—
Unrealized revaluation increment		86,019	—	—	—	—
Net loss not recognized as pension cost		—	—	—	—	—
Total equity	Before distribution	9,771,259	—	—	—	—
	After distribution	8,991,715	—	—	—	—

Note 1 : 2012 Financial Statements were audited by CPA.

Note 2 : 2013-2016 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.

### 6.1.2.3 Condensed Non-Consolidated Comprehensive Income Statement – IFRS

Unit: NT\$ thousands

Item \ Year	Financial data within the last 5 years				
	2012	2013	2014	2015	2016
Operating income	7,052,837	7,365,859	7,851,416	7,167,803	7,133,662
Gross profit	1,581,616	1,684,354	1,726,960	1,670,918	1,782,171
Operating Profit	966,465	971,169	931,447	842,112	952,558
Non-Operating income and expenses	351,789	291,024	204,789	254,487	378,001
Net income before tax	1,318,254	1,262,193	1,136,236	1,096,599	1,330,559
Net income from continuing operations (After-tax)	1,138,895	1,110,310	966,212	948,965	1,178,224
Income (or loss) from Discontinued operations	-	-	-	-	-
Net income (loss)	1,138,895	1,110,310	966,212	948,965	1,178,224
Other comprehensive income (loss) (After-tax)	(122,200)	51,321	361,883	(738,941)	(782,291)
Total comprehensive	1,016,695	1,161,631	1,328,095	210,024	395,933
Net Income Attributable to Non-Controlling Interests	1,138,895	1,110,310	966,212	948,965	1,178,224
Total Comprehensive Income Attributable to the Parent	—	—	—	—	0
Total Comprehensive Income Attributable to the Parent	1,016,695	1,161,631	1,328,095	210,024	395,933
Total Comprehensive Income Attributable to Non-Controlling Interests	—	—	—	—	0
Earnings per Share(NT\$)	4.38	4.27	3.72	3.26	4.02

Note 1: The Company has adopted IFRS since 2012. All the Annual Financial Statements above have audited by CPA.

## 6.1.2.4 Condensed Non-Consolidated Income Statement – ROC GAAP

Unit: NT\$ thousands

Item \ Year	Financial data within the last 5 years (Note 1)				
	2012	2013 (Note 2)	2014 (Note 2)	2015 (Note 2)	2016 (Note 2)
Operating income	7,053,837	—	—	—	—
Gross profit	1,581,616	—	—	—	—
Operating profit	978,760	—	—	—	—
Non-Operating income	383,292	—	—	—	—
Non-Operating expenses	31,503	—	—	—	—
Pre-tax income from continuing operations	1,330,549	—	—	—	—
After-tax income from continuing operations	1,151,190	—	—	—	—
Profit/Loss from discontinued operations	-	—	—	—	—
Extraordinary gains/losses	-	—	—	—	—
Accumulated adjustments due to changes of accounting principles	-	—	—	—	—
Net Income	1,151,190	—	—	—	—
Earnings per Share(NT\$)	4.38	—	—	—	—

Note 1 : 2012 Financial Statements were audited by CPA.

Note 2 : 2013-2016 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.

### 6.1.3 The name and opinion of the independent auditor within the last 5 year

Year	Name of CPA Firm Name of CPAs	Auditor's opinions
2012	Deloitte & Touche Yen, Hsiao-Fang, Cheng, Te-Jun (Note 1)	Modified Unqualified Opinion
2013	Deloitte & Touche Yen, Hsiao-Fang, Cheng, Te-Jun	Modified Unqualified Opinion
2014	Deloitte & Touche Yen, Hsiao-Fang, Tseng, Done-Yuin (Note 2)	Modified Unqualified Opinion
2015	Deloitte & Touche Yen, Hsiao-Fang, Tseng, Done-Yuin	Modified Unqualified Opinion
2016	Deloitte & Touche Yen, Hsiao-Fang, Tseng, Done-Yuin	Modified Unqualified Opinion

Note 1: Change of certified public accountant (CPA) from Cheng, Te-Jun and Chiang, Shu-Chin to Yen, Hsiao-Fang and Cheng, Te-Jun were due to internal adjustments within Deloitte & Touche, the certifying accounting firm.

Note 2: Change of certified public accountant (CPA) from Yen, Hsiao-Fang and Cheng, Te-Jun to Yen, Hsiao-Fang and Tseng, Done-Yuin were due to internal adjustments within Deloitte & Touche, the certifying accounting firm.

## 6.2 Five-Year Financial Analysis

### 6.2.1 Financial Analysis – IFRS (Consolidated)

Analysis Item \ Year		Financial analysis within the last 5 years (Note 1)					As of March 31, 2017 (Note 1)
		2012	2013	2014	2015	2016	
Finance Structure	Debt to Assets Ratio(%)	50.31	56.84	60.03	55.34	53.72	54.29
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio(%)	94.85	97.00	93.00	98.75	98.13	106.24
Solvency	Current Ratio (%)	79.69	84.18	70.3	77.21	80.39	93.47
	Quick Ratio (%)	52.12	52.34	43.02	51.22	52.97	62.23
	Interest Coverage	10.78	8.11	5.65	5.34	7.46	11.11
Operating Ability	Accounts Receivable Turnover (times)	7.67	7.95	7.67	6.72	6.55	5.49
	Average Collection Days	48	46	48	54	56	63
	Inventory Turnover (times)	7.86	7.48	7.07	7.22	7.5	7.45
	Accounts Payable Turnover (times)	16.31	17.61	18.44	18.92	17.69	14.37
	Average Inventory Turnover Days	46	49	52	51	49	49
	Fixed Assets, Machinery and Equipment Turnover (times)	1.10	0.98	0.9	0.88	0.92	1
	Total Assets Turnover (times)	0.74	0.65	0.59	0.57	0.6	0.62
Profitability	Return on Assets (%)	6.52	5.69	4.33	3.85	5.03	1.75
	Return on Equity (%)	11.16	10.55	8.27	7.18	9.27	3.38
	Pre-tax Profit to Paid-in Capital Ratio (%)	57.53	52.24	43.92	33.28	51.14	18.64
	Net Margin (%)	7.93	6.81	5.43	5.35	7.21	10.03
	Earnings Per Share (NT\$)(Note 1)	4.38	4.27	3.72	3.26	4.02	1.28
Cash Flow	Cash Flow Ratio (%)	38.03	25.32	22.05	30.3	44.79	0
	Cash Flow Adequacy Ratio (%)	68.55	57.04	50.67	61.49	76.64	70.8
	Cash Flow Re-investment Ratio (%)	9.11	5.29	6.05	7.57	11.45	0
Leverage	Operating Leverage	2.01	2.21	2.64	2.6	2.29	2.32
	Financial Leverage	1.11	1.15	1.27	1.23	1.16	1.15

Please explain the variation reasons of all financial ratios (which exceeding 20%) in the most recent 2 years:

1. The increase of Interest Protection Multiples: Due to the increase of 2016 Consolidated net profit.
2. The increase of Return On Assets: Due to the increase of 2016 Consolidated net profit.
3. The increase of Return On Equity: Due to the increase of 2016 Consolidated net profit.
4. The increase of ratio of Pre-tax net profit to Paid-in capital: Due to the increase of 2016 consolidated net profit, and decrease of the amount of shares by buying back Treasury shares.
5. The increase of Rate of Return: Due to the increase of 2016 Consolidated net profit.
6. The increase of Earnings Per Share: Due to the increase of 2016 Consolidated net profit, and decrease the amount of shares by buying back Treasury shares.



7. The increase of Cash Flow Ratio: Due to the increase of 2016 Net cash flow from business activities.
8. The increase of Cash Flow Adequacy Ratio: Due to the increase of 2016 Net cash flow from business activities.
9. Cash Re-investment Ratio: Due to the increase of 2016 Net cash flow from business activities and decrease of cash dividend.

Note 1: The Company has adopted IFRS since 2012. For 2012 Financial Statements, please refer “Consolidated Financial Analysis – ROC GAAP”. For above data, expect Annual Financial Statements of March 31, 2017 is reviewed by CPA, others are all audited by CPA.

## 6.2.2 Financial Analysis – IFRS (Non-consolidated)

Analysis Item \ Year		Financial analysis within the last 5 years (Note 1)				
		2012	2013	2014	2015	2016
Finance Structure	Debt to Assets Ratio(%)	23.43	37.2	37.17	32.06	32.48
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio(%)	236.06	266.06	286.8	316.38	307.11
Solvency	Current Ratio (%)	108.8	100.33	77.99	110.15	74.63
	Quick Ratio (%)	65.28	53.14	40.49	72.89	45.93
	Interest Coverage	65.39	21.04	15.28	18.39	25.35
Operating Ability	Accounts Receivable Turnover (times)	7.12	8.2	9.23	7.79	7.63
	Average Collection Days	51	45	40	47	48
	Inventory Turnover (times)	7.72	7.69	7.76	7.55	7.7
	Accounts Payable Turnover (times)	12.68	12.77	13.17	11.38	9.93
	Average Inventory Turnover Days	47	48	47	48	46
	Fixed Assets, Machinery and Equipment Turnover (times)	1.58	1.45	1.59	1.51	1.55
	Total Assets Turnover (times)	0.56	0.47	0.46	0.41	0.41
Profitability	Return on Assets (%)	9.69	8.16	6.31	5.81	6.99
	Return on Equity (%)	11.96	11.26	9.4	8.41	9.94
	Pre-tax Profit to Paid-in Capital Ratio (%)	50.73	48.57	43.73	35.39	45.43
	Net Margin (%)	16.15	15.07	12.31	13.24	16.52
	Earnings Per Share (NT\$)(Note 1)	4.38	4.27	3.72	3.26	4.02
Cash Flow	Cash Flow Ratio (%)	73.85	61.14	49.63	54.12	46.01
	Cash Flow Adequacy Ratio (%)	64.86	48.99	45.57	47.21	51.9
	Cash Flow Re-investment Ratio (%)	4.57	3.36	3.81	3.4	4.6
Leverage	Operating Leverage	3.67	3.68	4.34	4.3	3.82
	Financial Leverage	1.02	1.07	1.09	1.08	1.06

Please explain the variation reasons of all financial ratios (which exceeding 20%) in the most recent 2 years:

1. The decrease of Current Ratio: Due to Joint loan-in 2016, the Company applied for Short-term loans with lower interest rate to repay the Long-term loans with higher interest rate, which caused the increase of current liabilities.
2. The decrease of Quick Ratio: Due to Joint loan-in 2016, the Company applied for Short-term loans with lower interest rate to repay the Long-term loans with higher interest rate, which caused the increase of current liabilities.

3. The increase of Interest Protection Multiples: Due to the increase of 2016 Net profit after tax and the expiration of convertible bond which caused the decrease of interest expense.
4. The increase of Return on Assets: Due to the increase of 2016 Net profit after tax and the expiration of convertible bond which caused the decrease of interest expense.
5. The increase of ratio of Pre-tax net profit to Paid-in capital: Due to the increase of 2016 Pre-tax net profits, and decrease of the amount of shares by buying back Treasury shares.
6. The increase of Rate of Return: Due to the increase of 2016 Net profit after tax.
7. The increase of Earnings Per Share: Due to the increase of 2016 Net profit after tax, and decrease the amount of shares by buying back Treasury shares.
8. Cash Re-investment Ratio: Due to the increase of 2016 Net cash flow from business activities, and decrease of cash dividend.

Note 1: All the Annual Financial Statements above have audited by CPA.

The calculation formula of financial analysis :

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Average Collection Turnover Days = 365 / Receivables Turnover Rate
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Inventory Turnover Days = 365 / Inventory Turnover Rate
- (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
- (7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses \* (1 - Effective Tax Rate)) / Average Total Assets
- (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
- (3) Net Margin = Net Income / Net Sales
- (4) Earnings per Share = (Net Income Attributable to Shareholders of the Parent – Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations

### 6.2.3 Financial Analysis – ROC GAAP (Consolidated)

Analysis item \ Year		Financial data within the last 5 years				
		2012	2013	2014	2015	2016
Finance Structure	Debt to Assets Ratio(%)	49.71	—	—	—	—
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio(%)	93.16	—	—	—	—
Solvency	Current Ratio (%)	80.15	—	—	—	—
	Quick Ratio (%)	52.56	—	—	—	—
	Interest Coverage	10.86	—	—	—	—
Operating Ability	Accounts Receivable Turnover (times)	7.67	—	—	—	—
	Average Collection Days	47	—	—	—	—
	Inventory Turnover (times)	7.86	—	—	—	—
	Accounts Payable Turnover (times)	16.31	—	—	—	—
	Average Inventory Turnover Days	46	—	—	—	—
	Fixed Assets, Machinery and Equipment Turnover (times)	1.1	—	—	—	—
	Total Assets Turnover (times)	0.73	—	—	—	—
Profitability	Return on Assets (%)	6.55	—	—	—	—
	Return on Equity (%)	11.15	—	—	—	—
	Ratio to Paid-in Capital(%)	Operation Income	60.85	—	—	—
		Pre-tax Profit	58	—	—	—
	Net Margin (%)	8.01	—	—	—	—
	Earnings Per Share (NT\$)(Note 1)	4.38	—	—	—	—
Cash Flow	Cash Flow Ratio (%)	37.93	—	—	—	—
	Cash Flow Adequacy Ratio (%)	68.39	—	—	—	—
	Cash Flow Re-investment Ratio (%)	8.93	—	—	—	—
Leverage	Operating Leverage	2.01	—	—	—	—
	Financial Leverage	1.11	—	—	—	—

Please explain the variation reasons of all financial ratios (which exceeding 20%) in the most recent 2 years: Not applicable.

Note 1 : 2012 Financial Statements were audited by CPA, and 2013-2016 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.

## 6.2.4 Financial Analysis – ROC GAAP (Non-consolidated)

Analysis Item		Year	Financial data within the last 5 years				
			2012	2013	2014	2015	2016
Finance Structure	Debt to Assets Ratio(%)		22.81	—	—	—	—
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio(%)		223.35	—	—	—	—
Solvency	Current Ratio (%)		110.41	—	—	—	—
	Quick Ratio (%)		68.64	—	—	—	—
	Interest Coverage		65.99	—	—	—	—
Operating Ability	Accounts Receivable Turnover (times)		7.12	—	—	—	—
	Average Collection Days		51	—	—	—	—
	Inventory Turnover (times)		7.72	—	—	—	—
	Accounts Payable Turnover (times)		12.68	—	—	—	—
	Average Inventory Turnover Days		47	—	—	—	—
	Fixed Assets, Machinery and Equipment Turnover (times)		1.47	—	—	—	—
	Total Assets Turnover (times)		0.56	—	—	—	—
Profitability	Return on Assets (%)		9.72	—	—	—	—
	Return on Equity (%)		11.93	—	—	—	—
	Ratio to Paid-in Capital(%)	Operation Income	37.67	—	—	—	—
		Pre-tax Profit	51.2	—	—	—	—
	Net Margin (%)		16.32	—	—	—	—
	Earnings Per Share (NT\$)(Note 1)		4.38	—	—	—	—
Cash Flow	Cash Flow Ratio (%)		74.63	—	—	—	—
	Cash Flow Adequacy Ratio (%)		65.37	—	—	—	—
	Cash Flow Re-investment Ratio (%)		4.47	—	—	—	—
Leverage	Operating Leverage		3.63	—	—	—	—
	Financial Leverage		1.02	—	—	—	—

Please explain the variation reasons of all financial ratios (which exceeding 20%) in the most recent 2 years: Not applicable.

Note 1 : 2012 Financial Statements were audited by CPA, and 2013-2016 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.

The calculation formula of financial analysis :

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Average Collection Turnover Days = 365 / Receivables Turnover Rate
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Inventory Turnover Days = 365 / Inventory Turnover Rate
- (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
- (7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses \* (1 - Effective Tax Rate)) / Average Total Assets
- (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
- (3) Net Margin = Net Income / Net Sales
- (4) Earnings per Share = (Net Income Attributable to Shareholders of the Parent – Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations

## **6.3 Supervisors' Audit Report in the most recent year**

### **Taiwan Hon Chuan Enterprise Co., Ltd.**

#### **Supervisors' Audit Report**

The Board of Directors has prepared the Company's 2016 Financial Statements and the Consolidated Financial Statements, which have been audited by the CPA firm of Deloitte & Touche. We have reviewed the Financial Statements, Business Report and profit allocation proposal and do not find any discrepancy. According to Article 219 of the Company Act, we hereby submit this report.

To  
2017 Annual Shareholders' Meeting of Taiwan Hon Chuan Enterprise Co., Ltd.

#### **Taiwan Hon Chuan Enterprise Co., Ltd.**

Supervisor : Lin, Chun-Chih

Supervisor : Tsao, Yu-Yu

Supervisor : Hsih-Yueh Development Co., Ltd. (Representative : Hsu, Cheng-Chuan)

May 06, 2017



## 6.4 Financial Statements of the most recent year

### DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

TAIWAN HON CHUAN ENTERPRISE CO., LTD.

By:

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Hung-Chuan Dai  
President

March 24, 2017

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Taiwan Hon Chuan Enterprise Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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, based on our audits and the reports of other auditors (refer to the Other Matter section below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. 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.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows :

#### Revenue recognition

The Group manufactures and sells plastic caps and PET bottles and provides beverage packaging service. Because revenues from the top 5 clients of the Group are significant to the Group's revenues and profits, we have listed revenue recognition as a key audit matter. Please refer to Note 4 to the consolidated financial statements for the accounting policies on revenue recognition.

The key audit procedures we have performed in respect of the above area included the following:

1. We have understood and tested the design and operating effectiveness of the key controls over revenue recognition.
2. We selected samples from the daily sales reports for the top 5 clients for the year ended December 31, 2016 and we checked the reports against the customer order list, pre-approved original purchase order, quotation of prices and delivery order.
3. We verified the entries to the revenue subsidiary ledger by selecting sample entries for the top 5 clients and we checked the entries against the original order, quotation of prices, delivery order, invoice and receipt voucher. We also checked the entries against the documents acknowledged by customers for their receipt, delivery and order.

#### Evaluation of impairment inventory

The Group's inventory is measured at the lower of cost or net realizable value. The determination of net realizable value involved the use of significant judgments and estimates by the management. Thus, the evaluation of impairment of inventory is identified as a key audit matter. Please refer to Notes 4, 5 and 12 to the consolidated financial statements for the information about inventory.

The key audit procedures we have performed in respect of the above area included the following:

1. We understood and teste the design and operating effectiveness of the key controls over inventory.
2. We selected samples of inventory and checked that the value is the lower of cost or net realizable value. We evaluated whether expected sales price and variable expenses ratio are reasonable. We examined the accuracy of the calculation of net realizable value.
3. We observed year-end inventory taking. We selected samples and examined whether there were any defects or damages and confirmed the reasonableness of recognized loss on market price decline.

## **Other Matter**

We did not audit the financial statements of PT Hon Chuan Indonesia, Hon Chuan Vietnam Co., Ltd. and Hon Chuan Malaysia Sdn. Bhd. as of and for the years ended December 31, 2016 and 2015. The total assets of these consolidated subsidiaries were 15.54% (NT\$4,256,344 thousand) and 14.78% (NT\$4,304,962 thousand) of the consolidated assets as of December 31, 2016 and 2015, respectively. The net sales of these subsidiaries were 9.21% (NT\$1,520,507 thousand) and 8.31% (NT\$1,378,255 thousand) of the consolidated net sales in 2016 and 2015, respectively. These investees' statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of other auditors.

We have also audited the parent company only financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified and other matter opinion and an unqualified modified 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 IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including supervisors, 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, 2016 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 Hsiao-Fang Yen and Done-Yuin Tseng.

Deloitte & Touche  
Taichung, Taiwan  
Republic of China  
March 24, 2017

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.*

# TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,414,908	9	\$ 2,421,959	8
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	83,123	-	19,226	-
Debt investments with no active market - current (Notes 4 and 10)	31,613	-	40,440	-
Notes receivable from unrelated parties (Note 4)	158,671	1	158,484	1
Trade receivables from unrelated parties (Notes 4 and 11)	2,274,230	8	2,361,649	8
Trade receivables from related parties (Notes 4 and 31)	3,144	-	1,899	-
Inventories (Notes 4 and 12)	1,745,646	6	1,749,055	6
Other current assets (Notes 16 and 32)	<u>1,046,093</u>	<u>4</u>	<u>1,314,954</u>	<u>5</u>
Total current assets	<u>7,757,428</u>	<u>28</u>	<u>8,067,666</u>	<u>28</u>
<b>NONCURRENT ASSETS</b>				
Available for sale financial assets - noncurrent (Notes 4 and 8)	9,231	-	11,250	-
Financial assets measured at cost - noncurrent (Notes 4 and 9)	40,005	-	40,091	-
Long-term investments at equity-method (Notes 4 and 14)	28,639	-	32,501	-
Property, plant and equipment (Notes 4, 15 and 32)	17,991,011	66	18,796,260	65
Computer software (Note 4)	5,860	-	11,988	-
Goodwill (Notes 4 and 17)	382,813	2	64,496	-
Deferred tax assets (Notes 4 and 25)	165,705	1	171,323	1
Prepayments for equipment	647,003	2	1,524,882	5
Other noncurrent assets (Note 16)	<u>363,611</u>	<u>1</u>	<u>397,163</u>	<u>1</u>
Total noncurrent assets	<u>19,633,878</u>	<u>72</u>	<u>21,049,954</u>	<u>72</u>
<b>TOTAL</b>	<u>\$ 27,391,306</u>	<u>100</u>	<u>\$ 29,117,620</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 18 and 32)	\$ 6,660,381	24	\$ 8,011,602	27
Short-term bills payable (Note 18)	300,000	1	-	-
Notes payable to unrelated parties	200,045	1	201,358	1
Trade payables to unrelated parties	622,514	2	457,678	2
Current tax liabilities (Notes 4 and 25)	108,505	1	77,709	-
Current portion of long-term liabilities (Notes 4, 18, 19 and 32)	258,000	1	832,147	3
Preferred stock liabilities (Notes 4 and 20)	583,188	2	-	-
Other current liabilities (Notes 21 and 31)	<u>917,266</u>	<u>3</u>	<u>868,278</u>	<u>3</u>
Total current liabilities	<u>9,649,899</u>	<u>35</u>	<u>10,448,772</u>	<u>36</u>
<b>NONCURRENT LIABILITIES</b>				
Long-term borrowings (Notes 4, 18 and 32)	4,978,194	19	4,984,285	17
Deferred tax liabilities (Notes 4 and 25)	36,105	-	52,869	-
Preferred stock liabilities (Notes 4 and 20)	-	-	574,064	2
Net defined benefit liabilities - noncurrent (Notes 4 and 22)	36,522	-	40,300	-
Other noncurrent liabilities (Note 21)	<u>14,413</u>	<u>-</u>	<u>14,333</u>	<u>-</u>
Total noncurrent liabilities	<u>5,065,234</u>	<u>19</u>	<u>5,665,851</u>	<u>19</u>
Total liabilities	<u>14,715,133</u>	<u>54</u>	<u>16,114,623</u>	<u>55</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>				
Common stock	2,928,789	11	3,098,479	11
Capital surplus	5,127,397	19	5,412,868	19
Retained earnings				
Legal reserve	1,181,738	4	1,086,842	4
Special reserve	444,446	2	421,790	1
Unappropriated earnings	3,293,916	12	3,205,307	11
Other equity	(1,220,606)	(5)	(444,446)	(2)
Treasury shares	<u>-</u>	<u>-</u>	<u>(835,335)</u>	<u>(3)</u>
Total equity attributable to owners of the parent	<u>11,755,680</u>	<u>43</u>	<u>11,945,505</u>	<u>41</u>
<b>NON-CONTROLLING INTERESTS</b>	<u>920,493</u>	<u>3</u>	<u>1,057,492</u>	<u>4</u>
Total equity	<u>12,676,173</u>	<u>46</u>	<u>13,002,997</u>	<u>45</u>
<b>TOTAL</b>	<u>\$ 27,391,306</u>	<u>100</u>	<u>\$ 29,117,620</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 24, 2017)

# TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
SALES (Notes 4 and 31)	\$16,510,678	100	\$16,578,377	100
COST OF GOODS SOLD (Notes 4, 12, 24 and 31)	<u>13,108,263</u>	<u>79</u>	<u>13,512,705</u>	<u>81</u>
GROSS PROFIT	<u>3,402,415</u>	<u>21</u>	<u>3,065,672</u>	<u>19</u>
OPERATING EXPENSES (Notes 24 and 31)				
Selling and marketing expenses	801,332	5	739,555	5
General and administrative expenses	865,206	5	998,425	6
Research and development expenses	<u>64,680</u>	<u>1</u>	<u>63,577</u>	<u>-</u>
Total operating expenses	<u>1,731,218</u>	<u>11</u>	<u>1,801,557</u>	<u>11</u>
PROFIT FROM OPERATIONS	<u>1,671,197</u>	<u>10</u>	<u>1,264,115</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Notes 20 and 24)	(231,701)	(1)	(237,735)	(1)
Net foreign exchange loss (Note 4)	(81,758)	(1)	(85,678)	(1)
Other gains and losses (Notes 4 and 24)	<u>140,085</u>	<u>1</u>	<u>90,381</u>	<u>-</u>
Total non-operating income and expenses	<u>(173,374)</u>	<u>(1)</u>	<u>(233,032)</u>	<u>(2)</u>
PROFIT BEFORE INCOME TAX	1,497,823	9	1,031,083	6
INCOME TAX EXPENSE (Notes 4 and 25)	<u>307,529</u>	<u>2</u>	<u>144,942</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>1,190,294</u>	<u>7</u>	<u>886,141</u>	<u>5</u>
OTHER COMPREHENSIVE INCOME (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 22)	(7,387)	-	(408)	-
Income tax expense related to items that may be reclassified subsequently (Note 25)	1,256	-	69	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(961,340)	(6)	(862,180)	(5)

(Continued)



# TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
Unrealized gain on available-for-sale financial assets	\$ (1,901)	-	\$ (7,042)	-
Other comprehensive income (loss) for the year, net of income tax	(969,372)	(6)	(869,561)	(5)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 220,922</u>	<u>1</u>	<u>\$ 16,580</u>	<u>-</u>
NET INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,178,224	7	\$ 948,965	6
Non-controlling interests	<u>12,070</u>	<u>-</u>	<u>(62,824)</u>	<u>(1)</u>
	<u>\$ 1,190,294</u>	<u>7</u>	<u>\$ 886,141</u>	<u>5</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 395,933	2	\$ 210,024	1
Non-controlling interests	<u>(175,011)</u>	<u>(1)</u>	<u>(193,444)</u>	<u>(1)</u>
	<u>\$ 220,922</u>	<u>1</u>	<u>\$ 16,580</u>	<u>-</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 4.02</u>		<u>\$ 3.26</u>	
Diluted	<u>\$ 3.97</u>		<u>\$ 3.20</u>	

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

(With Deloitte & Touche auditors' report dated March 24, 2017)

(Concluded)

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2016 AND 2015  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										Non-controlling Interests (Note 13)	Total Equity
	Share Capital (Note 23)	Capital Surplus (Notes 4 and 23)	Retained Earnings (Notes 4, 22 and 23)			Other Equity		Treasury Shares (Note 23)	Total			
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available- for-sale Financial Assets					
BALANCE AT JANUARY 1, 2015	\$ 2,598,479	\$ 3,283,868	\$ 990,221	\$ 421,790	\$ 3,034,967	\$ 287,387	\$ 6,769	\$ -	\$ 10,623,481	\$ 1,045,909	\$ 11,669,390	
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	223,727	223,727	
Appropriation of 2014 earnings												
Legal reserve	-	-	96,621	-	(96,621)	-	-	-	-	-	-	
Cash dividends distributed by the Corporation	-	-	-	-	(681,665)	-	-	-	(681,665)	-	(681,665)	
Issue of ordinary shares for cash	500,000	2,095,000	-	-	-	-	-	-	2,595,000	-	2,595,000	
Share-based payment transaction	-	34,000	-	-	-	-	-	-	34,000	-	34,000	
Buy-back of ordinary shares	-	-	-	-	-	-	-	(835,335)	(835,335)	-	(835,335)	
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(18,700)	(18,700)	
Net profit for the year ended December 31, 2015	-	-	-	-	948,965	-	-	-	948,965	(62,824)	886,141	
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(339)	(731,560)	(7,042)	-	(738,941)	(130,620)	(869,561)	
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	948,626	(731,560)	(7,042)	-	210,024	(193,444)	16,580	
BALANCE AT DECEMBER 31, 2015	3,098,479	5,412,868	1,086,842	421,790	3,205,307	(444,173)	(273)	(835,335)	11,945,505	1,057,492	13,002,997	
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	50,684	50,684	
Appropriation of 2015 earnings												
Legal reserve	-	-	94,896	-	(94,896)	-	-	-	-	-	-	
Special reserve	-	-	-	22,656	(22,656)	-	-	-	-	-	-	
Cash dividends distributed by the Corporation	-	-	-	-	(585,758)	-	-	-	(585,758)	-	(585,758)	
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(12,672)	(12,672)	
Cancellation of treasury shares	(169,690)	(285,471)	-	-	(380,174)	-	-	835,335	-	-	-	
Net profit for the year ended December 31, 2016	-	-	-	-	1,178,224	-	-	-	1,178,224	12,070	1,190,294	
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(6,131)	(774,259)	(1,901)	-	(782,291)	(187,081)	(969,372)	
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	1,172,093	(774,259)	(1,901)	-	395,933	(175,011)	220,922	
BALANCE AT DECEMBER 31, 2016	\$ 2,928,789	\$ 5,127,397	\$ 1,181,738	\$ 444,446	\$ 3,293,916	\$ (1,218,432)	\$ (2,174)	\$ -	\$ 11,755,680	\$ 920,493	\$ 12,676,173	

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

(With Deloitte &amp; Touche auditors' report dated March 24, 2017)

**TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In Thousands of New Taiwan Dollars)**

	<b>For the Year Ended December</b>	
	<b>31</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 1,497,823	\$ 1,031,083
Adjustments for:		
Depreciation and amortization expenses	2,154,420	2,026,906
Finance costs	231,701	237,735
Unrealized net loss (gain) on foreign currency exchange	103,279	146,332
Net loss (gain) on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(53,025)	(62,568)
Impairment loss recognized (reversal of impairment loss) on non-financial assets	(7,858)	15,894
Loss (gain) on disposal of property, plant and equipment	5,788	27,998
Loss (gain) recognized on associates under equity method	4,441	13,080
Impairment loss recognized (reversal of impairment loss) on trade receivables	894	12,080
Impairment loss on financial assets	86	-
Others	2,557	(446)
Compensation cost of share-based payment transaction	-	34,000
Net loss (gain) on disposal of investment	-	(16,461)
Impairment loss recognized on property, plant and equipment	-	13,886
Net changes in operating assets and liabilities		
Financial assets held for trading	(11,188)	32,678
Notes receivable	(225)	9,686
Trade receivables	91,077	(214,008)
Inventories	(4,292)	394,184
Other current assets	73,501	77,408
Notes payable	(1,262)	(15,666)
Trade payables	197,668	(86,575)
Net defined benefit liabilities	(11,165)	(6,590)
Other current liabilities	500,409	(48,860)
Cash generated from operations	4,774,629	3,621,776
Interest paid	(209,704)	(214,491)
Income tax paid	(242,461)	(241,401)
Net cash generated from operating activities	<u>4,322,464</u>	<u>3,165,884</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in prepayments for equipment	(1,164,022)	(1,752,637)
Payments for property, plant and equipment	(702,260)	(766,310)
Net cash outflow on acquisition of subsidiaries (Note 27)	(340,928)	-
Proceeds from disposal of property, plant and equipment	132,834	91,967
Acquisition of associates	(30,401)	-
Disposal of associates	29,221	-
Repayment debt investments with no active market at maturity	5,834	-
Increase in refundable deposits	(1,052)	-

(Continued)

# TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2016	2015
Other investing activities	(1,152)	(36,697)
Proceeds from sale of available-for-sale financial assets	\$ -	\$ 61,686
Purchase of available-for-sale financial assets	-	(45,225)
Purchase of financial assets measured at cost	-	(15,000)
Decrease in refundable deposits	-	(1,875)
Proceeds of the return of capital on financial assets measured at cost	-	879
Net cash used in investing activities	<u>(2,071,926)</u>	<u>(2,463,212)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowings	1,817,880	3,086,000
Repayments of long-term borrowings	(1,794,101)	(3,758,695)
Proceeds from (repayments of) short-term borrowings	(1,302,186)	(852,335)
Dividends paid to owners of the Corporation	(585,758)	(681,665)
Repayments of corporate bonds	(575,500)	-
Proceed from short-term bills payable	300,000	-
Changes in non-controlling interests	28,967	223,727
Dividends paid to non-controlling interests	(12,672)	(18,700)
Proceeds from issue of ordinary shares	-	2,595,000
Payments for buy-back of ordinary shares	-	(835,335)
Payments for increase of interests in subsidiaries	-	(72,751)
Net cash generated from (used in) financing activities	<u>(2,123,370)</u>	<u>(314,754)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(134,219)</u>	<u>(31,772)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(7,051)	356,146
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>2,421,959</u>	<u>2,065,813</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$2,414,908</u>	<u>\$2,421,959</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche auditors' report dated March 24, 2017) (Concluded)

# TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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### 1. ORGANIZATION AND OPERATIONS

Taiwan Hon Chuan Enterprise Co., Ltd. (the "Corporation") was incorporated in 1969. It manufactures and sells various packing materials for the food and beverage industries (such as aluminum closures, plastic caps, metal caps, labels, bioriented polyolefin shrinkable films, low density polyethylene (LDPE), shrinkable films, and polyethylene terephthalate (PET) bottles) and automatic sealer machines. It also manufactures and sells packing materials for electronic parts (such as anti-static sheets or bags), precision instrument cases, and caps for batteries.

The Corporation became a public company in August 1993 under the approval of the Securities and Futures Bureau (SFB) under the Financial Supervisory Commission. The Corporation's shares have been traded on the Taiwan Stock Exchange since March 2, 2001.

The consolidated financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 24, 2017.

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

- a. 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) endorsed by the FSC for application starting from 2017.

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

<b>New, Amended or Revised Standards and Interpretations (the "New IFRSs")</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016

(Continued)

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
	(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above New IFRSs, whenever applied, would not have any material impact on the Group’s accounting policies, except for the following:

#### Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with which the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

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

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
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 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss, if any, recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

#### Impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

#### Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the



requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

## 2) IFRS 16 “Leases”

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the above impact, 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 by the FSC.

### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to

which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which 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 twelve 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 twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve 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 Corporation and the entities controlled by the Corporation (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 Corporation.

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 Corporation 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 Corporation.

See Note 13, Table 7 and Table 8 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interests in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (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 on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the

owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process 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. 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 the weighted-average cost on the balance sheet date.

h. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Under the equity method, investment in associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional

losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

i. Property, plant and equipment

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

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried 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 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.

j. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during

the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

k. Intangible assets

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.

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

l. Impairment of tangible and intangible assets other than goodwill

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

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 on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

m. Financial instruments

Financial assets and financial liabilities are recognized when a group entity 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) 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 fair value through profit or loss 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 fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

#### i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated 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 incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

#### ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost.

If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

### iii. Loans and receivables

Loans and receivables (including cash and cash equivalent, trade receivables and debt investments with no active market) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be 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

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

For financial assets carried at amortized cost, such as trade receivables assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In



respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

#### c) Derecognition of financial assets

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

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

### 2) Equity instruments

Debt and equity instruments issued by a group entity 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 a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Corporation'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 Corporation's own equity instruments.

### 3) Financial liabilities

#### a) Subsequent measurement

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

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated 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 any interest or dividend paid on the financial liability.

Fair value is determined in the manner described in Note 30.

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 and liability component of preferred stock

The component parts of compound instruments (convertible bonds and liability component of preferred stock) 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 the instrument's maturity date.

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 premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue 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.

5) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

#### 1) Sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

#### 2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

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

#### o. Leasing

Leases are classified as finance leases whenever the terms of the 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 an expense on a straight-line basis over the lease term; contingent rents arising are recognized as an expense in the period in which they are incurred.

#### p. 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.

#### q. Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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 become receivable.

#### r. 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.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

s. Share-based payment arrangements - Employee share options

The fair value at the grant date of the employee share options 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 capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

t. 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 at 10% 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, unused loss carry forward and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize

the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## **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.

### Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

## 6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand and petty cash	\$ 14,204	\$ 4,405
Checking accounts and demand deposits	1,534,186	1,906,667
Cash equivalent (investments with original maturities less than 3 months)		
Time deposits	<u>866,518</u>	<u>510,887</u>
	<u>\$2,414,908</u>	<u>\$2,421,959</u>

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

	December 31	
	2016	2015
Bank balance	0%-13%	0%-13%
Time deposit	1.15%-4.80 %	0.55%-1.15 %

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31	
	2016	2015
<u>Financial assets held for trading</u>		
Non derivative financial assets		
Domestic convertible bonds	\$ 32,070	\$ -
Domestic stock of publicly quoted entity	2,463	-
Derivative financial assets		
Foreign exchange forward contracts	<u>48,590</u>	<u>19,226</u>
	<u>\$ 83,123</u>	<u>\$ 19,226</u>

Outstanding foreign exchange forward contracts were as follows:

	Currency	Maturity Date	Notional Amount
<u>December 31, 2016</u>			
Buy	USD/EUR	2017.02.24	USD1,138/EUR1,000
	CNY/USD	2017.03.08	CNY33,140/USD5,000
	CNY/USD	2017.03.15	CNY32,990/USD5,000
	CNY/USD	2017.03.01	CNY33,233/USD5,000
	CNY/USD	2017.02.27	CNY66,510/USD10,000

CNY/USD	2017.09.22	CNY16,941/USD2,500
CNY/USD	2017.11.21	CNY6,967/USD1,000
CNY/USD	2017.11.21	CNY31,352/USD4,500

#### December 31, 2015

Buy	USD/EUR	2016.06.17	USD221/EUR200
	CNY/USD	2016.03.01	CNY32,395/USD5,000
	CNY/USD	2016.03.07	CNY64,800/USD10,000
	CNY/USD	2016.09.14	CNY16,325/USD2,500
	CNY/USD	2016.09.14	CNY48,975/USD7,500
	CNY/USD	2016.09.19	CNY65,200/USD10,000

The Group entered into foreign exchange forward contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and thus did not qualify for hedge accounting.

#### **8. AVAILABLE-FOR-SALE FINANCIAL ASSETS – NONCURRENT**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Overseas stock of publicly quoted entity	<u>\$ 9,231</u>	<u>\$ 11,250</u>

The Group invested THB13,000 thousand in Ichitan group public company limited (“Ichitan Company”) in Thailand in April 2015 for cooperating to expand the market in the future.

#### **9. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Domestic unlisted common shares	\$ 31,360	\$ 31,446
Overseas unlisted preferred shares	<u>8,645</u>	<u>8,645</u>
	<u>\$ 40,005</u>	<u>\$ 40,091</u>

Management believed that the fair value of the above unlisted equity investments held by the Group cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.



## 1. DEBT INVESTMENTS WITH NO ACTIVE MARKET – CURRENT

	December 31	
	2016	2015
Corporate bonds	<u>\$ 31,613</u>	<u>\$ 40,440</u>

The Group bought US\$1,127 thousand of 3-year corporate bonds issued by Garden Fresh (HK) Fruit & Vegetable Co., Limited (“Garden Fresh”) with a coupon rate of 0% and effective interest rate of 3.57% in July 2012. The corporate bonds were originally recorded under non-current assets, but were reclassified as current assets because they will mature within one year from balance sheet date.

## 11. TRADE RECEIVABLES - NET

	December 31	
	2016	2015
Trade receivables from unrelated parties	\$2,315,022	\$2,401,963
Less: Allowance for impairment loss	<u>(40,792)</u>	<u>(40,314)</u>
	<u>\$2,274,230</u>	<u>\$2,361,649</u>

The average credit period for sales of goods was 30 to 90 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Allowance for impairment loss was recognized against trade receivables over aged 91 days based on estimated irrecoverable amounts determined by reference to past default experience with the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31	
	2016	2015
Less than 90 days	\$2,215,040	\$2,351,729
91-180 days	56,732	28,110
More than 181 days	<u>43,250</u>	<u>22,124</u>
	<u>\$2,315,022</u>	<u>\$2,401,963</u>

The above aging schedule was based on the invoice date.

The Group's did not have past due but not impaired account receivable on December 31, 2016 and 2015.

Movements in the allowance for impairment loss recognized on trade receivables were as follows:

	<b>Collectively Assessed for Impairment</b>
Balance at January 1, 2015	\$ 29,810
Add: Impairment losses recognized on trade receivables	12,080
Effect of exchange rate changes	<u>(1,576)</u>
Balance at December 31, 2015	40,314
Add: Impairment losses recognized on trade receivables	894
Effect of exchange rate changes	<u>(416)</u>
Balance at December 31, 2016	<u><u>\$ 40,792</u></u>

Age of individually impaired trade receivables was as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
91-180 days	\$ 808	647
More than 181 days	<u>39,984</u>	<u>39,667</u>
	<u><u>\$ 40,792</u></u>	<u><u>\$ 40,314</u></u>

The above aging of trade receivables before deducting the allowance for impairment loss was prepared based on the invoice date.

## 12. INVENTORIES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Finished goods	\$ 567,963	\$ 446,578
Work in process	224,989	223,907
Raw materials and supplies	929,533	1,031,153
Inventories in transit	<u>23,161</u>	<u>47,417</u>
	<u><u>\$1,745,646</u></u>	<u><u>\$1,749,055</u></u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$13,108,263 thousand and \$13,512,705 thousand, respectively.

The cost of goods sold for the years ended December 31, 2016 and 2015 included reversal of inventory write-downs of \$7,858 thousand and inventory write-downs of \$15,894 thousand, respectively. Previous write-downs were reversed as a result of selling inventory.

## 13. SUBSIDIARIES

- a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Main Businesses	% of Ownership December 31	
			2016	2015
The Corporation	Hon Chuan Holding Limited ("Samoa Hon Chuan")	Overseas reinvested holding company and international trade	100	100
Samoa Hon Chuan	Hon Chuan (China) Holding Co., Ltd. ("Hon Chuan China")	Overseas reinvested holding company	76.84	76.84
	HC (Asia) Holding Co., Ltd. ("Hon Chuan Asia")	Overseas reinvested holding company and international trade	100	100
	Hon Chuan Technologies (Ningbo) Co., Ltd. ("Ningbo Hon Chuan")	Manufacture and sale of packing materials for electronic components and caps for batteries	100	100
	Hon Chuan (Africa) Holding Co., Ltd. ("Hon Chuan Africa")	Overseas reinvested holding company and international trade	100	-
Hon Chuan China	Kai Gang Industries Limited ("Kai Gang")	Overseas reinvested holding company	100	100
	Hon Hsing (Samoa) Holding Limited ("Samoa Hon Hsing")	Overseas reinvested holding company	100	100
Hon Chuan Asia	Hon Chuan (Thailand) Co., Ltd. ("Hon Chuan Thailand")	Manufacture and sale of plastic caps and PET bottles	100	100
	PT Hon Chuan Indonesia ("Hon Chuan Indonesia")	Manufacture and sale of plastic caps and PET bottles	100	100
	Hon Chuan (Myanmar) Co., Ltd. ("Hon Chuan Myanmar")	Manufacture and sale of plastic caps and PET bottles	70	70
	Hon Chuan Vietnam Co., Ltd. ("Hon Chuan Vietnam")	Manufacture and sale of plastic caps and PET bottles	100	100
	Hon Chuan Malaysia Sdn. Bhd. ("Hon Chuan Malaysia")	Manufacture and sale of plastic caps and PET bottles	100	100
	Honly Holding Co., Ltd. ("Samoa Honly")	Overseas reinvested holding company and international trade	60	60
	Honly International Co., Ltd. ("Honly")	Overseas reinvested holding company and international trade	49	49
Kai Gang	Hon Chuan Enterprise (Suzhou) Company Limited ("Suzhou Hon Chuan")	Manufacture and sale of various plastic caps, labels and aluminum closures	100	100
	Hon Chuan Food Packing (Qingxin) Co., Ltd. ("Qingxin Hon Chuan")	Manufacture and sale of various plastic caps, labels, PET bottles and beverage packaging service	100	100
	Hon Chuan Food Packing (Zhangzhou) Co., Ltd. ("Zhangzhou Hon Chuan")	Manufacture and sale of PET bottles and beverage packaging service	100	100
	Hon Chuan Food Packing (Chuzhou) Co., Ltd. ("Chuzhou Hon Chuan")	Manufacture and sale of various plastic caps and PET bottles	100	100
	Hon Chuan Food Packing (Xiantao) Co., Ltd. ("Xiantao Hon Chuan")	Manufacture and sale of plastic caps, PET bottles and beverage packaging service	100	100

(Continued)

Investor	Investee	Main Businesses	% of Ownership	
			December 31	
			2016	2015
Samoa Hon Hsing	Suzhou Hongxin Food Packing Co., Ltd. ("Suzhou Hongxin")	Manufacture and sale of plastic caps, PET bottles and beverage packaging service	100	100
	Hon Chuan Food Packing (Taiyuan) Co., Ltd. ("Taiyuan Hon Chuan")	Manufacture and sale of plastic caps, PET bottles and beverage packaging service	100	100
	Hon Chuan Enterprise (Changsha) Co., Ltd. ("Changsha Hon Chuan")	Manufacture and sale of plastic caps, PET bottles and beverage packaging service	100	100
	Hon Chuan Food Packing (Jinan) Co., Ltd. ("Jinan Hon Chuan")	Manufacture and sale of plastic caps and PET bottles	100	100
Hon Chuan Thailand	Hon Chuan FD Packaging Co., Ltd. ("Hon Fu Thailand")	Manufacture and sale of plastic caps, labels and PET bottles	65	65
Samoa Honly	Honly Food & Beverage Co., Ltd. ("Cambodia Honly")	Beverage packing service	100	100
Suzhou Hongxin	Quanhe Investment (Suzhou) Co., Ltd. ("Quanhe")	Equity investment	100	100
	Hon Chuan Food Packing (Anyang) Co., Ltd. ("Anyang Hon Chuan")	Sale of PE/PET packaging, food packaging	100	60
Quanhe	Anyang Hon Chuan	Sale of PE/PET packaging, food packaging	-	40
Hon Chuan Africa	Hon Shi Mozambique Limitada ("Hon Shi Samoa")	Overseas reinvested holding company and international trade	60	-
Hon Shi Samoa	Shimada International Limitada ("Shimada")	Manufacture and sales of plastic caps PET bottles and LDPE membrane	100	-
	Hon Shi Mozambique Co., Ltd. ("Hon Shi Mozambique")	Manufacture and sales of plastic caps	100	-

(Concluded)

The Corporation has the practical ability to direct the relevant activities of Honly; therefore, the Corporation has control over Honly.

The subsidiaries reported in the consolidated financial statements were based on the financial statements audited by auditors for the same year.

b. Details of subsidiaries that have material non-controlling interests

Name of Subsidiary	Proportion of Ownership and Voting Rights Held by Non-controlling Interests	
	December 31	
	2016	2015
Hon Chuan China	23.16%	23.16%

See Table 7 and Table 8 for the information on place of incorporation and principal place of business.

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Hon Chuan China and Hon Chuan China's subsidiaries:

	December 31	
	2016	2015
Current assets	\$3,043,494	\$2,926,462
Non-current assets	8,713,704	10,363,867
Current liabilities	(7,338,715)	(8,277,799)
Non-current liabilities	<u>(658,833)</u>	<u>(588,399)</u>
Equity	<u>\$3,759,650</u>	<u>\$4,424,131</u>
Equity attributable to:		
Owners of Hon Chuan China	\$3,217,776	\$3,734,236
Non-controlling interests of Hon Chuan China	<u>541,874</u>	<u>689,895</u>
	<u>\$3,759,650</u>	<u>\$4,424,131</u>
	For the Year Ended December 31	
	2016	2015
Revenue	<u>\$5,949,305</u>	<u>\$5,971,664</u>
Gain (loss) for the year	\$ 63,041	\$ (238,499)
Other comprehensive income for the year	<u>(650,281)</u>	<u>(604,950)</u>
Total comprehensive income for the year	<u>\$ (587,240)</u>	<u>\$ (843,449)</u>
Gain (loss) attributable to:		
Owners of Hon Chuan China	\$ 48,440	\$ (183,263)
Non-controlling interests of Hon Chuan China	<u>14,601</u>	<u>(55,236)</u>
	<u>\$ 63,041</u>	<u>\$ (238,499)</u>
Total comprehensive income attributable to:		
Owners of Hon Chuan China	\$ (451,236)	\$ (648,107)

	For the Year Ended December 31	
	2016	2015
Non-controlling interests of Hon Chuan China	<u>(136,004)</u>	<u>(195,342)</u>
	<u>\$ (587,240)</u>	<u>\$ (843,449)</u>
Net cash flow from:		
Operating activities	\$1,513,777	\$1,137,248
Investing activities	(227,211)	(666,396)
Financing activities	<u>(937,709)</u>	<u>(1,112,339)</u>
Net cash inflow (outflow)	<u>\$ 348,857</u>	<u>\$ (641,487)</u>

# 14. INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

	December 31	
	2016	2015
<u>Associates</u>		
Unlisted company		
Paeon International Co., Ltd (“Paeon Company”)	\$ 28,639	\$ -
Shanghai Danmao Trading Co., Ltd. (“Danmao Company”)	<u>-</u>	<u>32,501</u>
	<u>\$ 28,639</u>	<u>\$ 32,501</u>
<u>Aggregate information of associates</u>		
	For the Year Ended	
	December 31	
	2016	2015
The Group’s share of:		
Loss from continuing operations	<u>\$ (4,441)</u>	<u>\$ (13,080)</u>

The financial statements of Paeon Company used as basis for the above amounts were for the same periods but were not audited.

Danmao Company has been liquidated in July, 2016.

## 15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>						
Balance at January 1, 2016	\$ 715,116	\$ 5,269,115	\$19,986,640	\$ 5,704,837	\$ 1,261,307	\$32,937,015
Acquisitions through business combination	-	31,894	18,154	24,351	-	74,399
Additions	-	14,281	144,523	427,586	69,460	655,850
Disposals	-	(272)	(338,921)	(47,766)	-	(386,959)
Effect of foreign currency exchange differences	(4,539)	(245,051)	(1,060,333)	(254,693)	3,873	(1,560,743)
Reclassified	<u>58,477</u>	<u>679,129</u>	<u>1,374,677</u>	<u>493,744</u>	<u>(1,002,637)</u>	<u>1,603,390</u>
Balance at December 31, 2016	<u>\$ 769,054</u>	<u>\$ 5,749,096</u>	<u>\$20,124,740</u>	<u>\$ 6,348,059</u>	<u>\$ 332,003</u>	<u>\$33,322,952</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2016	\$ -	\$ 1,253,913	\$ 9,737,729	\$ 3,149,113	\$ -	\$14,140,755
Acquisitions through business combination	-	367	12,759	18,008	-	31,134
Disposals	-	(138)	(221,877)	(40,425)	-	(262,440)
Depreciation expense	-	(213,050)	1,402,893	505,140	-	2,121,083
Effect of foreign currency exchange differences	<u>-</u>	<u>(69,332)</u>	<u>(493,567)</u>	<u>(135,692)</u>	<u>-</u>	<u>(698,591)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 1,397,860</u>	<u>\$10,437,937</u>	<u>\$ 3,496,144</u>	<u>\$ -</u>	<u>\$15,331,941</u>
Carrying amount at January 1, 2016	<u>\$ 715,116</u>	<u>\$ 4,015,202</u>	<u>\$10,248,911</u>	<u>\$ 2,555,724</u>	<u>\$ 1,261,307</u>	<u>\$18,796,260</u>
Carrying amount at December 31, 2016	<u>\$ 769,054</u>	<u>\$ 4,351,236</u>	<u>\$ 9,686,803</u>	<u>\$ 2,851,915</u>	<u>\$ 332,003</u>	<u>\$17,991,011</u>



	Freehold Land	Buildings	Equipment	Other Equipment	Property in Construction	Total
<u>Cost</u>						
Balance at January 1, 2015	\$ 668,136	\$ 5,262,861	\$18,387,105	\$ 5,088,255	\$ 2,275,626	\$31,681,983
Additions	219	13,733	138,886	129,668	484,820	767,326
Disposals	-	(23,931)	(257,305)	(48,372)	-	(329,608)
Effect of foreign currency exchange differences	(12,037)	(120,020)	(425,204)	(97,836)	(50,921)	(706,018)
Reclassified	<u>58,798</u>	<u>136,472</u>	<u>2,143,158</u>	<u>633,122</u>	<u>(1,448,218)</u>	<u>1,523,332</u>
Balance at December 31, 2015	<u>\$ 715,116</u>	<u>\$ 5,269,115</u>	<u>\$19,986,640</u>	<u>\$ 5,704,837</u>	<u>\$ 1,261,307</u>	<u>\$32,937,015</u>
<u>Accumulated depreciation and impairment</u>						
Balance at January 1, 2015	\$ -	\$ 1,070,644	\$ 8,716,733	\$ 2,755,523	\$ -	\$12,542,900
Disposals	-	(3,629)	(179,539)	(29,012)	-	(212,180)
Impairment loss	-	-	-	13,886	-	13,886
Depreciation expense	-	209,408	1,325,924	454,189	-	1,989,521
Effect of foreign currency exchange differences	<u>-</u>	<u>(22,510)</u>	<u>(125,389)</u>	<u>(45,473)</u>	<u>-</u>	<u>(193,372)</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 1,253,913</u>	<u>\$ 9,737,729</u>	<u>\$ 3,149,113</u>	<u>\$ -</u>	<u>\$14,140,755</u>
Carrying amount at January 1, 2015	<u>\$ 668,136</u>	<u>\$ 4,192,217</u>	<u>\$ 9,670,372</u>	<u>\$ 2,332,732</u>	<u>\$ 2,275,626</u>	<u>\$19,139,083</u>
Carrying amount at December 31, 2015	<u>\$ 715,116</u>	<u>\$ 4,015,202</u>	<u>\$10,248,911</u>	<u>\$ 2,555,724</u>	<u>\$ 1,261,307</u>	<u>\$18,796,260</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	
Main buildings	20-60 years
Electrical power equipment	10-50 years
Other	10-50 years
Machinery equipment	3-20 years
Other assets	2-25 years

Refer to Note 32 for the carrying amount of property, plant and equipment pledged by the Group to secure borrowings granted to the Group.

## 16. OTHER ASSETS

	December 31	
	2016	2015
Office supplies	\$ 432,968	\$ 437,316
Prepayments for lease	332,988	367,407
Prepaid expenses and prepayment for purchases	194,855	198,738
Tax refund receivable	109,328	294,892
Restricted assets (Note 32)	65,674	32,870
Refundable deposits	37,039	36,492
Other receivables	25,862	17,536
Others	<u>210,990</u>	<u>326,866</u>
	<u>\$1,409,704</u>	<u>\$1,712,117</u>
Current	\$1,046,093	\$1,314,954
Non-current	<u>363,611</u>	<u>397,163</u>
	<u>\$1,409,704</u>	<u>\$1,712,117</u>

As of December 31, 2016 and 2015, prepaid lease payments mainly include legitimate land use rights of subsidiaries in mainland China, Hon Chuan Vietnam, Hon Chuan Myanmar and Hon Chuan Indonesia which are located in China, Vietnam, Myanmar and Indonesia.

## 17. GOODWILL

Changes in goodwill were as follows:

	For the Year Ended December 31	
	2016	2015
Balance at January 1	\$ 64,496	\$ 62,187
Additional during the year (Note 27)	310,631	-
Effect of foreign currency exchange differences	<u>7,686</u>	<u>2,309</u>
Balance at December 31	<u>\$ 382,813</u>	<u>\$ 64,496</u>

## 18. BORROWINGS

### a. Short-term borrowings

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Unsecured borrowings</u>		
Bank loans for working capital	\$5,841,644	\$7,952,301
Loans for purchasing raw materials	18,737	59,301
<u>Secured borrowings</u>		
Collateral loans (Note 32)	<u>800,000</u>	<u>-</u>
	<u><b>\$6,660,381</b></u>	<u><b>\$8,011,602</b></u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.70-4.35	0.97-1.60
Loans for purchasing raw materials	1.33-2.11	0.26-1.81
Collateral loans	0.98	-

- b. Short-term bills payable are commercial paper issued with interest rate of 1.01% on December 31, 2016. These borrowings have not been discounted, because the effect was not material.

### c. Long-term borrowings

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Bank loans for working capital	\$5,236,194	\$5,246,885
Less: Current portion of long-term loans	<u>(258,000)</u>	<u>(262,600)</u>
	<u><b>\$4,978,194</b></u>	<u><b>\$4,984,285</b></u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.80-2.20	1.05-1.80

The Corporation entered into a secured loan agreement with a syndicate of banks led by Land Bank of Taiwan Co., Ltd. for repayment of short-term bank loans, procure fund for future investment and increase operating fund. Under the agreement, the Corporation should maintain certain financial ratios, as listed below, based on the numbers in the Corporation's annual financial statements.

- 1) Current ratio - at least 100% of financial statements.
- 2) Debt ratio - maximum of 200% of financial statements.

- 3) Interest coverage ratio - at least 300% of financial statements.
- 4) Tangible assets - at least \$7,000,000 thousand of financial statements.

If the Corporation could not maintain certain financial ratios, it must improve financial ratios and provide documents certified by the Corporation's auditor within five months of next year starting May 1. If the Corporation maintained these financial ratios within the grace period, there will be no violation of the agreement. However, the Corporation should pay interest at annual rate plus 0.2% from May 1 next year to the date it actually completed the improvement.

Samoa Hon Chuan entered into a syndicate term loan agreement led by Land Bank of Taiwan Co., Ltd. for repayment of short-term bank loans, procure fund for future investment fund and increase operating fund. The Corporation provided financial guarantees for Samoa Hon Chuan in the syndicated term loan agreement. Under the agreement, the Corporation should maintain some financial ratios, as listed below, based on the numbers in the Corporation's consolidated financial statements.

- 1) Current ratio - at least 80% of consolidated financial statements.
- 2) Debit ratio - maximum of 200% of consolidated financial statements.
- 3) Interest coverage ratio - at least 500% of consolidated financial statements.

If the Corporation could not maintain certain financial ratios, it must improve financial ratios and provide documents certified by the Corporation's auditor within five months of next year starting April 1. If the Corporation improved these financial ratios within the grace period, there will be no violation of the agreement. However, the Corporation should pay interest at annual rate plus 0.2% from April 1 next year to the date it actually completed the improvement.

## 19. BONDS PAYABLE

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Unsecured domestic convertible bonds	\$ -	\$ 575,500
Less: Bonds discount	<u>-</u>	<u>(5,953)</u>
	-	569,547
Less: Current portion	<u>-</u>	<u>(569,547)</u>
Non-current	<u>\$ -</u>	<u>\$ -</u>

On July 15, 2011, the Corporation issued 5-year unsecured, zero-coupon convertible bonds with a face value of \$1,000,000 thousand. The effective interest was 1.9467%. Bondholders may request the Corporation to convert the bonds into the Corporation's common shares at \$96.4 per share between August 16, 2011 and July 15, 2016, (barring the year in which registration of share transfer is suspended) or buy back the bonds on July 15, 2015 at 100% of their face value.

Between August 16, 2011 and June 5, 2016, if the closing price of the Corporation's shares reaches 30% of the conversion price for 30 consecutive trading days or when less than 10% of the bonds had been redeemed, bought back or converted, the Corporation may redeem the remaining bonds by cash at face value. Upon maturity, the Corporation should redeem the remaining bonds at 100% of their face value.

As of July 15, 2016, the Corporation has redeemed all the bonds.

## 20. LIABILITY COMPONENT OF PREFERRED STOCKS

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Convertible preferred stock	\$ 596,625	\$ 607,263
Less: Liability component of preferred stocks discount	<u>(13,437)</u>	<u>(33,199)</u>
	583,188	574,064
Less: Current portions	<u>(583,188)</u>	<u>-</u>
Non-current	<u>\$ -</u>	<u>\$ 574,064</u>

Hon Chuan China issued participating preferred shares with subscription price of US\$18,500 thousand in August, 2007. As participating and cumulative shares, each preferred share has voting right equivalent to the number of ordinary share into which it is convertible. The preferred shares would convert into ordinary shares automatically before initial public offering (IPO) of Hon Chuan China or 10 years after the preferred shares were issued or, in certain period, should be redeemed by Hon Chuan China.

Dividends on liability component of preferred stock were \$37,142 thousand and \$35,263 thousand for the years ended December 31, 2016 and 2015, respectively (Note 24). The preferred stock were classified as current liabilities as of August 31, 2016.

## 21. OTHER LIABILITIES

	December 31	
	2016	2015
Payable for salaries	\$ 217,556	\$ 199,567
Payable for purchase of equipment	82,181	130,444
Payable for bonus to employees	23,751	20,241
Payable for annual leave	20,933	18,052
Deferred revenue	13,833	14,335
Payable for remuneration of directors and supervisors	10,604	8,541
Others	<u>562,821</u>	<u>491,431</u>
	<u>\$ 931,679</u>	<u>\$ 882,611</u>
Current	\$ 917,266	\$ 868,278
Non-current	<u>14,413</u>	<u>14,333</u>
	<u>\$ 931,679</u>	<u>\$ 882,611</u>

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (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 employees of the Group’s subsidiary in China, Indonesia, Vietnam, Thailand, Malaysia, Myanmar, Cambodia and Africa are members of a state-managed retirement benefit plan operated by the government of China, Indonesia, Vietnam, Thailand, Malaysia, Myanmar, Cambodia and Africa. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

### b. Defined benefit plans

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Present value of defined benefit obligation	\$ 153,623	\$ 148,855
Fair value of plan assets	<u>(117,101)</u>	<u>(108,555)</u>
Net defined benefit liability	<u>\$ 36,522</u>	<u>\$ 40,300</u>

Movements in net defined benefit liability (asset) were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2015	<u>\$ 145,927</u>	<u>\$ (99,445)</u>	<u>\$ 46,482</u>
Service cost			
Current service cost	1,690	-	1,690
Net interest expense (income)	<u>3,038</u>	<u>(2,148)</u>	<u>890</u>
Recognized in profit or loss	<u>4,728</u>	<u>(2,148)</u>	<u>2,580</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(496)	(496)
Actuarial (gain) loss - changes in demographic assumptions	985	-	985
Actuarial (gain) loss - changes in financial assumptions	4,924	-	4,924
Actuarial (gain) loss - experience adjustments	<u>(5,005)</u>	<u>-</u>	<u>(5,005)</u>
Recognized in other comprehensive income	<u>904</u>	<u>(496)</u>	<u>408</u>
Contributions from the employer	-	(9,170)	(9,170)
Benefits paid	<u>(2,704)</u>	<u>2,704</u>	<u>-</u>
Balance at December 31, 2015	<u>148,855</u>	<u>(108,555)</u>	<u>40,300</u>
Service cost			
Current service cost	1,296	-	1,296
Net interest expense (income)	<u>2,596</u>	<u>(1,971)</u>	<u>625</u>
Recognized in profit or loss	<u>3,892</u>	<u>(1,971)</u>	<u>1,921</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,176	1,176
Actuarial (gain) loss - changes in demographic assumptions	632	-	632
Actuarial (gain) loss - changes in financial assumptions	3,157	-	3,157
Actuarial (gain) loss - experience adjustments	<u>2,422</u>	<u>-</u>	<u>2,422</u>

Recognized in other comprehensive income	<u>6,211</u>	<u>1,176</u>	<u>7,387</u>
Contributions from the employer	-	(13,086)	(13,086)
Benefits paid	<u>(5,335)</u>	<u>5,335</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 153,623</u>	<u>\$ (117,101)</u>	<u>\$ 36,522</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rate	1.375%	1.750%
Expected rate of salary increase	1.375%	1.500%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rate(s)		
0.25% increase	<u>\$ (3,119)</u>	<u>\$ (3,337)</u>
0.25% decrease	<u>\$ 3,223</u>	<u>\$ 3,456</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 3,107</u>	<u>\$ 3,354</u>
0.25% decrease	<u>\$ (3,021)</u>	<u>\$ (3,255)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.



	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
The expected contributions to the plan for the next year	<u>\$ 13,168</u>	<u>\$ 9,170</u>
The average duration of the defined benefit obligation	11 years	12 years

## 23. EQUITY

### a. Share capital

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Number of shares authorized (in thousands)	<u>350,000</u>	<u>350,000</u>
Shares authorized	<u>\$3,500,000</u>	<u>\$3,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>292,879</u>	<u>309,848</u>
Shares issued	<u>\$2,928,789</u>	<u>\$3,098,479</u>

On October 9, 2014, the Corporation's board of directors resolved to issue 50,000 thousand ordinary shares, with a par value of \$10, for tentative consideration of \$52 per share. On October 30, 2014, the above transaction was approved by the FSC, and on January 7, 2015, the FSC approved to extend the period of raising capital for 3 months until April 29, 2015. The subscription base date was determined at April 28, 2015 by the board of directors on March 11, 2015. On April 28, 2015, the deadline for raising cash capital, the share capital was increased to \$2.6 billion.

### b. Capital surplus

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Arising from issuance of common shares	\$4,927,127	\$5,212,598
Arising from employee share options	148,820	148,820
Arising from share warrants	<u>51,450</u>	<u>51,450</u>
	<u>\$5,127,397</u>	<u>\$5,412,868</u>

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares) and donations may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Corporation's paid-in capital and once a year).

The capital surplus from long-term investments, employee stock options and share warrants may not be used for any purpose.

### c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 22, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 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 Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, please refer to c. Employee benefits expense, depreciation and amortization expenses in Note 24.

The dividend policy of the Corporation shall be made according to the Corporation's current and future plan, considering investment environment, fund requirements, overall competition and taking into account the interests of shareholders. The Corporation may appropriate more than 30% of net profits of current year for dividends to shareholders. However, when accumulated unappropriated earnings are less than 10% of capital, the Corporation may decide not to distribute dividend.

The shareholders dividend shall be in the form of cash dividends or stock dividend. More than (or equal to) 50% of the total amount of shareholders' dividend shall be in the form of cash dividends.

The legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and 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 Corporation.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 22, 2016, and June 29, 2015, respectively, were as follows:

	<b>Appropriation of Earnings For the Year Ended December 31</b>		<b>Dividends Per Share (NT\$) For the Year Ended December 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Legal reserve	\$ 94,896	\$ 96,621		
Special reserve	22,656	-		
Cash dividends	585,758	681,665	\$ 2	\$2.2

The appropriations of earnings for 2016 had been proposed by the Corporation's board of directors on March 24, 2017. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 117,822	
Special reserve	776,160	
Cash dividends	732,197	\$2.5

The appropriations of earnings for 2016 are subject to the resolution of the shareholders' meeting to be held on June 15, 2017.

d. Special reserves

The increase in retained earnings that resulted from all IFRSs adjustments was not enough for this appropriation; therefore, the Corporation appropriated to the special reserve an amount of \$352,668 thousand, the increase in retained earnings that resulted from all IFRSs adjustments on transitions to IFRSs.

e. Treasury shares

<b>Purpose of Buy-Back</b>	<b>Shares Cancelled (In Thousands of Shares)</b>
Number of shares at January 1, 2015	-
Increase during the year	<u>16,969</u>
Number of shares at December 31, 2015	16,969
Decrease during the year	<u>(16,969)</u>
Number of shares at December 31, 2016	<u><u>-</u></u>

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The Corporation's board of directors proposed February 4, 2016 to be

the date for cancellation of treasury shares and also the base date of capital reduction. The registration process has been completed on February 22, 2016.

## 24. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Gain on valuation of financial assets	\$ 53,025	\$ 62,568
Interest income	23,745	31,271
Loss on disposal of property, plant and equipment	(5,788)	(27,998)
Loss recognized on associates under equity method	(4,441)	(13,080)
Gain on disposal of investments	-	16,461
Miscellaneous income	<u>73,544</u>	<u>21,159</u>
	<u><u>\$ 140,085</u></u>	<u><u>\$ 90,381</u></u>

### b. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Interest on bank	\$ 188,606	\$ 191,596
Interest on convertible preferred stock (Note 20)	37,142	35,263
Interest on convertible bonds	<u>5,953</u>	<u>10,876</u>
	<u><u>\$ 231,701</u></u>	<u><u>\$ 237,735</u></u>

### c. Employee benefits expense, depreciation and amortization expenses

	<b>For the Year Ended December 31</b>					
	<b>2016</b>			<b>2015</b>		
	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>
Employee benefits expense						
Payroll expense	\$1,141,254	\$ 428,495	\$1,569,749	\$1,083,277	\$ 448,395	\$1,531,672
Labor and health insurance expense	43,588	17,642	61,230	43,652	17,663	61,315
Pension expense	23,163	64,903	88,066	22,922	68,441	91,363
Other employee benefits expense	36,520	105,875	142,395	38,923	115,213	154,136
Depreciation expenses	1,985,876	135,207	2,121,083	1,861,429	128,092	1,989,521
Amortization expenses	9,994	23,343	33,337	7,760	29,625	37,385

1) Employees' compensation and remuneration to directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Corporation approved by the shareholders in their meeting on June 22, 2016, the Corporation accrued employees' compensation and remuneration to directors and supervisors at the rates no less than 1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Corporation's board of directors on March 24, 2017 and March 29, 2016, respectively, were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2016</b>		<b>2015</b>	
	<b>%</b>	<b>Cash</b>	<b>%</b>	<b>Cash</b>
Employees' compensation	1.74%	\$ 23,751	1.80%	\$ 20,241
Remuneration to directors and supervisors	0.78%	10,604	0.76%	8,541

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

There was no difference between the actual amounts of employees' compensation and remuneration to directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Corporation's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration to directors and supervisors for 2014

The bonus to employees and remuneration to directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 29, 2015 were as follows:

	<b>For the Year Ended December 31</b>
	<b>Cash</b>
Bonus to employees	\$ 23,333
Remuneration to directors and supervisors	8,696

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meeting on June 29, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration to directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 25. TAXES

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

The major components of tax expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax		
In respect of the current year	\$ 269,859	\$ 175,115
Income tax expense of unappropriated earnings	24,531	18,494
In respect of prior periods	23,029	2,046
Deferred tax		
In respect of the current year	<u>(9,890)</u>	<u>(50,713)</u>
Income tax expense recognized in profit or loss	<u>\$ 307,529</u>	<u>\$ 144,942</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Income tax expense calculated at the statutory rate	\$ 300,859	\$ 145,379
Nondeductible expenses in determining taxable income	2,205	3,777
Deductible items in determining taxable income	(479)	(193)
Tax-exempt income	(93,466)	(59,090)
Unrecognized loss carryforwards	50,850	34,529
Additional income tax on unappropriated earnings	24,531	18,494
Adjustments for prior year's tax	<u>23,029</u>	<u>2,046</u>
Income tax expense recognized in profit or loss	<u>\$ 307,529</u>	<u>\$ 144,942</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Deferred tax assets and liabilities

<b>For the Year Ended December 31, 2016</b>				
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehens ive Income</b>	<b>Closing Balance</b>
<u>Deferred Tax Assets</u>				
Temporary differences				
Inventories	\$ 7,291	\$ (4,122)	\$ -	\$ 3,169
Defined benefit obligation	8,328	(1,820)	1,256	7,764
Other	18,901	(7,669)	-	11,232
Tax losses	<u>136,803</u>	<u>6,737</u>	<u>-</u>	<u>143,540</u>
	<u>\$171,323</u>	<u>\$ (6,874)</u>	<u>\$ 1,256</u>	<u>\$165,705</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>28,586</u>	<u>(16,764)</u>	<u>-</u>	<u>11,822</u>
	<u>\$ 52,869</u>	<u>\$(16,764)</u>	<u>\$ -</u>	<u>\$ 36,105</u>
<b>For the Year Ended December 31, 2015</b>				
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehens ive Income</b>	<b>Closing Balance</b>
<u>Deferred Tax Assets</u>				
Temporary differences				
Accrued expenses	\$ 14,719	\$(14,719)	\$ -	\$ -
Inventories	4,824	2,467	-	7,291
Defined benefit obligation	8,759	(500)	69	8,328
Other	(8,212)	27,113	-	18,901
Tax losses	<u>71,865</u>	<u>64,938</u>	<u>-</u>	<u>136,803</u>
	<u>\$ 91,955</u>	<u>\$ 79,299</u>	<u>\$ 69</u>	<u>\$171,323</u>

(Continued)

**For the Year Ended December 31, 2015**

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehens ive Income</b>	<b>Closing Balance</b>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>-</u>	<u>28,586</u>	<u>-</u>	<u>28,586</u>
	<u>\$ 24,283</u>	<u>\$ 28,586</u>	<u>\$ -</u>	<u>\$ 52,869</u> (Concluded)

- c. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2016 and 2015, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$167,513 thousand and \$233,932 thousand, respectively.

- d. Information about unused loss carryforward and tax-exemption

As of December 31, 2016, the approved tax-exempt expansion projects were as follows:

<u><b>Expansion Projects</b></u>	<u><b>Tax-exempt Period</b></u>
Capitalization of earnings (stock dividend) in 2008 and cash funded expansion in 2009	December 2013 to December 2017

As of December 31, 2016 under the local regulations of Suzhou Hon Chuan, Xiantao Hon Chuan, Zangzhou Hon Chuan, Chuzhou Hon Chuan, Qingxin Hon Chuan and Anyang Hon Chuan, their loss carryforwards may be offset against future taxable income.



e. Integrated income tax

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Unappropriated earnings		
Unappropriated earnings generated before January 1, 1998	\$ -	\$ 100,487
Unappropriated earnings generated on and after January 1, 1998	<u>3,293,916</u>	<u>3,104,820</u>
	<u>\$3,293,916</u>	<u>\$3,205,307</u>
Imputation credits accounts	<u>\$ 423,966</u>	<u>\$ 392,120</u>
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Expected)</b>	<b>(Actual)</b>
Creditable ratio for distribution of earnings	15.60%	14.94%

f. Income tax assessments

Income tax returns of the Corporation through 2013 have been examined and cleared by the tax authorities.

## 26. EARNINGS PER SHARE

	Net profit attributable to owners of the Corporation	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the year ended December 31, 2016</u>			
Basic	\$ 1,178,224	292,879	<u>\$ 4.02</u>
Dilutive effects - employees' compensation or bonus issue to employees	-	556	
Domestic convertible bonus	<u>4,941</u>	<u>4,286</u>	
Dilutive	<u>\$ 1,183,165</u>	<u>297,721</u>	<u>\$ 3.97</u>
<u>For the year ended December 31, 2015</u>			
Basic	\$ 948,965	290,687	<u>\$ 3.26</u>
Dilutive effects - employees' compensation or bonus issue to employees	-	625	
Domestic convertible bonus	<u>9,027</u>	<u>8,004</u>	
Dilutive	<u>\$ 957,992</u>	<u>299,316</u>	<u>\$ 3.20</u>

Since the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonus will be settled 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, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 27. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

	<b>Principal Activity</b>	<b>Date of Acquisition</b>	<b>Proportion of Voting Equity Interests Acquired (%)</b>	<b>Consideration Transferred</b>
Hon Shi Samoa	Overseas reinvested holding company and international trade	July 5, 2016	60	<u>\$343,208</u>

Hon Shi Samoa and its subsidiaries were acquired in 2016.

### b. Considerations transferred

Cash	\$ 343,208
Contingent consideration arrangement	<u>-</u>
	<u>\$ 343,208</u>

### c. Hon Shi Samoa and its subsidiaries assets acquired and liabilities assumed at the date of acquisition

Current assets	
Cash and cash equivalents	\$ 2,280
Trade and other receivables	16,853
Inventories	17,524
Other current assets	5,427
Non-current assets	
Property, plant and equipment	43,265
Current liabilities	
Trade and other payables	(29,535)
Other current liabilities	<u>(711)</u>
	<u>\$ 55,103</u>

### d. Goodwill recognized on acquisition

Consideration transferred	\$ 343,208
Plus: Non-controlling interests (40% in Hon Shi Samoa)	22,526
Less: Fair value of identifiable net assets acquired	<u>(55,103)</u>
Goodwill recognized on acquisition (Note 17)	<u>\$ 310,631</u>

The goodwill recognized in the acquisition of Hon Shi Samoa and its subsidiaries mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on acquisition of subsidiaries

Consideration paid in cash	\$ 343,208
Less: Cash and cash equivalent balances acquired	<u>(2,280)</u>
	<u>\$ 340,928</u>

f. Impact of acquisitions on the results of the Group

The results of the acquirees since the acquisition date included in the consolidated statements of comprehensive income were as follows:

Revenue	<u>\$ 85,361</u>
Profit	<u>\$ 29,553</u>

## 28. OPERATING LEASE ARRANGEMENTS

Operating leases relate to leases of land and plant with lease terms between 5 and 10 years. The Group does not have a bargain purchase option to acquire the leased land and plant at the expiry of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Not later than 1 year	\$ 44,535	\$ 49,213
Later than 1 year and not later than 5 years	125,926	125,802
Later than 5 years	<u>66,061</u>	<u>67,289</u>
	<u>\$ 236,522</u>	<u>\$ 242,304</u>

## 29. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Corporation (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Group review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

### 30. FINANCIAL INSTRUMENTS

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

#### 1) Fair value hierarchy

	Level 1	Level 2	Total
<u>December 31, 2016</u>			
Financial assets at fair value through profit or loss (FVTPL)			
Foreign exchange forward contracts	\$ -	\$ 48,590	\$ 48,590
Domestic convertible bonds	32,070	-	32,070
Domestic stock of publicly quoted entity	<u>2,463</u>	<u>-</u>	<u>2,463</u>
	<u>\$ 34,533</u>	<u>\$ 48,590</u>	<u>\$ 83,123</u>
Available-for-sale financial assets			
overseas stock of publicly quoted entity	<u>\$ 9,231</u>	<u>\$ -</u>	<u>\$ 9,231</u>
	Level 1	Level 2	Total
<u>December 31, 2015</u>			
Financial assets at FVTPL			
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 19,226</u>	<u>\$ 19,226</u>
Available-for-sale financial assets			
overseas stock of publicly quoted entity	<u>\$ 11,250</u>	<u>\$ -</u>	<u>\$ 11,250</u>

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

#### 2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow.  Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

b. Categories of financial instruments

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Financial assets</u>		
FVTPL	\$ 83,123	\$ 19,226
Available-for-sale financial assets	9,231	11,250
Loans and receivables		
Cash and cash equivalents	2,414,908	2,421,959
Financial assets measured at cost	40,005	40,091
Debt investments with no active market	31,613	40,440
Notes receivable and trade receivable	2,436,045	2,522,032
<u>Financial liabilities</u>		
Amortized cost		
Short-term borrowings	6,660,381	8,011,602
Short-term bills payable	300,000	-
Notes payable and trade payable	822,559	659,036
Bonds payable (including current portion)	-	569,547
Long-term borrowing (including current portion)	5,236,194	5,246,885
Preferred stock liabilities	583,188	574,064

c. Financial risk management objectives

The Group's major financial instruments included equity and debt investments, trade receivable, trade payables, bonds payable, borrowings and preferred stock liabilities. The Group's Corporate Treasury function 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 and interest rate risk), credit risk and liquidity risk.

The Group's Corporate Treasury function evaluates quarterly if the use of financial derivatives is governed by the Group's policies approved by the board of directors. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

Foreign currency risk

The Group and several subsidiaries of the Corporation had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate

exposures were managed within approved policy parameters utilizing forward foreign exchange contracts. The use of financial derivatives would reduce the influence of foreign exchange risk but could not completely eliminate the 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 were as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Assets</u>		
USD	\$ 24,071	\$ 32,790
EUR	2,675	1,261
<u>Liabilities</u>		
USD	37,317	89,626
EUR	7,942	2,663

#### Sensitivity analysis

The Group was mainly exposed to the USD and EUR.

The Group's sensitivity to a 1% increase and decrease in NTD (the functional currency) against the relevant foreign currencies represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items. The sensitivity analysis included external borrowings as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. Assuming a 1% movement in the levels of the NTD against the USD, the pre-tax profit for the years ended December 31, 2016 and 2015 would have changed by decreasing \$4,237 thousand and \$18,739 thousand, respectively. Assuming a 1% movement in the levels of the NTD against the EUR, losses before income tax for the years ended December 31, 2016 and 2015 would have changed by decreasing \$1,765 thousand and \$503 thousand, respectively.

#### 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:



	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fair value interest rate risk		
Financial assets	\$ 31,613	\$ 40,400
Financial liabilities	883,188	1,143,611
Cash flow interest rate risk		
Financial liabilities	11,896,575	13,258,487

### Sensitivity analysis

The Group was exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. In order to achieve this result, the Group entered into interest rate swaps to hedge its exposures to changes in fair values of the borrowings.

The sensitivity analyses below were determined based on the Group's exposure to interest rates for 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 0.125% 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 raised by 0.125% higher and all other variables were held constant, the Group's pre-tax profit for the year ended December 31, 2016 and 2015 would decrease by \$16,621 thousand and \$17,708 thousand, respectively.

## 2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- The amount of contingent liabilities in relation to financial guarantee issued by the Group.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determination of 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 impairment losses are made for irrecoverable amounts. In this regard, the directors of the Corporation consider that the Group's credit risk was significantly reduced.

Trade receivables consisted of a large number of customers, spread across diverse

industries and geographical areas. On-going credit evaluation is performed on the financial condition of trade receivables. The Group's concentrations of credit risk regarding top 5 customers were 45% and 52% in total trade receivables as of December 31, 2016 and 2015, respectively. No other concentration of credit risk was observed.

### 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Corporation had available unutilized short-term bank loan facilities of \$5,742,063 thousand and \$6,805,794 thousand, respectively.

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.

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Total</b>
<u>December 31, 2016</u>			
Non-derivative financial liabilities			\$
Borrowings	\$6,918,381	\$4,978,194	11,896,575
Non-interest bearing liabilities	822,559	-	822,559
Short-term bills payable	300,000	-	300,000
Preferred stock liabilities	<u>583,188</u>	<u>-</u>	<u>583,188</u>
	<u>\$8,624,128</u>	<u>\$4,978,194</u>	<u>\$13,602,322</u>
<u>December 31, 2015</u>			
Non-derivative financial liabilities			\$
Borrowings	\$8,274,202	\$4,984,285	13,258,487
Non-interest bearing liabilities	659,036	-	659,036
Bonds payable	569,547	-	569,547
Preferred stock liabilities	<u>-</u>	<u>574,064</u>	<u>574,064</u>
	<u>\$9,502,785</u>	<u>\$5,558,349</u>	<u>\$15,061,134</u>

### 31. TRANSACTIONS WITH RELATED PARTIES

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

#### a. Sales of goods

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Net sales		
Others	<u>\$ 6,756</u>	<u>\$ 13,535</u>
Rental expenses (recorded under manufacturing or operation expenses)		
Others	<u>\$ 3,176</u>	<u>\$ 3,760</u>

The price of sales to related parties and collection terms approximated those for third parties.

The Group has leased warehouse from related parties. The rent is based on the rates of neighboring properties.

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Accounts receivable		
Others	<u>\$ 3,144</u>	<u>\$ 1,899</u>
Other payables (recorded under other current liabilities)		
Others	<u>\$ 57,312</u>	<u>\$ 31,586</u>

#### b. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Short-term benefits	\$ 47,163	\$ 48,235
Post-employment benefits	<u>380</u>	<u>480</u>
	<u>\$ 47,543</u>	<u>\$ 48,715</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

### 32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and the deposit for inviting tenders:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Property, plant and equipment	\$1,177,070	\$1,508,880
Restricted assets (recorded under other current assets)	<u>65,674</u>	<u>32,870</u>
	<u>\$1,242,744</u>	<u>\$1,541,750</u>

### 33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 and 2015 were as follows:

- a. As of December 31, 2016 and 2015, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$614,006 thousand and \$129,914 thousand, respectively.
- b. Unrecognized commitments are as follows:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Acquisition of property, plant and equipment	<u>\$ 184,595</u>	<u>\$ 607,397</u>

### 34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities 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						
2016			2015			
Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars	
<u>Financial assets of monetary items</u>						
USD	\$ 32,705	32.25	\$ 764,486	\$ 45,629	32.83	\$1,497,772
RMB	325,896	4.6490	1,515,090	305,013	5.06	1,541,836
THB	798,111	0.9050	722,290	715,285	0.91	654,202
<u>Financial liabilities of monetary items</u>						
USD	231,206	32.25	7,456,394	244,261	32.83	8,017,867
RMB	296,906	4.6490	1,380,316	254,026	5.06	1,284,097
THB	100,140	0.9050	90,627	131,033	0.91	119,843
EUR	7,942	33.90	269,234	2,665	35.88	95,620

The following information was aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
2016			2015	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
RMB	4.86	\$ (106,025)	5.10	\$ (166,652)
USD	32.26	(414)	31.74	64,482
IDR	0.0025	16,729	0.0024	(39,777)
THB	0.92	(2,801)	0.93	33,921
		<u>\$ (92,511)</u>		<u>\$ (108,026)</u>

### 35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (Table1)

2) Endorsements/guarantees provided. (Table 2)

- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities). (Table 3)
  - 4) Marketable securities acquired and disposed at costs or prices at least \$300 million or 20% of the paid-in capital. (Table 4)
  - 5) Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital. (None)
  - 6) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital. (None)
  - 7) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital. (None)
  - 8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital. (Table 5)
  - 9) Trading in derivative instruments. (Note 7)
  - 10) Intercompany relationships and significant intercompany transactions. (Table 6)
  - 11) Information on investees. (Table 7)
- b. 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 8)
  - 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. (Table 6)
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 6)
    - c) The amount of property transactions and the amount of the resultant gains or losses. (Table 6)
    - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (Table 2)
    - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)

- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (Table 6)

### 36. 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 or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

- Domestic - Manufacture and sale in Taiwan.
- Asia - Manufactures and sale in Asia other than Taiwan.

#### a. Segment revenues and results

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

	Domestic	Asia	Adjustment and Elimination	Total
<u>For the Year ended December 31,</u> <u>2016</u>				
Revenues from external customers	\$ 7,061,831	\$ 9,448,847	\$ -	\$ 16,510,678
Inter-segment revenues	<u>71,831</u>	<u>40,827</u>	<u>(112,658)</u>	<u>-</u>
Segment revenues	<u>\$ 7,133,662</u>	<u>\$ 9,489,674</u>	<u>\$ (112,658)</u>	<u>\$ 16,510,678</u>
Segment income	<u>\$ 952,558</u>	<u>\$ 718,639</u>		\$ 1,671,197
Financial costs				(231,701)
Foreign exchange gain				(81,758)
Other gains and losses				<u>140,085</u>
Profit before tax				<u>\$ 1,497,823</u>

	Domestic	Asia	Adjustment and Elimination	Total
<u>For the Year ended December 31,</u> <u>2015</u>				
Revenues from external customers	\$ 7,129,659	\$ 9,448,718	\$ -	\$ 16,578,377
Inter-segment revenues	<u>38,144</u>	<u>36,030</u>	<u>(74,174)</u>	<u>-</u>
Segment revenues	<u>\$ 7,167,803</u>	<u>\$ 9,484,748</u>	<u>\$ (74,174)</u>	<u>\$ 16,578,377</u>
Segment income	<u>\$ 842,112</u>	<u>\$ 422,003</u>		\$ 1,264,115
Financial costs				(237,735)
Foreign exchange gain				(85,678)
Other gains and losses				<u>90,381</u>
Profit before tax				<u>\$ 1,031,083</u>

Inter-segment revenues were accounted for according to market price.

Segment profit represented the profit before tax earned by each segment without interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, valuation gain or loss on financial instruments, loss recognized on associates under equity method, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

- b. The Group had not reported segment assets and liabilities information to the chief operating decision maker. Thus, no disclosure is made.
- c. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Packaging materials	\$ 10,904,119	\$ 11,127,629
Beverages (included bottle filling and OEM)	4,718,929	4,509,534
Others	<u>887,630</u>	<u>941,214</u>
	<u>\$ 16,510,678</u>	<u>\$ 16,578,377</u>

- d. Geographical information

The Group operates in three principal geographical areas –Taiwan, China and Southeast Asia.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	<b>Revenue from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Taiwan	\$ 7,061,831	\$ 7,129,659	\$ 4,795,182	\$ 4,936,183
China	5,923,745	5,959,758	8,562,665	10,174,536
Southeast Asia	3,439,741	3,488,960	5,630,568	5,684,070
Others	<u>85,361</u>	<u>-</u>	<u>401,883</u>	<u>-</u>
	<u>\$ 16,510,678</u>	<u>\$ 16,578,377</u>	<u>\$ 19,390,298</u>	<u>\$ 20,794,789</u>

Non-current assets exclude financial instruments and deferred tax assets.



e. Information on major customers

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

<b>Names</b>	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Customer A	\$2,916,493	\$2,962,749
Customer B	2,017,704	2,244,800

TABLE 1

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO RELATED ENTITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (In Thousands of Dollars, Unless Otherwise Specified)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount (Note 5)	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes 1 and 3)	Aggregate Financing Limits (Notes 2 and 3)
													Item	Value		
1	Samoa Hon Chuan	Hon Chuan China	Receivable from related parties	Yes	\$ 2,917,013 (US\$ 90,450)	\$ 2,610,638 (US\$ 80,950)	\$ 2,610,638 (US\$ 80,950)	1.82%-2.79%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 4,276,173	\$ 4,276,173
		Kai Gang	Receivable from related parties	Yes	145,125 (US\$ 4,500)	80,625 (US\$ 2,500)	80,625 (US\$ 2,500)	1.82%-2.79%	Short-term financing	-	Operating Capital	-	-	-	4,276,173	4,276,173
		Samoa Hon Hsing	Receivable from related parties	Yes	96,750 (US\$ 3,000)	-	-	1.82%-2.75%	Short-term financing	-	Operating Capital	-	-	-	4,276,173	4,276,173
		Chuzhou Hon Chuan	Receivable from related parties	Yes	129,000 (US\$ 4,000)	-	-	2.33%-3.25%	Short-term financing	-	Operating Capital	-	-	-	4,276,173	4,276,173
		Hon Chuan Asia	Receivable from related parties	Yes	364,425 (US\$ 11,300)	364,425 (US\$ 11,300)	364,425 (US\$ 11,300)	2.75%-2.79%	Short-term financing	-	Operating Capital	-	-	-	4,276,173	4,276,173
		Xiantao Hon Chuan	Receivable from related parties	Yes	64,500 (US\$ 2,000)	64,500 (US\$ 2,000)	64,500 (US\$ 2,000)	2.38%-3.29%	Short-term financing	-	Operating Capital	-	-	-	4,276,173	4,276,173
2	Kai Gang	Qingxin Hon Chuan	Receivable from related parties	Yes	387,000 (US\$ 12,000)	177,375 (US\$ 5,500)	177,375 (US\$ 5,500)	1.83%-3.29%	Short-term financing	-	Operating Capital	-	-	-	2,148,309	2,148,309
		Hon Chuan China	Receivable from related parties	Yes	625,650 (US\$ 19,400)	322,500 (US\$ 10,000)	322,500 (US\$ 10,000)	1.82%-2.79%	Short-term financing	-	Operating Capital	-	-	-	2,148,309	2,148,309
3	Samoa Hon Hsing	Hon Chuan China	Receivable from related parties	Yes	516,000 (US\$ 16,000)	305,408 (US\$ 9,470)	305,408 (US\$ 9,470)	1.82%-2.79%	Short-term financing	-	Operating Capital	-	-	-	2,012,345	2,012,345
4	Hon Chuan Asia	Hon Chuan Indonesia	Receivable from related parties	Yes	180,600 (US\$ 5,600)	12,900 (US\$ 400)	12,900 (US\$ 400)	1.74%-3.29%	Short-term financing	-	Operating Capital	-	-	-	2,625,972	2,625,972
		Hononly	Receivable from related parties	Yes	29,749 (US\$ 922)	29,749 (US\$ 922)	29,749 (US\$ 922)	2.42%-3.29%	Short-term financing	-	Operating Capital	-	-	-	2,625,972	2,625,972
		Hon Chuan Vietnam	Receivable from related parties	Yes	64,500 (US\$ 2,000)	64,500 (US\$ 2,000)	64,500 (US\$ 2,000)	3.29%	Short-term financing	-	Operating Capital	-	-	-	2,625,972	2,625,972
		Samoa Hon Chuan	Receivable from related parties	Yes	138,675 (US\$ 4,300)	-	-	2.42%-2.61%	Short-term financing	-	Operating Capital	-	-	-	2,625,972	2,625,972
5	Suzhou Hon Chuan	Zangzhou Hon Chuan	Receivable from related parties	Yes	18,596 (RMB 4,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	435,035	435,035
		Chuzhou Hon Chuan	Receivable from related parties	Yes	27,894 (RMB 6,000)	27,894 (RMB 6,000)	27,894 (RMB 6,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	435,035	435,035
		Xiantao Hon Chuan	Receivable from related parties	Yes	151,093 (RMB 32,500)	41,841 (RMB 9,000)	41,841 (RMB 9,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	435,035	435,035
		Suzhou Hongxin	Receivable from related parties	Yes	69,735 (RMB 15,000)	69,735 (RMB 15,000)	69,735 (RMB 15,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	435,035	435,035

6	Changsha Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	209,205 (RMB 45,000)	69,735 (RMB 15,000)	69,735 (RMB 15,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	415,148	415,148
		Chuzhou Hon Chuan	Receivable from related parties	Yes	102,278 (RMB 22,000)	102,278 (RMB 22,000)	102,278 (RMB 22,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	415,148	415,148
		Zangzhou Hon Chuan	Receivable from related parties	Yes	9,298 (RMB 2,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	415,148	415,148
		Xiantao Hon Chuan	Receivable from related parties	Yes	81,358 (RMB 17,500)	69,735 (RMB 15,000)	69,735 (RMB 15,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	415,148	415,148
		Suzhou Hongxin	Receivable from related parties	Yes	23,245 (RMB 5,000)	23,245 (RMB 5,000)	23,245 (RMB 5,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	415,148	415,148
7	Suzhou Hongxin	Xiantao Hon Chuan	Receivable from related parties	Yes	20,456 (RMB 4,400)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	408,021	408,021

(Continued)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount (Note 5)	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes 1 and 3)	Aggregate Financing Limits (Notes 2 and 3)
													Item	Value		
8	Jinan Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	\$ 144,119 (RMB 31,000)	\$ 32,543 (RMB 7,000)	\$ 32,543 (RMB 7,000)	4.35%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 508,327	\$ 508,327
		Xiantao Hon Chuan	Receivable from related parties	Yes	25,570 (RMB 5,500)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	508,327	508,327
		Zangzhou Hon Chuan	Receivable from related parties	Yes	60,437 (RMB 13,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	508,327	508,327
9	Taiyuan Hon Chuan	Xiantao Hon Chuan	Receivable from related parties	Yes	139,470 (RMB 30,000)	134,821 (RMB 29,000)	134,821 (RMB 29,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	611,297	611,297
		Chuzhou Hon Chuan	Receivable from related parties	Yes	27,894 (RMB 6,000)	18,596 (RMB 4,000)	18,596 (RMB 4,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	611,297	611,297
10	Samoa Honly	Cambodia Honly	Receivable from related parties	Yes	98,363 (US\$ 3,050)	98,363 (US\$ 3,050)	98,363 (US\$ 3,050)	-	Short-term financing	-	Operating Capital	-	-	-	122,636	122,636

Note 1: The financing for operation should not exceed the amount of transaction amounts; the short-term financing should not exceed 40% of the latest net assets of the subsidiaries.

Note 2: The maximum amount is 40% of the latest net assets of the subsidiaries

Note 3: Offshore subsidiaries whose voting share are 100% held, directly or indirectly, by the Company will not be subjected to the restriction on 40% of the latest net assets of the Company.

Note 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2016.

Note 5: Significant intercompany accounts and transactions have been eliminated.

(Concluded)

TABLE 2

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands of Dollars, Unless Otherwise Specified)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Notes 1 and 3)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Notes 2 and 3)	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
		Name	Relationship										
0	The Corporation	Samoa Hon Chuan	(Note 4)	\$ 5,949,315	\$ 3,160,500 (US\$ 98,000)	\$ 3,160,500 (US\$ 98,000)	\$ 2,818,650 (US\$ 87,400)	\$ -	27	\$ 11,898,629	Y	-	-
		Hon Chuan China	(Note 4)	5,949,315	4,912,500 (US\$ 130,000)	4,192,500 (US\$ 130,000)	2,846,063 (US\$ 88,250)	-	35	11,898,629	Y	-	-
		Hon Chuan Asia	(Note 4)	5,949,315	1,838,250 (US\$ 57,000)	1,138,750 (US\$ 43,000)	276,350 (US\$ 8,569)	-	12	11,898,629	Y	-	-
		Qingxin Hon Chuan	(Note 4)	5,949,315	96,750 (US\$ 3,000)	-	-	-	-	11,898,629	Y	-	Y
		Taiyuan Hon Chuan	(Note 4)	5,949,315	262,193 (US\$ 8,130)	209,625 (US\$ 6,500)	-	-	2	11,898,629	Y	-	Y
		Samoa Hon Hsing	(Note 4)	5,949,315	612,750 (US\$ 19,000)	612,750 (US\$ 19,000)	322,500 (US\$ 10,000)	-	5	11,898,629	Y	-	-
		Kai Gang	(Note 4)	5,949,315	1,128,750 (US\$ 35,000)	483,750 (US\$ 15,000)	-	-	4	11,898,629	Y	-	-
		Suzhou Hongxin	(Note 4)	5,949,315	161,250 (US\$ 5,000)	96,750 (US\$ 3,000)	-	-	1	11,898,629	Y	-	Y
		Jinan Hon Chuan	(Note 4)	5,949,315	370,875 (US\$ 11,500)	322,500 (US\$ 10,000)	-	-	3	11,898,629	Y	-	Y
		Xiantao Hon Chuan	(Note 4)	5,949,315	338,303 (US\$ 10,490)	338,303 (US\$ 10,490)	87,328 (US\$ 2,708)	-	3	11,898,629	Y	-	Y
		Qingxin Hon Chuan (Note 5)	(Note 4)	5,949,315	201,563 (US\$ 6,250)	193,178 (US\$ 5,990)	-	-	2	11,898,629	Y	-	Y
		Zangzhou Hon Chuan (Note 5)											
		Chuzhou Hon Chuan (Note 5)											
		Kai Gang (Note 6)	(Note 4)	5,949,315	322,500 (US\$ 10,000)	322,500 (US\$ 10,000)	-	-	3	11,898,629	Y	-	Y
		Suzhou Hongxin (Note 6)											
		Qingxin Hon Chuan (Note 6)											
		Xiantao Hon Chuan (Note 6)											
1	Suzhou Hongxin	Suzhou Hon Chuan	(Note 4)	5,949,315	46,490 (RMB 10,000)	-	-	-	-	11,898,629	-	-	Y
2	Hon Chuan Thailand	Hon Fu Thailand	(Note 4)	5,949,315	54,300 (THB 60,000)	54,300 (THB 60,000)	18,142 (THB 20,046)	-	-	11,898,629	-	-	-

Note 1: The maximum is 50% of the net assets of the Corporation and subsidiaries in the latest financial report.

Note 2: The maximum is 100% of the net assets of the Corporation and subsidiaries in the latest financial report.

Note 3: The maximum amount of the total guarantee for all group entities is 100% of the net assets of the Corporation and subsidiaries.

Note 4: Investees which the Corporation directly and indirectly holds more than 50% percent of the voting shares.

Note 5: Loan facilities share with these three companies.

Note 6: Loan facilities share with these four companies.

Note 7: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2016.

TABLE 3

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2016

(In Thousands of Dollars, Unless Otherwise Specified)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	DECEMBER 31, 2016			
				Shares	Carrying Value (Note 1)	Percentage of Ownership	Fair Value (Note 1)
The Corporation	<u>Capital Stock</u>						
	Globaltec Technology Partner Venture Capital Corp.	-	Financial assets measured at cost - noncurrent	130,478	\$ 1,360	2	\$ 1,360
	Lightel Technologies Inc.	-	Financial assets measured at cost - noncurrent	551,051	8,645	2	8,645
	CDIB CME Fund Ltd.	-	Financial assets measured at cost - noncurrent	3,000,000	30,000	2	30,000
	Great Tree Pharmacy Co., Ltd.	-	Financial instruments at fair value through profit or loss - current	31,500	2,463	0.12	2,463
	<u>Corporate Bonds</u>						
	Adimmune Corporation	-	Financial instruments at fair value through profit or loss - current	300,000	32,070	-	32,070
Samoa Hon Chuan	<u>Corporate Bonds</u>						
	Grarden Fresh	-	Debt investments with no active market - current	-	31,613 (US\$ 980)	-	31,613 (US\$ 980)
Hon Chuan Thailand	<u>Capital Stock</u>						
	Ichitan Company	-	Available-for-sale financial assets - noncurrent	1,000,000	9,231 (THB 10,200)	0.08	9,231 (THB 10,200)

Note 1: The fair value of the securities held was based on cost as established at the date of acquisition.

Note 2: Information on investees, please see Tables 7 and 8.

Note 3: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2016.

**TABLE 4****TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands of Dollars, Unless Otherwise Specified)**

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Ending Balance	
					Shares	Amount (Note 1)	Shares	Amount	Shares	Amount (Notes 1 and 3)
The Corporation	Samoa Hon Chuan	Investments accounted for using equity method	-	Parent - subsidiary	277,196,725	\$ 9,853,487	21,884,118	\$ 77,385	299,080,843	\$ 10,180,172
Samoa Hon Chuan	Hon Chuan Asia	Investments accounted for using equity method	-	Parent - subsidiary	158,722,505	5,878,562 (US\$ 182,281)	12,870,000	415,058 (US\$ 12,870)	171,592,505	6,384,984 (US\$ 197,984)
	Hon Chuan Africa	Investments accounted for using equity method	-	Parent - subsidiary	-	-	10,944,118	352,944 (US\$ 10,944)	10,944,118	364,877 (US\$ 11,314)
Hon Chuan Asia	Hon Chuan Myanmar	Investments accounted for using equity method	-	Parent - subsidiary	89,524,394	178,504 (US\$ 5,535)	- (Note 2)	496,199 (US\$ 15,386) (Note 3)	89,524,394	660,738 (US\$ 20,488)
Hon Chuan Africa	Hon Shi Samoa	Investments accounted for using equity method	-	Parent - subsidiary	-	-	1,038,790	352,944 (US\$ 10,944)	1,038,790	352,557 (US\$ 10,932)

Note 1: Amount includes investment income/loss recognized under equity method and cumulative translation adjustment.

Note 2: The capital increase in 2016 has not been verified yet.

Note 3: The amount of USD13,986 thousand was increased by accounts receivable among the total amount of acquisition USD15,386 thousand.

Note 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2016.

Note 5: Significant intercompany accounts and transactions have been eliminated.

**TABLE 5****TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2016****(In Thousands of Dollars, Unless Otherwise Specified)**

Company Name	Related Party	Relationship	Ending Balance (Note 2)	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
Samoa Hon Chuan	Hon Chuan China	(Note 1)	\$ 2,610,638 (US\$ 80,950)	-	\$ -	Depend on the operation	\$ 690,150 (US\$ 21,400)	\$ -
	Hon Chuan Asia	(Note 1)	364,425 (US\$ 11,300)	-	-	Depend on the operation	196,725 (US\$ 6,100)	-
Kai Gang	Qingxin Hon Chuan	(Note 1)	177,375 (US\$ 5,500)	-	-	Depend on the operation	177,375 (US\$ 5,500)	-
	Hon Chuan China	(Note 1)	322,500 (US\$ 10,000)	-	-	Depend on the operation	-	-
Samoa Hon Hsing	Hon Chuan China	(Note 1)	305,408 (US\$ 9,470)	-	-	Depend on the operation	-	-
Changsha Hon Chuan	Chuzhou Hon Chuan	(Note 1)	102,278 (RMB 22,000)	-	-	Depend on the operation	-	-
Taiyuan Hon Chuan	Xiantao Hon Chuan	(Note 1)	134,821 (RMB 29,000)	-	-	Depend on the operation	37,192 (RMB 8,000)	-
Samoa Honly	Cambodia Honly	(Note 1)	162,774 (US\$ 5,047)	-	-	Depend on the operation	-	-

Note 1: Please see Note 13.

Note 2: Significant intercompany accounts and transactions have been eliminated.

TABLE 6

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
0	The Corporation	Hon Chuan Asia and its subsidiaries	1	Sales	\$ 46,760	T/T 180 days	-
		Hon Chuan Asia and its subsidiaries	1	Purchase	36,212	T/T 180 days	-
		Hon Chuan Asia and its subsidiaries	1	Technical service revenue	17,553	Depend on working capital sufficiency	-
		Hon Chuan Asia and its subsidiaries	1	Receivable from sales of property, plant and equipment	30,208	Depend on working capital sufficiency	-
		Hon Chuan China and its subsidiaries	1	Sales	10,647	T/T 180 days	-
		Hon Chuan China and its subsidiaries	1	Purchase	4,614	T/T 180 days	-
		Hon Chuan Africa and its subsidiaries	1	Accounts receivable	14,541	T/T 180 days	-
		Hon Chuan Africa and its subsidiaries	1	Sales	14,424	T/T 180 days	-
1	Samoa Hon Chuan	Hon Chuan China and its subsidiaries	3	Receivable from related parties	2,755,763	Depend on working capital sufficiency	10
		Hon Chuan China and its subsidiaries	3	Interest revenue	83,649	Depend on working capital sufficiency	1
		Hon Chuan China and its subsidiaries	3	Interest receivable	19,841	Depend on working capital sufficiency	-
		Hon Chuan Asia	3	Receivable from related parties	364,425	Depend on working capital sufficiency	1
		Hon Chuan Asia	3	Prepaid expense	19,350	Depend on working capital sufficiency	-
		Hon Chuan Asia	3	Sales	19,925	T/T 180 days	-
		Hon Chuan Africa	3	Accounts receivable	19,918	Depend on working capital sufficiency	-
2	Hon Chuan Asia	Among Hon Chuan Asia's subsidiaries	3	Receivable from related parties	107,149	Depend on working capital sufficiency	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	96,660	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts Payable	17,169	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	100,121	T/T 180 days	1
		Among Hon Chuan Asia's subsidiaries	3	Realized gross profit	14,886	-	-
		Among Hon Chuan Asia's subsidiaries	3	Sales	181,704	T/T 180 days	1
3	Hon Chuan Thailand	Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	18,819	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Sales	5,732	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	75,706	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts Payable	23,512	T/T 180 days	-
		Hon Chuan Africa	3	Sales	19	T/T 180 days	-
4	Hon Fu Thailand	Among Hon Chuan Asia's subsidiaries	3	Sales	2,206	T/T 180 days	-
5	Hon Chuan Malaysia	Among Hon Chuan Asia's subsidiaries	3	Sales	62,718	T/T 180 days	-
6	Hon Chuan Indonesia	Among Hon Chuan Asia's subsidiaries	3	Sales	2,978	T/T 180 days	-
		Hon Shi Mozambique	3	Sales	12	T/T 180 days	-
7	Hon Chuan Vietnam	Among Hon Chuan Asia's subsidiaries	3	Sales	2,459	T/T 180 days	-

(Continued)



No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
8	Samoa Honly	Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	\$ 15,486	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Other unearned revenue	147,288	Depend on working capital sufficiency	1
		Among Hon Chuan Asia's subsidiaries	3	Purchase	27,672	T/T 180 days	-
9	Hon Chuan Africa	Among Hon Chuan Africa's subsidiaries	3	Accounts receivable	48,059	T/T 180 days	-
		Among Hon Chuan Africa's subsidiaries	3	Sales	48,078	T/T 180 days	-
10	Shimada	Among Hon Chuan Africa's subsidiaries	3	Sales	34,519	T/T 180 days	-
		Among Hon Chuan Africa's subsidiaries	3	Purchase	8,259	T/T 180 days	-
11	Hon Chuan China	Hon Chuan Vietnam	3	Sales	515	T/T 180 days	-
		Hon Chuan Thailand	3	Sales	269	T/T 180 days	-
		Hon Chuan Indonesia	3	Sales	19,939	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Realized gross profit	16,461	-	-
		Among Hon Chuan China's subsidiaries	3	Payable from related parties	627,908	Depend on working capital sufficiency	2
		Among Hon Chuan China's subsidiaries	3	Interest expense	22,923	Depend on working capital sufficiency	-
12	Kai Gang	Among Hon Chuan China's subsidiaries	3	Receivable from related parties	177,375	Depend on working capital sufficiency	1
		Among Hon Chuan China's subsidiaries	3	Interest revenue	11,201	Depend on working capital sufficiency	-
13	Suzhou Hon Chuan	Among Hon Chuan China's subsidiaries	3	Receivable from related parties	139,470	Depend on working capital sufficiency	1
		Among Hon Chuan China's subsidiaries	3	Accounts receivable	62,158	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	91,438	T/T 180 days	1
		Among Hon Chuan China's subsidiaries	3	Purchase	962	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales of property, plant and equipment	34,626	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Other income	26,967	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Manufacturing expense	25,207	Depend on working capital sufficiency	-
14	Suzhou Hongxin	Among Hon Chuan China's subsidiaries	3	Purchase	7,488	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	683	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Other payable	36,960	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Purchase of property, plant and equipment	18,782	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Payable from related parties	23,245	Depend on working capital sufficiency	-
15	Jinan Hon Chuan	Among Hon Chuan China's subsidiaries	3	Sales	9,923	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Purchase	5,497	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Receivable from related parties	32,543	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Other income	10,476	Depend on working capital sufficiency	-
16	Taiyuan Hon Chuan	Among Hon Chuan China's subsidiaries	3	Purchase	2,225	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	5,392	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Receivable from related parties	153,417	Depend on working capital sufficiency	1
17	Changsha Hon Chuan	Among Hon Chuan China's subsidiaries	3	Sales	550	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Receivable from related parties	241,748	Depend on working capital sufficiency	1
		Among Hon Chuan China's subsidiaries	3	Purchase	5,168	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Interest revenue	12,687	Depend on working capital sufficiency	-

(Continued)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
18	Qingxin Hon Chuan	Among Hon Chuan China's subsidiaries	3	Purchase	\$ 469	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	18,232	T/T 180 days	-

Note 1: Relationship of counterparty; (1) parent company to subsidiary; (2) subsidiary to parent company; (3) subsidiary to subsidiary.

Note 2: Significant intercompany accounts and transactions have been eliminated.

(Concluded)

TABLE 7

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

## INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of DECEMBER 31, 2016			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 5)	Note
				December 31, 2016	December 31, 2015	Shares	%	Carrying Amount (Note 5)			
The Corporation	Samoa Hon Chuan	Samoa	Overseas reinvested holding company and international trade	\$ 9,194,798	\$ 8,477,413	299,080,843	100	\$ 10,180,172	\$ 385,300	\$ 383,300	Subsidiary
Samoa Hon Chuan	Hon Chuan China	Cayman Island	Overseas reinvested holding company	3,617,354 (US\$ 112,166)	3,617,354 (US\$ 112,166)	91,230,576	76.84	3,217,776 (US\$ 99,776)	63,041 (US\$ 1,954)	(Note 1)	Indirect subsidiary
	Hon Chuan Asia	Cayman Island	Overseas reinvested holding company and international trade	5,589,151 (US\$ 173,307)	5,174,093 (US\$ 160,437)	171,592,505	100	6,384,984 (US\$ 197,984)	289,009 (US\$ 8,958)	(Note 1)	Indirect subsidiary
	Hon Chuan Africa	Cayman Island	Overseas reinvested holding company and international trade	352,944 (US\$ 10,944)	-	10,944,118	100	364,877 (US\$ 11,314)	18,745 (US\$ 581)	(Note 1)	Indirect subsidiary
	Paeon Company	Seychelles	Overseas reinvested holding company	30,251 (US\$ 938)	-	-	23.08	28,639 (US\$ 888)	(6,904) (US\$ 214)	(Note 1)	-
Hon Chuan China	Kai Gang	Hong Kong	Overseas reinvested holding company	4,529,835 (US\$ 140,460)	4,529,835 (US\$ 140,460)	1,097,377,292	100	5,240,948 (US\$ 162,510)	199,577 (US\$ 6,186)	(Note 1)	Indirect subsidiary
	Samoa Hon Hsing	Samoa	Overseas reinvested holding company	4,063,694 (US\$ 126,006)	4,063,694 (US\$ 126,006)	126,006,000	100	4,816,151 (US\$ 149,338)	65,719 (US\$ 2,037)	(Note 1)	Indirect subsidiary
Hon Chuan Asia	Hon Chuan Thailand	Thailand	Manufacture and sale of plastic caps and PET bottles	1,338,311 (US\$ 41,498)	1,338,311 (US\$ 41,498)	137,000,000	100	1,985,278 (US\$ 61,559)	177,090 (US\$ 5,489)	(Note 1)	Indirect subsidiary
	Hon Chuan Indonesia	Indonesia	Manufacture and sale of plastic caps and PET bottles	2,710,161 (US\$ 84,036)	2,548,911 (US\$ 79,036)	83,984,413	100	2,329,289 (US\$ 72,226)	(21,874) (US\$ 678)	(Note 1)	Indirect subsidiary
	Hon Chuan Vietnam	Vietnam	Manufacture and sale of plastic caps and PET bottles	806,250 (US\$ 25,000)	806,250 (US\$ 25,000)	-	100	902,452 (US\$ 27,983)	109,177 (US\$ 3,384)	(Note 1)	Indirect subsidiary
	Hon Chuan Malaysia	Malaysia	Manufacture and sale of plastic caps and PET bottles	841,693 (US\$ 26,099)	841,693 (US\$ 26,099)	81,259,900	100	664,544 (US\$ 20,606)	46,942 (US\$ 1,455)	(Note 1)	Indirect subsidiary
	Hon Chuan Myanmar	Myanmar	Manufacture and sale of plastic caps and PET bottles	767,099 (US\$ 23,786)	270,900 (US\$ 8,400)	89,524,394	70	660,738 (US\$ 20,488)	20,003 (US\$ 620)	(Note 1)	Indirect subsidiary
	Samoa Honly	Samoa	Overseas reinvested holding company and international trade	226,395 (US\$ 7,020)	226,395 (US\$ 7,020)	7,020,000	60	173,215 (US\$ 5,371)	(53,072) (US\$ 1,645)	(Note 1)	Indirect subsidiary
	Honly	Cambodia	Overseas reinvested holding company and international trade	28,445 (US\$ 882)	28,445 (US\$ 882)	490	49	28,187 (US\$ 874)	774 (US\$ 24)	(Note 1)	Indirect subsidiary
Hon Chuan Thailand	Hon Fu Thailand	Thailand	Manufacture and sale of plastic caps, labels, pp bottles and PET bottles	114,629 (THB 126,662)	114,629 (THB 126,662)	12,666,225	65	225,544 (THB 249,220)	(39) (THB 42)	(Note 1)	Indirect subsidiary
Samoa Honly	Cambodia Honly	Cambodia	Beverage packaging service	193,500 (US\$ 6,000)	193,500 (US\$ 6,000)	6,000,000	100	113,230 (US\$ 3,511)	(46,942) (US\$ 1,455)	(Note 1)	Indirect subsidiary
Hon Chuan Africa	Hon Shi Samoa	Samoa	Overseas reinvested holding company and international trade	352,944 (US\$ 10,944)	-	1,038,790	60	352,557 (US\$ 10,932)	29,553 (US\$ 916)	(Note 1)	Indirect subsidiary
Hon Shi Samoa	Shimada	Africa	Manufacture and sales of plastic caps PET bottles and LDPE membrane	29,315 (US\$ 909)	-	-	100	47,537 (US\$ 1,474)	24,875 (US\$ 771)	(Note 1)	Indirect subsidiary

	Hon Shi Mozambique	Africa	Manufacture and sales of plastic caps	26,510	-	-	100	28,187	6,356	(Note 1)	Indirect subsidiary
				(US\$ 822)				(US\$ 874)	(US\$ 197)		

Note 1: Not applicable.

Note 2: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2016.

Note 3: Information on investments in mainland China, please see Table 8.

Note 4: Paeon Company was based on the financial statements that has not been audited for the same year.

Note 5: Significant intercompany accounts and transactions have been eliminated.

## TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands of Dollars, Unless Otherwise Specified)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee (Note 3)	% Ownership of Direct or Indirect Investment (Note 1)	Investment Gain (Loss) (Note 3)	Carrying Amount as of December 31, 2016 (Note 3)	Accumulated Repatriation of Investment Income as of December 31, 2016
					Outward	Inward						
Suzhou Hon Chuan	Manufacture and sale of various plastic caps, labels and aluminum closures	\$ 660,803 (US\$ 20,490)	(Note 1)	\$ 554,087 (US\$ 17,181)	\$ -	\$ -	\$ 554,087 (US\$ 17,181)	\$ 2,097	76.84%	\$ 1,611	\$ 839,156	\$ -
Qingxin Hon Chuan	Manufacture and sale of various plastic caps, labels, PET bottles and beverage packaging services	1,709,250 (US\$ 53,000)	(Note 1)	369,359 (US\$ 11,453)	-	-	369,359 (US\$ 11,453)	139,601	76.84%	107,269	1,431,568	-
Zhangzhou Hon Chuan	Development, manufacture and sales of beverages	1,290,000 (US\$ 40,000)	(Note 1)	131,387 (US\$ 4,074)	-	-	131,387 (US\$ 4,074)	(30,037)	76.84%	(23,080)	859,972	-
Suzhou Hongxin	Manufacture and sale of plastic caps, PET bottles and beverage packaging services	1,483,500 (US\$ 46,000)	(Note 1)	801,122 (US\$ 24,841)	-	-	801,122 (US\$ 24,841)	(87,238)	76.84%	(67,034)	784,167	-
Jinan Hon Chuan	Manufacture and sale of plastic caps and PET bottles	935,250 (US\$ 29,000)	(Note 1)	158,154 (US\$ 4,904)	-	-	158,154 (US\$ 4,904)	132,987	76.84%	102,187	991,211	-
Changsha Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage packaging services	596,625 (US\$ 18,500)	(Note 1)	254,549 (US\$ 7,893)	-	-	254,549 (US\$ 7,893)	(27,004)	76.84%	(20,750)	761,368	-
Taiyuan Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage packaging services	1,064,250 (US\$ 33,000)	(Note 1)	312,535 (US\$ 9,691)	-	-	312,535 (US\$ 9,691)	42,619	76.84%	32,748	1,174,565	-
Ningbo Hon Chuan	Manufacture and sale of packing materials for electronic components and caps for batteries	112,875 (US\$ 3,500)	(Note 1)	112,875 (US\$ 3,500)	-	-	112,875 (US\$ 3,500)	(3,065)	100%	(3,065)	61,888	-
Chuzhou Hon Chuan	Manufacture and sale of various plastic caps and PET bottles	322,500 (US\$ 10,000)	(Note 1)	-	-	-	-	3,097	76.84%	2,380	189,202	-
Xiantao Hon Chuan	Manufacture and sale of various plastic caps and PET batteries	483,750 (US\$ 15,000)	(Note 1)	-	-	-	-	68,558	76.84%	52,680	344,132	-
Danmao Company	Manufacture and sale of various plastic caps and PET bottles	139,470 (RMB 30,000)	(Note 2)	-	-	-	-	(8,534)	25.61%	(2,186)	-	-
Quanhe	Equity investment	27,894 (RMB 6,000)	(Note 6)	-	-	-	-	(41)	76.84%	(32)	21,402	-
Anyang Hon Chuan	Sale of PE/PET packaging food packaging	69,735 (RMB 15,000)	(Note 6)	-	-	-	-	3,985	76.84%	3,062	54,519	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 2,694,068 (US\$83,537)	\$7,131,539 (US\$221,133)	(Note 4)

Note 1: The Corporation invested in China through third parties.

Note 2: The Corporation invested in China through Suzhou Hon Chuan.

Note 3: The Corporation recognized its equity in the investee's net income on the basis of financial statements audited by the CPA member firm of the Corporation's auditors, except those of Ningbo Hon Chuan.

Note 4: The regulation refers to "Regulations for Screening of Application to Engage in Technical Cooperation in Mainland China" issued by the Investment Commission of the Ministry of Economic Affairs.

Note 5: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2016.

Note 6: The Corporation invested in China through Suzhou Hongxin. In November 2015, the ownership of Anyang Hon Chuan was increased from 40% to 100%.

Note 7: Significant intercompany accounts and transactions have been eliminated, except those of Danmao Company, a company that has been liquidated in July 2016.

**6.5 Financial difficulties, if any, encountered by the Company and its affiliated companies in the most recent year and up to the publication of the annual report, and its impact on the Company's financial status: None.**

## 7. Review and Analysis of Financial Conditions and Performance and Risk Management

### 7.1 Financial status:

Financial status analysis using “Consolidated” financial statements

Unit: NT\$ thousands

Item \ Year	2016	2015	Different		Analysis
			Amount	%	
Current assets	7,757,428	8,067,666	(310,238)	(3.85)	
Property, plant, and equipment	17,991,011	18,796,260	(805,249)	(4.28)	
Intangible assets	388,673	76,484	312,189	408.18	1
Other assets	1,254,194	2,177,210	(923,016)	(42.39)	2
Total assets	27,391,306	29,117,620	(1,726,314)	(5.93)	
Current liabilities	9,649,899	10,448,772	(798,873)	(7.65)	
Noncurrent liabilities	5,065,234	5,665,851	(600,617)	(10.60)	
Total liabilities	14,715,133	16,114,623	(1,399,490)	(8.68)	
Capital stock	2,928,789	3,098,479	(169,690)	(5.48)	
Additional paid-in capital	5,127,397	5,412,868	(285,471)	(5.27)	1
Retained earnings	4,920,100	4,713,939	206,161	4.37	
Non-controlling equity	920,493	1,057,492	(136,999)	(12.96)	
Other equity	(1,220,606)	(444,446)	(776,160)	174.64	3
Treasury shares	0	(835,335)	835,335	0.00	
Total equity	12,676,173	13,002,997	(326,824)	(2.51)	

Please explain the variation reason for which exceeding 20%:

1. The increase of Intangible Assets: Due to the Goodwill which generated by purchasing Hon Shi (Samoa) Holding Limited in this year.
2. The decrease of Other Assets: Due to the decrease of tax rebate of sales tax receivable in China.
3. The decrease of Other Equity: Due to the decrease of accumulative conversion adjustments which caused by the variation of exchange rate in china.



## 7.2 Analysis of Operation Results:

### 7.2.1 Operating results analysis (Consolidated)

Unit: NT\$ thousands

Item \ Year	2016	2015	Different		Analysis
			Amount	%	
Net Sales	16,510,678	16,578,377	(67,699)	(0.41)	
Cost of Goods Sold	13,108,263	13,512,705	(404,442)	(2.99)	
Gross Profit	3,402,415	3,065,672	336,743	10.98	
Operating Expenses	1,731,218	1,801,557	(70,339)	(3.90)	
Profit from Operations	1,671,197	1,264,115	407,082	32.20	
Non-Operating Income and Expenses	(173,374)	(233,032)	59,658	(25.60)	1
Profit before Income Tax	1,497,823	1,031,083	466,740	45.27	
Income Tax Benefit (Expenses)	307,529	144,942	162,587	112.17	2
Net Income	1,190,294	886,141	304,153	34.32	
Other Comprehensive Income	(969,372)	(869,561)	(99,811)	11.48	
Total Comprehensive Income	220,922	16,580	204,342	1,232.46	

Please explain the variation reason for which exceeding 20%:

1. The increase of Non-Operating Income and Expenses: Due to the decrease of net loss which caused by disposing fixed assets in this year.
2. The increase of Income Tax: In this year, some subsidiaries in china start to have profit.

### 7.2.2 Forecasts of sales volumes and supportive sources, its impact on the Company's financial and operational situations and action plan:

The forecast of sales volumes is based upon industrial tendency, demand and supply conditions in food and beverage sectors, taking into consideration of sales of various products and clients' changes. For the coming year, we do not foresee any material changes and can properly cope with financial and business situations. For the sales volumes in the future, please refer to Page 4 "Sales Forecast and Sales Policy".

## 7.3 Analysis of Cash Flow:

### 7.3.1 Liquidity Analysis within the last 2 years:

Item \ Year	2016	2015	Different (%)
Cash Flow Ratio (%)	44.79	30.30	47.82
Cash Flow Adequacy Ratio (%)	76.64	61.49	24.64
Cash Flow Re-investment Ratio (%)	11.45	7.57	51.25
Please explain the variation reason for which exceeding 20%: 1. Cash Flow Ratio and Cash Flow Adequacy Ratio are increased than last period: Due to the increase of 2016 Net cash flow from business activities. 2. Cash Re-investment Ratio: Due to the increase of 2016 Net cash flow from business activities, and decrease of cash dividend.			

### 7.3.2 Cash Liquidity Analysis for next year:

Unit: NT\$ thousands

Cash balance – beginning (1)	Estimated annual net cash flow from operating activities (2)	Estimated annual cash outflow (3)	Cash Balance (deficit) (1)+(2)-(3)	Contingency plans for insufficient cash	
2,414,908	3,743,030	3,708,779	2,449,159	Investment plan	Financial Plan
				-	-
1. Cash liquidity analysis for next year : (1) Operating activities: Mainly due to expected profits from 2017 business activities. (2) Investing activities: Expected increase of capital expenditures, which caused the outflow of net cash. (3) Financing activities: Expected to repay the loans of banks, which caused the outflow of net cash. 2. Financing of cash deficits : Not applicable.					

## 7.4 The impact of material capital expenditure on financial business in the most recent year:

### 7.4.1 Major Capital Expenditure and its Source of Capital

Unit : NT\$ thousands

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual or Expected Capital Expenditure	
				2015	2016
Hon Chuan	Equity fund & Bank loan	Finish before the 3 <sup>rd</sup> quarter of 2017	1,037,349	363,600	127,899

### 7.4.2 Impact on the financial and business conditions

In view of more attention centered on the packaging material and environmental awareness by consumers nowadays, the Company proactively develops aseptic filling technology, which streamlines the whole production cycle from producing packaging material, filling the contents of beverage, to complete packing for shipment. This provides our clients with comprehensive and competitive service that reduce the risk of defect during delivery of bottles and closures and decrease the inputs of capital, time and human resources from our clients. The Company plans to extend aseptic filling production from Taiwan to China and South-East Asia market, building up our competitiveness in the global market.

As a result of the severe competition in great China market, we not only consistently sign long-term contracts with famous beverage manufacturers but also explore possible opportunities in the emerging markets through proprietorship or joint venture to produce beverage and packaging materials. The niche market strategy is expected to lead the Company into a new milestone.

## 7.5 Reinvestment policy in the most recent year, the reasons for profit or loss resulted, its improvement plan, and next year's investment plan:

### Analysis of Reinvestment

Unit : NT\$ thousands

Explanation Item	Amount (Note)	Policy	The reasons for profit or loss resulted	Improvement Plan	Other investment plan in the future
Hon Chuan Holding Limited	9,390,023	Expand great China and South East Asia markets.	Overall financial performance is profitable in 2016, although individual companies have different performance.	Two markets are still in the fast-growing stages and are expected to grow in a steady pace.	It depends on the real operational performance.

Note: For the investments exceeding 5% of authorized capital up to March 31, 2017.

## 7.6 Risk analysis and evaluation :

### 7.6.1 Interest rates, exchange rates, and inflation, their impact on the Company's profit or loss, and future countermeasures:

#### 7.6.1.1 The Impacts of interest rates, in the most recent fiscal year, on the Company's profit and loss, and the future countermeasures:

From 2013 to 2015, the US dollar remained relatively weak because of the Quantitative Easing (QE) policy. The US economy recovered from 2016 and the US Federal Reserve announced a quarter of a percent hike in benchmark rate. The US dollar is likely to be strengthened due to positive US economic outlook. Meanwhile, it is expected that the US Federal Reserve will raise its interest rates twice and the US dollar will be increasing by 5% in 2017. The forecast of US economic growth stays ahead of Europe and Japan. On the other hand, political uncertainty is putting the Eurozone's financial stability at risk in 2017. The rise and spread of Populism keeps hitting Eurozone's political status after Brexit had been firmly established. Furthermore, investor concern as well those critical elections next year in Netherlands, France and Germany may lead to the risk of dissolution of the European Union. The company will take measures if necessary by following up on the change in rates.

### 7.6.1.2 The Impacts of exchange rates in the most recent fiscal year on the Company's profit and loss, and the future countermeasures:

The Company has set up subsidiaries and plants in Mainland China, Southeast Asia and Africa, so the export and outsourcing percentages are lower. The major exchange gains and losses are mainly the exchange gains and losses generated from the holdings of financial assets and debts valued in foreign currencies. Apart from adopting the natural hedging strategy by holding foreign debts to balance the foreign currency asset position, we also closely observe the international finance and exchange rate fluctuations, and timely grasp the trend of exchange rate fluctuations, in accordance with "Procedures for Financial Derivatives Transactions" to engage in hedging and timely avoid the risks associated with exchange rate fluctuations.

### 7.6.1.3 The Impacts of inflation, in the most recent fiscal year, on the Company's profit and loss and the future countermeasures:

As the Company and subsidiaries, in the recent years, continued to develop the signing of mid and long-term strategic cooperation contracts with our clients, and this type of contract adopts floating prices to flexibly adjust the product prices, so the risks associated with the raw material price fluctuation can be reduced; and the Company and subsidiaries actively engage in lightweight products to economize on material costs and dedicate to cost down, to moderate the threat brought from inflation.

The following information is provided as a reference and comparison for the above-mentioned risks :

Unit: NT\$ thousands

Item / Year	2016	2015
Net foreign exchange gain (loss)	(81,758)	(85,678)
Unrealized gain or loss on financial instrument in available-for sale	(1,901)	(7,042)
Net Sales	16,510,678	16,578,377
Profit from Operations	1,671,197	1,264,115
Profit before Income Tax	1,497,823	1,031,083
Interest revenue	23,745	31,271
Interest expense (Note 1)	231,701	237,735

Note 1: The interest expenses for 2015 and 2016 include the interests expenses recognized from first domestic unsecured convertible bonds issued by our company, which were NTD 10,876 thousand and 5,953 thousand dollars respectively.

### **7.6.2 The policies to engage in high-risk, high-leverage investments, lending funds to others, endorsements and guarantees, and the transactions of derivative products, the main reasons for profits and losses, and the future countermeasures:**

1. Our company has never engaged in any high-risk or high-leverage investments. In addition, providing endorsements/guarantees and engaging in derivative transactions are all in response to the operation needs and are handled according to the Company's "Regulations Governing the Acquisition and Disposal of Assets", "Operational Procedures for Lending Funds to Others", "Operational Procedures for Endorsements/Guarantees" and "the Procedures for Engaging in Derivatives transactions".
2. The transactions of derivatives products the Company and subsidiaries engaged in were to achieve the purposes of the risk aversion arising from foreign currency exchange rate fluctuation and the interest rate risks arising from the bank loans adopting floating interest rates, and the relevant transactions were handled according to "Regulations Governing the Acquisition and Disposal of Assets" and "the Procedures for Engaging in Derivatives transactions", and were fully disclosed in our financial statements.  
The net profits (losses) generated from engaging in the transaction of derivative products by the Company were as follows:

Unit: NT\$ thousands

Item	2016	2015
Gain (or Loss) on valuation of financial asset	53,025	62,568

### **7.6.3 Future Research and Development (R&D) Plans and the R&D expenses expected to be invested:**

For long-term development and quality improvement, the Company combines and integrated R&D technical team to reinforce our core competitiveness, sets up R&D technical group, cultivates professional talents, invests in R&D and technical tasks, uses the advanced equipment and information to develop products, collects the latest domestic and foreign packaging materials and beverage processing technologies, to meet our clients' needs in the market.

In 2017, the Company is expected to invest in the R&D expenditures equivalent to what was invested in the previous fiscal year; in the future, we will continue to invest in technology R&D to upgrade our competitive advantage. For the R&D plans in the most recent fiscal year, please refer to Page 63.

### **7.6.4 The Impacts of changes of the important domestic and foreign policies and laws on the company's finance and business, and the countermeasures:**

Our company and subsidiaries pay constant attention to the information of the important domestic and foreign policies and law changes, to provide to the management level as reference, to cooperate and implement, so there are no significant impacts on the Company's finance or business.

### **7.6.5 The Impacts of Technology Changes and Industry Changes on Our Company's Finance and Business, and the Countermeasures:**

The Company and subsidiaries pay attention to the technology changes and technical development and evolution in our industry at all times, plus that we also constantly improve product quality and manufacturing processes, grasp the latest development trends in the industry, through close cooperation process with the clients, and adopt prudent financial management strategies to maintain our market competitiveness. In the future, the Company and subsidiaries will continue to pay attention to the change situation of the relevant technology in our industry, that we will also continue to upgrade our R&D capabilities, actively broaden the future market application fields, evaluate the impacts on our company's operation and make corresponding adjustment, to reinforce our company's and subsidiaries' business development and financial condition, so technology changes and industry changes have had no significant impacts on the Company and subsidiaries so far.

### **7.6.6 The Impacts of Change of Corporate Image on the Enterprise Crisis Management and the Countermeasures :**

The major clients of the Company and subsidiaries are mostly world-class international giants, and for many years, the Company and subsidiaries have adhered to the principles of business integrity and fulfilling our role in the industry, and pay attention to corporate image, so we could establish a professional image in the industry and win the affirmative reputation from the international giants. The Company and subsidiaries consider the promotion of social economy, upgrade of environmental prosperity and protection of employee welfare to be our priorities. As for the laws and regulations set by the competent authorities, we also strictly comply with. So far, the Company and subsidiaries have good corporate image and there has been no significant changes that would result in the circumstances of enterprise crisis management.

### **7.6.7 The Expected Benefits and Possible Risks to Engage in Mergers and Acquisitions (M&A) and the Countermeasures :**

The Company and subsidiaries do not have plans to merge with or acquire other companies, and when we do have M&A plans in the future, we will carefully assess and consider the merger synergy in order to guarantee the existing shareholders' equities.

### **7.6.8 The Expected Benefits and Possible Risks to Expand the Plants and the Countermeasures :**

#### **1. Expected Benefits:**

In view that currently consumers have increase their degree of attention on the quality and eco-friendly property of packaging materials, the Company and subsidiaries, in the recent years, have more actively developed aseptic filling technology and combined aseptic beverage filling technology, to form the integrated complete manufacturing process from the production of packaging materials to filling of beverage content, to provide the clients the comprehensive services with price competitiveness. The completely finished beverage products are shipped in whole boxes, so the wear and tear risks associated with the shipping of packaging materials purchased by the clients, and the capital, time and manpower, etc. wasted, setting up their own plants to perform filling operation,



are effectively reduced. Currently, the Company and subsidiaries plan to extend the production territory of aseptic beverage filling from Taiwan, where the parent company is located, to Southeast Asian markets, in order to reinforce the competitive advantage, of our company and subsidiary, in the international market.

The Company has also constantly developed the emerging markets with growth potential, either by sole ownership or joint venture, to produce and sell beverage and the packaging materials. Recently, there have been successively several markets that have reached the periods of fruitful results to be harvested, and the planning strategy for this niche market is expected to lead our company to move towards another epoch-making milestone.

**2. Possible Risks and Countermeasures:**

- (1) During the project construction period, the construction area causes inconvenience for the entering and exiting of personnel and vehicles and the goods allocation costs are also increased; and our company's countermeasures include hiring 24-hour full time security guards to monitor the entering and exiting of personnel and vehicles, separating passenger lanes completely from the driveways, and coordinating with supervision and occasional inspection by the Company's Labor Safety and Health department and the government's occupational safety unit.
- (2) To prevent the construction progress from going behind schedule, our company stipulates the construction progress in the contract with the contractors, sets the penalties, reviews weekly and adopts improvement measures, and saves the meeting minutes to facilitate the subsequent follow-up, to ensure the construction to be completely on schedule.

**7.6.9 The Risks Faced with Concentrated Procurement and Sales, and the Countermeasures :**

The Company and subsidiaries maintain flexibility in terms of the procurement of bulk raw materials by purchasing from several suppliers, so there are no risks arising from over concentration.

In terms of sales, our clients are mostly well-known domestic food and beverage giants with lower credit risks, in addition, the Company and subsidiaries continue to develop new clients and form partnership relationship with both domestic and foreign well-known food and beverage giants. So far there have been no risks arising from concentrated sales.

**7.6.10 The impacts and risks arising from a major quantity of shares belonging to directors, supervisors, or shareholders holding greater than a 10 percent stake in the company is transferred or changes hands and the countermeasures : None.**

**7.6.11 The impacts and risks arising from the change of management rights and the countermeasures : Not applicable.**

**7.6.12 Litigation and Non-Litigation Events :**

**7.6.12.1 The Company's significant litigations, non-litigations, and**



**administrative litigations, which the judgments are already determined or still pending, of which the result could have material impacts on the shareholders' equities or the securities prices, the disputed facts, target amounts, the litigation starting dates, the main litigating parties, and the processing status up to the annual report printing date should be disclosed : None.**

**7.6.12.2 The significant litigations, non-litigations, and administrative litigations involving the company's directors, supervisors, general manager, actual principal, major shareholders with shareholding ratio reaching and above 10% and the affiliated companies, which the judgments have already ruled or are still pending, of which the result could have material impacts on the shareholders' equities or the securities prices, the disputed facts, target amounts, the litigation starting dates, the main litigating parties, and the processing status up to the annual report printing date should be disclosed.**

(1) Director: CDIB Capital Group (hereinafter referred to as "CDIB")

① Far Eastern Air Transport (hereinafter referred to as "Far Eastern") had an outbreak of financial crisis in February 2008; and after the case was investigated, the prosecutor prosecuted nine people, including Mr. Hu, Mr. Cui, Mr. Chen and etc. As Mr. Hu was once assigned by CDIB to be the Director Representative of Far Eastern, Far Eastern brought a criminal case with supplementary civil action against Mr. Hu and CDIB, and requested a joint and several damage compensations of NTD 677,199 thousand dollars plus legal interests.

The judgment for the Far Eastern criminal case was pronounced on September 28, 2012, and Mr. Hu was acquitted, so the criminal court directly pronounced the judgment to dismiss Far Eastern's supplementary civil action against CDIB. However, Far Eastern was dissatisfied, and requested to the prosecutor to file for an appeal for the criminal case against Mr. Hu and also file for an appeal for the supplement civil action, and requested a joint and several compensations of NTD 660,000 thousand dollars plus legal interests. On January 28, 2016, the ruling of this case by the Taiwan High Court Criminal Division determined Mr. Hu to be innocent and ruled to dismiss Far Eastern's appeal for the supplement civil action against CDIB; nevertheless, these two judgments are still not yet confirmed, so we are still uncertain about the final results of the case. Furthermore, in July 2013, Far Eastern filed another legal action against YAGEO Corporation, Fontainebleau Co., Ltd., Yong Chun Co., Ltd. and CDIB, and claimed that the defendants, during their terms serving as the directors or Supervisors of Far Eastern, did not entirely fulfill their due diligence to be good administrators and caused the illegal appropriation of Far Eastern, and requested a compensation to Far Eastern for NTD 100,000 thousand dollars plus legal interests. The Taipei District Court ruled against Far Eastern on

Dec 30, 2014; Far Eastern was dissatisfied and filed for another appeal. Later, on April 14, 2016, the Taiwan High Court made judgments in which CDIB won. Far Eastern was still dissatisfied, and filed a third trial appeal. The Supreme Court, on November 30, 2016, dismissed Far Eastern's appeal, therefore the conviction was affirmed. CDIB was not responsible for the damage loss of Far Eastern.

- ② CDIB undertook a credit default swap contract linked to American subprime mortgage collateralized debt obligation with Morgan Stanley in April 2007; as Morgan Stanley had false sales to cause significant losses to the bank, CDIB filed a civil action against Morgan Stanley on July 15, 2010, claiming the contract was void ab initio and requested compensation. In the event that the relevant contracts were valid, the credit pool of the credit default agreement has been cleared and the transaction is completed. Relevant gains and losses have been fully recognized by the end of 2010. The remaining balance of the transaction is USD\$ 11,978, 000, which has been transferred Financial liabilities (approximately NTD\$ 386,632,000 at the exchange rate as on 31 December, 2016). This case is currently on trial by American New York Court, and so we are still uncertain about the final result of the case. Moreover, Morgan Stanley ignored the rights and interests of CDIB, in August 2010 to terminate the transaction contract with CDIB which has not yet expired (amount of Principal: KRW\$ 24 million), and Credit default exchange contract (amount of Principal: JPY\$ 586,510,000). CDIB has also expressed its objection to Morgan Stanley and reserved legal rights.

The above are the significant litigations, non-litigations, or administrative litigations involving the Company's Corporate Director, CDIB Capital Group, in the last two most recent fiscal years and up to the annual report printing date, the judgments are either ruled or are still pending, and the result, so far, have had no material impacts on the shareholders' equities or the securities prices.

**7.6.13 Other important risks or countermeasures :** None.

**7.7 Other important Matters:** None.

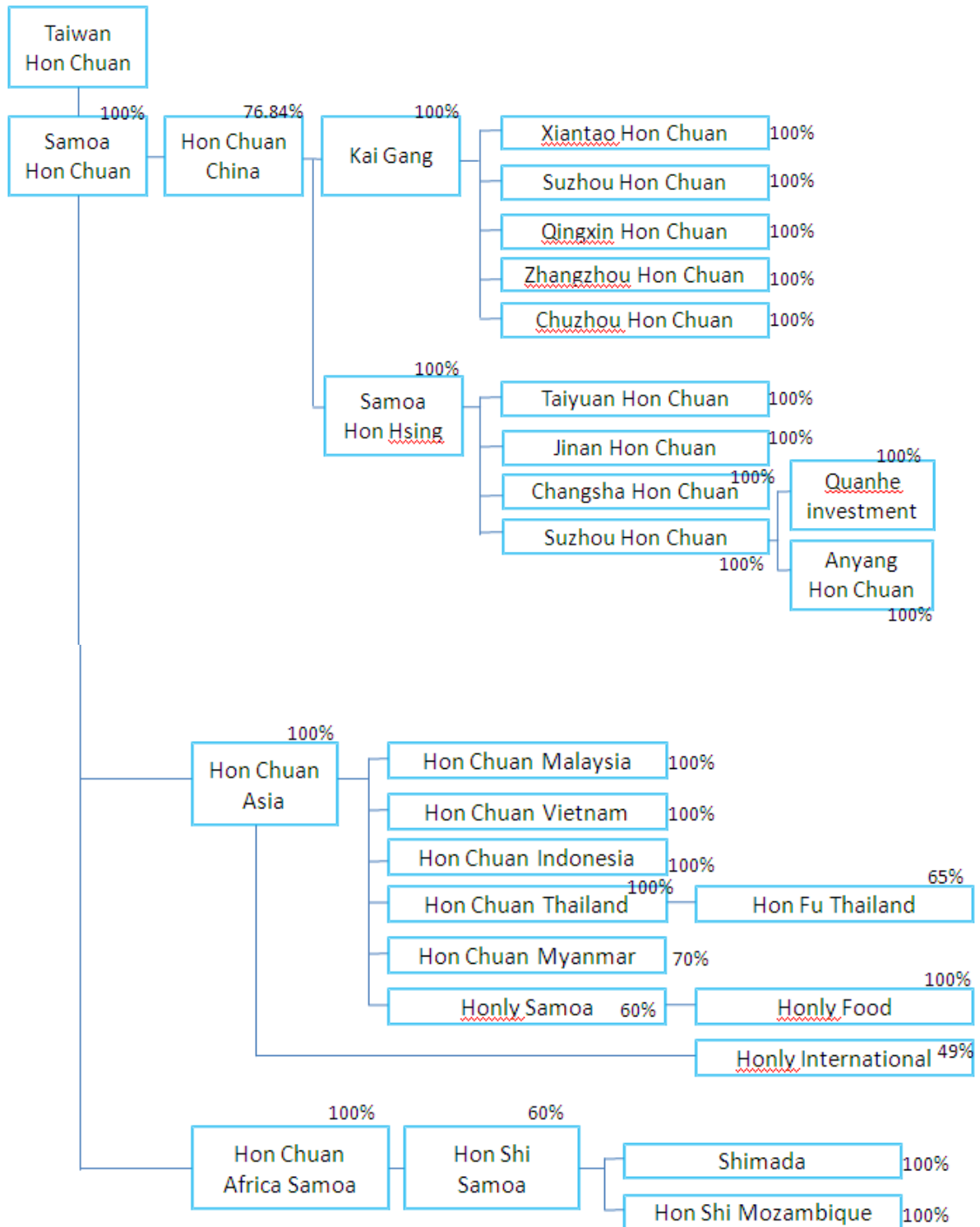
## 8. Special Disclosures

### 8.1 Summary of Affiliated Enterprises

#### 8.1.1 Business Report of affiliated Companies

##### 8.1.1.1 HON CHUAN Affiliated Companies Chart :

As of December 31, 2016



### 8.1.1.2 HON CHUAN Affiliated Companies :

Unit: NT\$ dollar

Company Name	Date of Establishment	Address	Paid-in Capital	Major Business / Production Items
Hon Chuan Holding Limited	March 15, 2002	TrustNet Chambers, Lotemau Centre, P.O.Box 1225, Apia SAMOA	USD\$ 299,080,843	Equity Investment
Hon Chuan (China) Holding Co.,Ltd.	January 10, 2003	The Grand Pavilion Commerical Centre, Oleander Way, 802 West Bay Road, Grand Cayman, KY1-1208, Cayman Island	USD\$ 11,872,181	Equity Investment
Kai Gang Industries Limited	January 29, 1991	Suit 1801-5, 18/F, Tower 2, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong	USD\$ 141,462,424	Equity Investment
Hon Hsing (Samoa) Holding Limited	June 18, 2002	TrustNet Chambers, Lotemau Centre, P.O.Box 1225, ApiaSAMOA	USD\$ 126,006,000	Equity Investment
Hon Chuan (Africa) Holdings Co., Ltd.	July 10, 2015	TrustNet Chambers, Lotemau Centre, P.O.Box 1225, ApiaSAMOA	USD\$ 10,944,118	Equity Investment
Hon Shi (Samoa) Holding Limited	December 15, 2015	TrustNet Chambers, Lotemau Centre, P.O.Box 1225, ApiaSAMOA	USD\$ 1,731,316.45	Equity Investment
Hon Chuan Enterprise (Suzhou) Company Limited	September 10, 1993	No.58 Yingbin Road, Luzhi Economic Development Zone Wuzhong Area, Suzhou City, China	USD\$ 20,490,000	Manufacture and sale of plastic caps, labels and PET film service
Hon Chuan Food Packing (Qingxin) Co.,Ltd.	May 18, 2009	No.M-05B YingFu Industrial Park, Taiping Town, Qingxin District, Qingyuan City, Guangdong Province, PRC	USD\$ 53,000,000	Manufacture and sale of plastic caps, labels, PET bottles and beverage filling service
Suzhou Hongxin Food Packing Co.,Ltd.	May 23, 2002	No.58-8 Yingbin Road, Luzhi Economic Development Zone Wuzhong Area, Suzhou City, China	USD\$ 46,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling service
Hon Chuan Enterprise (Changsha) Co.,Ltd.	December 02, 2002	Chuangye Road, Ningxiang Economic Development Zone, Changsha City Hunan Province, China	USD\$ 18,500,000	Manufacture and sale of plastic caps, PET bottles and beverage filling service
Hon Chuan Food Packing (Jinan) Co.,Ltd.	January 10, 2003	Mingshui Economic Development, Shandong Province, China	USD\$ 29,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling service

<b>Company Name</b>	<b>Date of Establishment</b>	<b>Address</b>	<b>Paid-in Capital</b>	<b>Major Business / Production Items</b>
Hon Chuan Food Packing (Taiyuan) Co.,Ltd.	December 11, 2002	No.129 State Level Tai Yuan Development Zone Shan Xi, China	USD\$ 33,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling service
Hon Chuan Food Packing (Zhangzhou) Co.,Ltd.	March 21, 2012	Xingtai Industrial Park of Changtai Economic Development Zone, Zhangzhou City, Fujian province, PRC	USD\$ 40,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling service
Hon Chuan Food Packing (Chuzhou) Co.,Ltd.	October 16, 2013	No.1 Fuyang Road, Chengbei Industrial Park, Chuzhou City, Anhui Province, PRC	USD\$ 10,000,000	Manufacture and sale of plastic caps and PET bottles
Hon Chuan Food Packing (Xiantao) Co.,Ltd.	February 18, 2014	No.59, Gold Road West, Xiantao, Hubei, China	USD\$ 15,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling service
Hon Chuan Technologies (Ningbo) Co., Ltd.	May 08, 2004	Ningbo Free Trade Zone, Southern District No.11 standard factory, China	USD\$ 3,500,000	Manufacture and sale of battery case
Quanhe Investment (Suzhou) Co., Ltd.	May 04, 2015	No.43A, Yingbin Road, Puli Town, Wuzhong District, Suzhou City	RMB\$ 6,000,000	Equity Investment
Hon Chuan Food Packing (Anyang) Co., Ltd.	September 04, 2014	Intersection of GongXing Avenue and GuangMing Road, Chengguan town, Tangyin County, Henan Province	RMB\$ 5,000,000	Manufacture and sale of plastic caps
HC (Asia) Holdings Co.,Ltd.	June 02, 2005	The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, P.O. Box 32052, Grand Cayman, KY1-1208, Cayman Island	USD\$ 171,592,504	Equity Investment
Hon Chuan (Thailand) Co.,Ltd.	July 12, 2004	101/116 Moo20, Khlong Nung, Khlong Luang, Pathum 12120, Thailand	THB\$ 1,370,000,000	Manufacture and sale of plastic caps, labels and PET bottles
Hon Chuan FD Packaging Co.,Ltd.	January 17, 2005	695/4M001, Banbund-Bankai Rd,Klongkew, Banbung Chonburi 20220 Thailand	THB\$ 194,865,000	Manufacture and sale of labels and PET bottles
PT Hon Chuan Indonesia	September 29, 2004	Desa Walahar Kec. Klari Kabupaten Krawang Indonesia	IDR\$ 564,300,785,050	Manufacture and sale of plastic caps and PET bottles
Hon Chuan Vietnam Co.,Ltd.	October 17, 2007	No.29, VSIP II Street 7, Vietnam-Singapore Industrial Park II,	VND\$ 404,335,500,000	Manufacture and sale of

		Hoa Phu Ward, Thu Dau Mot Town, Binh Duong Province, Vietnam		plastic caps and PET bottles
Hon Chuan Malaysia Sdn. Bhd.	August 11, 2010	PT.29469, Lengkok Teknologi 3, Kawasan Perindustrian Tech Park @ Enstek, 71760 Bandar Enstek, Negeri Sembilan Darul Khusus	MYR\$ 81,259,900	Manufacture and sale of plastic caps and PET bottles
Hon Chuan (Myanmar) Co.,Ltd.	June 27, 2013	Plot No.B-5, Mingaladon Industrial Park, Mingaladon Township, Yangon Region, The Republic of the Union of Myanmar	MMK\$ 3,848,195,400	Manufacture and sale of plastic caps and PET bottles
Honly Holding Co.,Ltd.	January 30, 2014	The Registered office of the Company is Portcullis TrustNet Chambers, P.O. Box 1225, Apia, Samoa	USD\$ 7,020,000	Equity Investment
Honly International Co.,Ltd.	January 30, 2015	No.44, National Road No.4, Group 5, Phum Trapeang Kol, Sangkat Kantouk, Khan Po Sen Chey, Phnom Penh, Cambodia	USD\$ 1,802,608	Equity Investment
Honly Food & Beverage Co.,Ltd.	July 21, 2014	House #44, Street National Road 4, Group 5, Trapeang Kol village, Kantouk commune, Po Sen Chey district, Phnom Penh	USD\$ 6,000,000	Manufacture and sale of beverage filling service
Shimada International Limitada	June 28, 2004	Rua de Sofala, No.173-Matola C Maputo-Mozambique	MZN\$ 360,000	Manufacture and sale of plastic caps, PET bottles and LDPE film
Hon Shi Mozambique Co., Ltd.	December 04, 2015	Parcela No.3379/R, En4, Chumene, Motola, Mozambique	MZN\$ 50,000,000	Manufacture and sale of plastic caps

#### 8.1.1.3 Data of Common Shareholders of Treated-as Controlled Companies and Affiliates : None.

#### 8.1.1.4 Affiliated company's Operating Results :

Unit: NT\$ thousands

Company Name	Paid-in Capital (Note 1)	Total Assets (Note 1)	Total Liabilities (Note 1)	Total Equity (Note 1)	Sales (Note 2)	Gross Profit(Loss) (Note 2)	Net Profit(Loss) of the period (Note 2)
Hon Chuan Holding Limited	9,645,357	13,288,849	3,108,677	10,180,172	19,925	(1,041)	385,300
Hon Chuan (China) Holding Co., Ltd.	382,878	10,028,657	6,269,009	3,759,648	(16,461)	(202,867)	63,043
Kai Gang Industries Limited	4,562,163	5,275,859	81,530	5,194,329	0	(165)	199,577
Hon Hsing (Samoa) Holding Limited	4,063,694	5,138,943	322,807	4,816,136	0	(22)	65,720
Hon Chuan (Africa) Holdings Co.,	352,948	401,031	36,144	364,887	48,078	1,116	18,734

Ltd.							
Hon Shi (Samoa) Holding Limited	33,501	77,353	3,294	74,059	0	(1,682)	29,547
Hon Chuan Enterprise (Suzhou) Company Limited	660,803	1,198,458	106,378	1,092,080	684,857	1,275	2,083
Suzhou Hongxin Food Packing Co., Ltd.	1,483,500	1,258,635	238,108	1,020,527	618,222	(124,558)	(86,126)
Hon Chuan Enterprise (Changsha) Co., Ltd.	596,625	1,028,221	37,370	990,851	370,857	9,309	(26,997)
Hon Chuan Food Packing (Jinan) Co., Ltd.	935,250	1,413,249	123,268	1,289,981	933,336	170,967	132,979
Hon Chuan Food Packing (Taiyuan) Co., Ltd.	1,064,250	1,917,797	389,212	1,528,585	975,458	56,195	42,615
Hon Chuan Food Packing (Qingxin) Co., Ltd.	1,709,250	2,698,642	835,587	1,863,055	1,650,044	209,123	139,592
Hon Chuan Food Packing (Zhangzhou) Co.,Ltd.	1,290,000	1,168,439	49,252	1,119,187	362,269	(15,938)	(30,036)
Hon Chuan Food Packing (Chuzhou) Co., Ltd.	322,500	445,106	198,873	246,233	283,597	14,551	3,106
Hon Chuan Food Packing (Xiantao) Co., Ltd.	483,750	785,309	337,462	447,847	352,155	85,552	68,566
Hon Chuan Technologies (Ningbo) Co., Ltd.	112,875	62,293	390	61,903	0	4,342	3,519
HC (Asia) Holdings Co.,Ltd.	5,533,858	7,066,704	698,479	6,368,225	299,249	(16,510)	289,019
Hon Chuan (Thailand) Co.,Ltd.	1,239,850	2,163,088	163,304	1,999,784	1,396,674	177,885	177,082
Hon Chuan FD Packaging Co.,Ltd.	176,353	381,579	31,138	350,441	247,257	3,097	(39)
PT Hon Chuan Indonesia	2,708,497	2,515,463	176,861	2,338,602	648,066	(20,334)	(21,867)
Hon Chuan Vietnam Co.,Ltd.	678,878	1,032,803	108,571	924,232	612,866	116,168	109,204
Hon Chuan Malaysia Sdn. Bhd.	561,101	727,815	56,134	671,681	397,053	23,013	46,958
Hon Chuan (Myanmar) Co.,Ltd.	90,967	805,940	33,886	772,054	78,669,041	16,590	19,992
Honly Holding Co.,Ltd.	377,325	291,192	2,501	288,691	26,596	(6,069)	(53,060)
Honly International Co.,Ltd	58,134	121,332	63,824	57,508	0	(813)	787
Honly Food & Beverage Co.,Ltd.	193,500	289,940	176,711	113,229	33,786	(43,486)	(46,953)
Shimada International Limitada	163	147,111	99,571	47,540	138,139	41,275	38,981
Hon Shi Mozambique Co., Ltd.	22,635	129,218	101,018	28,200	21,197	611	6,360

(Note 1) Foreign exchange rates (to NTD) for balance sheet amounts are as follows:

USD: 32.25, RMB: 4.648999, THB: 0.905, RP: 0.002419, VND: 0.001290, MYR: 6.905015, MMK: 0.023639, KHR: 0.452693

(Note 2) Foreign exchange rates (average, to NTD) for income statement amounts are as follows:

USD: 32.262667, RMB: 4.861919, THB: 0.918938, RP: 0.002452, VND: 0.001323, MYR: 7.463742, MMK: 0.026165, KHR: 0.517332

**8.1.1.5 Business scope conversing by all affiliated companies :** Please refer to the basic information of affiliated companies.

**8.1.1.6 Give explanations if there is mutual connections between affiliated companies :** None.



### 8.1.1.7 Directors, Supervisors and Presidents of HON CHUAN's Affiliated Companies:

Unit: Share / %

Company	Title	Name or Representative	Shareholding	
			Share(Note)	%
Hon Chuan Holding Limited	Director	Lin, Chuan-Nui, Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Taiwan Hon Chuan Enterprise Co., Ltd.)	299,080,843	100%
Hon Chuan (China) Holding Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsih-Chung, Liu, Yun-Chang, Lin, Chuan-Nui (Representative of Hon Chuan Holding Limited)	91,230,576	76.84%
		● Dai, Hung-I (Representative of Trans Victory Trading Limited)	6,919,800	5.83%
		● Makedream Investment Holding Limited	20,571,429	17.33%
Kai Gang Industries Limited	Director	Lin, Chuan-Nui, Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan (China) Holding Co., Ltd.)	1,097,377,292	100%
Hon Hsing (Samoa) Holding Limited	Director	Lin, Chuan-Nui, Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan (China) Holding Co., Ltd.)	126,006,000	100%
Hon Chuan Enterprise (Suzhou) Company Limited	Director	Chang, Yueh-Chueh, Liu, Yun-Chang, Lin, Mei-Hsiu (Representative of Kai Gang Industries Limited)	-	100%
Hon Chuan Food Packing (Qingxin) Company Limited	Director	Fang, Yu-Lung, Liu, Yun-Chang, Lu, Wen-Tsan (Representative of Kai Gang Industries Limited)	-	100%
Suzhou Hong Xin Food Packing Company Limited	Director	Tsao, Yu-Yu, Lin, Mei-Hsiu, Liu, Yun-Chang (Representative of Hon Hsing (Samoa) Holding Limited)	-	100%
Hon Chuan Enterprise (Changsha) Co., Ltd.	Director	Chang, Chun-Shu, Tsao Hsin-Wen, Liu, Yun-Chang (Representative of Hon Hsing (Samoa) Holding Limited)	-	100%
Hon Chuan Food Packing (Jinan) Company Limited	Director	Yen, Ching-Chuan, Liu, Yun-Chang, Lu, Wen-Tsan (Representative of Hon Hsing (Samoa) Holding Limited)	-	100%
Hon Chuan Food Packing (Taiyuan) Company Limited	Director	Liu, Yun-Chang, Tsao, Yu-Yu, Yen, Ching-Chuan (Representative of Hon Hsing (Samoa) Holding Limited)	-	100%
Hon Chuan Food Packing (Zhangzhou) Company Limited	Director	Yen, Ching-Chuan, Liu, Yun-Chang, Lu, Wen-Tsan (Representative of Kai Gang Industries Limited)	-	100%
Hon Chuan Food Packing (Chuzhou) Company Limited	Director	Lu, Wen-Tsan, Liu, Yun-Chang, Fang, Yu-Lung (Representative of Kai Gang Industries Limited)	-	100%
Hon Chuan Food Packing (Xiantao) Company Limited	Director	Lu, Wen-Tsan, Liu, Yun-Chang, Fang, Yu-Lung (Representative of Kai Gang Industries Limited)	-	100%

Hon Chuan Technologies (Ningbo) Co., Ltd.	Director	Lin, Lu, Hsu, Mu-Tsao, Wang, Yao-Zong (Representative of Hon Chuan Holding Limited)	-	100%
HC (Asia) Holdings Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan Holding Limited)	171,592,505	100%
Hon Chuan (Thailand) Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen- Pin, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd)	137,000,000	100%
Hon Chuan FD Packaging Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of Hon Chuan (Thailand) Co., Ltd)</li> <li>● Kasem Deemaitree, Mrs.Chintana Assodrmitee (Representative of F&amp;D)</li> </ul>	12,666,225 6,820,275	65% 35%
PT Hon Chuan Indonesia	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan, Liu, Yun-Chang (Representative of HC (Asia) Holdings Co., Ltd.)	83,984,413	100%
Hon Chuan Vietnam Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	-	100%
Hon Chuan Malaysia Sdn. Bhd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan, Ting, Chih-Hao (Representative of HC (Asia) Holdings Co., Ltd.)	81,259,900	100%
Hon Chuan (Myanmar) Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)</li> <li>● Daw Zin Mar Cho, Daw Aye Mya Aung (Representative of Pack Master Co., Ltd.)</li> </ul>	89,524,394 38,367,597	70% 30%
Honly Holding Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of HC (Asia) Holdings Co., Ltd.)</li> <li>● Chiu, Hsien-Tsai</li> </ul>	7,020,000 4,680,000	60% 40%
Honly International Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Cheng, Ya-Wen, Dai, Hung-I, Tsao, Hung-Yu (Representative of HC (Asia) Holdings Co., Ltd.)</li> <li>● Chuang, Savy</li> </ul>	490 510	49% 51%
Honly Food & Beverage Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Tsao, Hsih-Chung, Dai, Hung-Chuan, Pai, Wen-Pin, Chang, Yu-Hung (Representative of HC (Asia) Holdings Co., Ltd.)</li> <li>● Chiu, Hsien-Tsai, Chuang, Savy, Chiu, Pin-Hao</li> </ul>	3,600,000 2,400,000	60% 40%

Hon Chuan (Africa) Holdings Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan Holding Limited)	10,944,118	100%
Hon Shi (Samoa) Holding Limited	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.)</li> <li>● Roy Debabrata, Huang, Yu-Hwa</li> </ul>	1,038,790	60% 40%

Note: Except for Hon Chuan Malaysia Sdn. Bhd., other limited companies do not issue shares.

### 8.1.2 Independent Auditor's HON CHUAN and Affiliated Enterprises Consolidated Financial Statements: Please refer to Page 107 to 193.

### **8.1.3 Representation letter about Consolidated Financial Statements of Affiliated Enterprises**

#### **REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. as of and for the year ended December 31, 2016, 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. 7, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Hon Chuan Enterprise Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Taiwan Hon Chuan Enterprise Co., Ltd.

Dai, Hung-Chuan

Chairman

March 24, 2017

**8.1.4 Relationship report : Not applicable.**

**8.2 The status of issuing private placement securities in the most recent year and up to the publication of the annual report : None.**

**8.3 Acquisition or disposal of the Company's stock shares by subsidiaries in the most recent year and up to the publication of the annual report : None.**

**8.4 Other necessary supplementary notes : None.**

**9. The occurrence of any events as stated in Section 3 Paragraph 2 in Article 36 of the Securities Exchange Act that had significant impact on shareholders' equity or securities prices in the most recent year and up to the publication of the annual report : None.**

Taiwan Hon Chuan Enterprise Co., Ltd.

Chairman : Dai, Hung-Chuan



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