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# Taiwan Hon Chuan Enterprise Co., Ltd. **Annual Report 2017**



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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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# 1. Letter to Shareholders

Looking back at the year of 2017, factors such as volatility in the global economy, technological disruptions across the industry, increasing regulatory requirements all have intensified competitions in the global market and shortened product life cycles. Given these changes in the macro environment, Taiwan Hon Chuan has focused on the areas of predicting market trends, leading customer behaviors, governing product quality, and creating product demand as part of the Company's strategic direction and development in the recent years. Although cost of raw materials and labor has progressively increased and interest rate has risen last year, the Company has increased its competitiveness by externally expanding into new markets and closing new accounts and internally enhancing capacity utilization, implementing budget control, improving purchase negotiation and developing innovative products. In 2017, the consolidated sales totaled at NTD\$ 17,519,458,000, increased by 6.11% from NTD\$ 16,510,678,000 in 2016. The profit after tax reached NTD\$ 1,261,983,000, 6.02% higher than NTD\$ 1,190,294,000 of last year. The earning per share is 4.20 dollars for the year of 2017 conclusively.

Taiwan Hon Chuan values food safety importantly and has placed strict control protocols on the production process. The Company values environmental sustainability and is devoted to waste reduction and increased efficiency. The Company values clients' needs and offers excellent products and services in our long-term partnerships with the clients. The Company values superior product quality and offers a variety of packaging options across different industries. The Company values employees' benefits and interests and creates a corporate culture that encourages teamwork and competitiveness. Although the year of 2018 comes with foreseeable challenges, Taiwan Hon Chuan is set to enhance its position by strengthening our business competitiveness and accomplishing our strategic objectives. The productions in Taiwan, China and South East Asia are expected to grow this year on the backbone of more advanced machineries raising efficiency and demands from new markets and long-term committed clients. Furthermore, entry into the African market will allow us to tap into over a large population (over a billion) and enhance growth in our packaging and beverage sectors. Research & development and innovation continue to be the center of the Company. We will continue to promote our proprietary built-in QR Codes technology, new material applications, design and usages for our packaging and caps, to create new value-added products and services for our clients.

In face of an ever-changing global market, our management team is more committed than ever to product innovation, market expansion, cost reduction and talent development by way of adaptive strategies, steady growth, and bottom-up resources

integration. Taiwan Hon Chuan will continue to commit itself to cost saving and budget control, in order to enhance our overall competitiveness.

Looking ahead, Taiwan Hon Chuan will continue to commit to our core values; “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 successes into China, South East Asia, Africa and other potential markets. We look forward to entering into a new phase of Taiwan Hon Chuan through our continuing efforts in 2018.

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 2017 Operating Result

#### 1.2.1.1 2017 Execution of Business Plans

In 2017, the consolidated revenue posted at NTD\$ 17,519,458 thousand, increased by 6.11% from 2016. The consolidated income before tax booked NT\$ 1,546,994 thousand, up 3.28% from 2016; The consolidated income after tax reached NTD\$ 1,261,983 thousand, 6.02% higher than previous year. The earning per share is 4.20 dollars.

#### 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 2017.

#### 1.2.1.3 Financial Results and Profitability Analysis

Item		2017	2016
Finance Structure (%)	Debt to Assets Ratio	53.46	53.72
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio	120.92	98.13
Solvency (%)	Current Ratio	126.12	80.39
	Quick Ratio	78.22	52.97
	Interest Coverage (times)	7.86	7.46
Profitability (%)	Return on Assets	5.34	5.03
	Return on Equity	9.77	9.27
	Pre-tax Profit to Paid-in Capital Ratio	51.57	51.14
	Net Margin	7.20	7.21
	Earnings Per Share (NT\$)	4.20	4.02

#### 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, sparing no efforts in training R&D personnel.

The R& D achievement for 2017 was as follows:

- (1) Development of oxygen-barrier PET bottle
- (2) Development and mass production of 6L Barreled water cap (Eco-friendly functional cap)
- (3) Development and mass production of 38mm ready-to-drink plastic cap
- (4) Mass production of 1881 one piece cola cap
- (5) Mass production of 1881 bottle neck 550ml, 800ml, 1250ml aseptic bottle
- (6) Mass production of 38mm bottle neck 280ml, 300ml, 400ml, 900ml cold-fill bottle
- (7) Mass production of 1810 bottle neck 510ml, 570ml cola bottle
- (8) Mass production of 1810 bottle neck 500ml hot-fill bottle
- (9) Mass production of 42mm TPE ring pull cap
- (10) Development of gas wine 30x60mm aluminum cap
- (11) Mass production of TTL 30x35mm laser bronzing cap
- (12) Mass production of RSB63 mm metal lug cap



- (13) Development of RSB66 mm metal lug cap
- (14) Development of 30x60mm cap with bronzing at cover
- (15) New facility assessment of metal lug cap and apply on RTB38, 63mm joint production line
- (16) Development and mass production of multi-layer PE shrinkable film
- (17) Development and mass production of shrinkable label with high metallic gloss

## 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- and long-term strategic cooperation with clients.
  - (3) Implement corporate governance, in order to make the Company's overall operation more Institutionalized, standardized and rationalized. Achieve the goal of sustainable operation and development.
  - (4) Strengthen enterprise information operating system and establish standard procedure and internal control mechanism, in order to enhance performance.
2. Take action for globalization – foothold in Taiwan, harvest in Asia, aim to the world
  - (1) Continuously integrate, use and share group resources in order to enhance business synergy.
  - (2) Actively develop new products, apply and promote innovative R&D technology to increase product value.
  - (3) Build strategic alliances with global giants. Apply experiences from Taiwan to China, Southeast Asia and Africa. Integrate resources and expand markets.

### 1.2.2.2 Sales Forecast and Sales Policy

1. The projected sales volume for 2018 is outlined as follows:

Unit: Thousand Pcs/Kg/Bottle/Box

Major Products	Sales Volume
Plastic Closures	25,188,633
PET Bottles	7,322,671
Labels	3,069,244
Aluminum Closures	600,403
Tobacco & Liquor Packaging	1,688
Beverage Filling OEM	1,754,929
TR Filling OEM	65,879
Metal Lug Caps	289,074
Others	184
Totals	38,292,705

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 develop 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 comprehensive marketing channels and logistics management worldwide 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 Continuous innovation activities**

Hon Chuan insists on "Innovation" philosophy, actively innovates all kinds of niche type new products and technologies to increase the products' functionality, additional value and differentiation. We develop new packaging materials and aggressively innovate all kinds of lighter bottles, single-sheet plastic caps, eco trademarks, eco-friendly packaging materials, barrier packaging 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. Also, aggressively enter new industries, develops new products such as food, life and cleaning supplies and offer packaging materials with functionality and specialty to cater the demand of customers and consumers.

#### **1.2.3.2 Management strategy with differentiation**

Hon chuan keep abreast of market development trend and customer needs in every stage from individual item sales (selling bottle, cap, label or PET bottle separately) to modular sales (selling bottle cap + label + PET bottle collectively), and stretch to total solution (from the beginning of producing bottle cap, label and PET bottle to the end service of filling OEM, package and storage etc.) and servitization in beverage manufacturing (OEM, ODM, In-house service and so on). Builds up an irreplaceable cooperation mode by offering a satisfactory overall service and entering in depth into the production process of the customers.

## **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 launch 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, Hon Chuan complies with national related laws, international agreements and such policies. To meet regulatory change and requirements from competent authority, we build and implement related regulations to strengthen corporate governance as our principle.

### **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 Changhua City.
1982	➤ Moved to Shiou Shuei, Changhua 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.

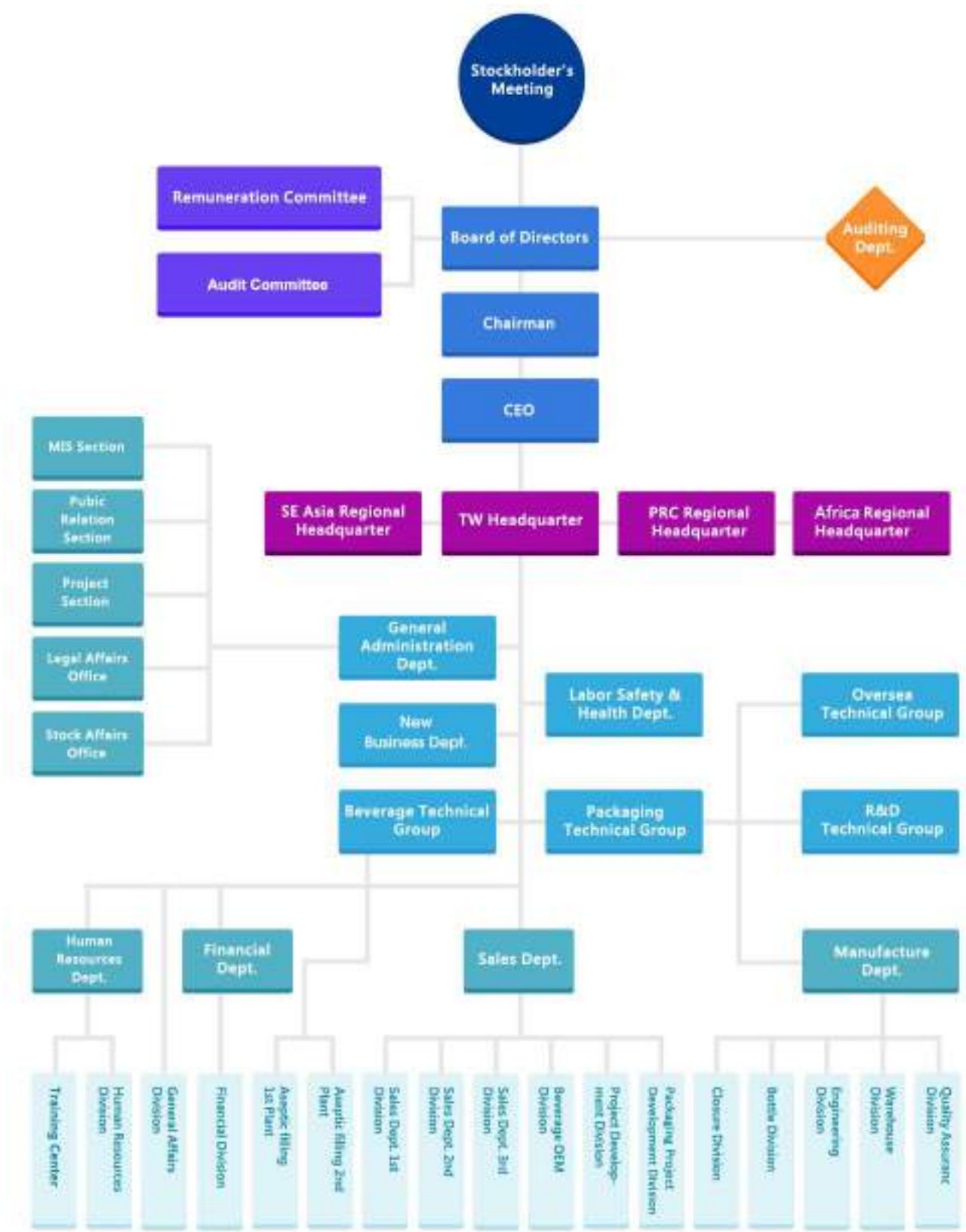
1998	➤ Started to manufacture battery casing and accurate electronic parts.
1999	➤ Renamed as “Taiwan Hon Chuan Enterprise Co., Ltd.” to strive for international recognition.
2000	➤ Expanded the facilities to produce PET bottles so that customer can acquire PET bottles in additions to plastic caps, aluminum 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 business.</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 preform for local market.</li> <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>➤ 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>
2017	<ul style="list-style-type: none"> <li>➤ Established In-house blowing bottle plant to cooperate with Tensai Company in Thailand.</li> <li>➤ Established Honhua Holdings Co., Ltd. in Myanmar to invest bottle water production line.</li> <li>➤ Established Hon Chuan Enterprise Packing (Luohe) Co., Ltd. in Henan, China to invest bottle water production line.</li> </ul>

3. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart





### 3.1.2 Major Corporate Functions

Department		Functions
Board of directors	Remuneration Committee	Formulate and regularly review the policy, system, standard and structure of directors' and managers' performance evaluation and remuneration. Also, regularly evaluate and formulate the remuneration of directors and managers and supervise the implementation of remuneration policy.
	Audit Committee	Supervise the Company to carry on related business in compliance with The Company Act., Securities and Exchange Act. and related regulations.
	Auditing Dept.	Examine and audit the effectiveness of internal control system, and evaluate its comprehensiveness and accuracy. Also, continuously supervise and improve all internal control operations.
General Administration Dept.		Responsible for planning and execution of business objectives, internal control systems, performance analysis, ERP systems and project management.
Sales Dept.		Responsible for formulating and implementing marketing strategies, maintaining customer's relationship as well as new customer development, and achieving sales targets.
Manufacture Dept.		Responsible for product manufacturing, production capacity allocation, inventory management and transportation scheduling.
Financial Dept.		Responsible for the summarization and supply of accounting information, management and operation of finance and investment, cost calculation and stockholding services.
Packaging Technical Group		Responsible for Integration of manufacturing, technology, R&D, QC, and relative affaires in packaging material sector.
Beverage Technical Group		Responsible for Integration of manufacturing, technology, R&D, QC, and relative affaires in beverage OEM sector.
Human Resource Dept.		Responsible for Human resource planning, recruitment, training, career planning, employee's welfare, relationship, etc.
Labor Safety & Health Dept.		Responsible for planning and execution of industrial safety sanitation, environmental protection.
New Business Dept.		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

#### 3.2.1.1 Information regarding Directors

April 17, 2018

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	2017.06.15	3 years	1996.10.04	3,665,019	1.25%	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  Vice President of Finance Dept.	Dai, Hung-I  Cheng, Ya-wen	Brother  Spouse
Director	R.O.C.	Tsao, Hsih-Chung	M	2017.06.15	3 years	1982.03.22	4,372,243	1.49%	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	—	—	—
Director	R.O.C.	Liu, Yun-Chang	M	2017.06.15	3 years	1999.04.20	689,303	0.24%	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 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	Vice President of HON CHUAN	—	—	—
Director	R.O.C.	Chang, Chun-Shu	F	2017.06.15	3 years	1993.12.17	2,667,234	0.91%	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	2017.06.15	3 years	1993.12.17	2,780,795	0.95%	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	2017.06.15	3 years	1996.10.04	5,890,111	2.01%	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  Vice President of Finance Dept.	Dai, Hung-Chuan  Cheng, Ya-wen	Brother  Relationship in law
Independent Director	R.O.C.	Kung, Yi-Lu	M	2017.06.15	3 years	2017.06.15	0	0	0	0	0	0	0	0	(1) Master Degree in Accounting, Soochow University, Taiwan (2) Department of Business Administration, Tamkang University, Taiwan (3) Assistant general manager of CDIB Capital Group	Auditor general of King's Town Bank	—	—	—
Independent Director	R.O.C.	Hung, Chao-Nan	M	2017.06.15	3 years	2017.06.15	0	0	0	0	0	0	0	0	(1) Master Degree in Politics, Arkansas State University, U.S.A (2) The 4th member of the Control Yuan (3) Legislator, reappointment for 8 times, Chungkuo Kuomintang	Independent Director of Rexon Industrial Corp., Ltd.	—	—	—
Independent Director	R.O.C.	Huang, Hsiang-Ying	M	2017.06.15	3 years	2017.06.15	0	0	0	0	0	0	0	0	(1) Ph. D. in Public Finance and Economics, Central University of Finance and Economics, Peking, China (2) Master Degree in Accounting, National Chengchi University, Taiwan (3) Bachelor Degree in Accounting, Fu Jen Catholic University, Taiwan (4) Partnership Accountant of BDO Taiwan Joint Accounting Firm (5) Lecturer in Ling Tung University (6) Lecturer in Tunghai University (7) Lecturer, Department of Finance in Chaoyang University of Technology (8) Independent director of Sino-American Silicon Products Inc. (9) Deputy Section Manager of Finance Division, Administration Department of The Far Eastern Group	(1) Partnership Accountant of EnWise CPAs & Co. (2) A member of Remuneration Committee in Lelon Electronics Corp. (3) A member of Remuneration Committee in Liton Technology Corp. (4) Independent director of Quaser Machine tools Inc.	—	—	—

Note: The Company set up Audit Committee in 2017, and independent directors Hung, Chao-Nan, Huang, Hsiang-Ying and Kung, Yi-Lu inaugurated newly on June 15, 2017.

### 3.2.1.2 Major shareholders of Institutional Shareholders: None.

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

Qualifications  Name	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
Hung, Chao-Nan (Note 2)		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Huang, Hsiang-Ying (Note 2)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Kung, Yi-Lu (Note 2)			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	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: The Company set up Audit Committee in 2017, and independent directors Hung, Chao-Nan, Huang, Hsiang-Ying and Kung, Yi-Lu inaugurated newly on June 15, 2017.

### 3.2.2 Information Regarding Management Team

April 17, 2018

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	1990.06.01	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	-	-	-
Executive Vice President	R.O.C.	Liu, Yun-Chang	M	1993.03.01	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. Group Vice President (Note 2)	R.O.C.	Pai, Wen-Pin	M	1993.06.01	12,693	0	0	0	0	0	(1) Graduated from Mingdao high school (2) Completed a Business Management course at Tunghai University	-	-	-	-
Sales Dept. Group Vice President (Note 2)	R.O.C.	Tseng, Wen-Hua	M	2014.03.01	663	0	0	0	0	0	(1) Graduated from National Chin-yi University of Technology. (2) Completed a Marketing Management course at Tunghai University	-	-	-	-
Financial Dept. Group Vice President (Note 3)	R.O.C.	Cheng, Ya-Wen	F	2008.01.01	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.	-	-	-
Financial Dept. Vice President (Note 4)	R.O.C.	Chuang, Kuei-Ching	F	2008.02.01	18,507	0.01%	0	0	0	0	(1) Graduated from Accountancy Dept., Chungyu Institute of Technology (2) Completed a Financial Management course at Tunghai University	-	-	-	-
Packaging Technical Group Vice President	R.O.C.	Lee, Chin-Hsiung	M	2014.03.01	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	-	-	-	-
Sales Dept. Vice President	R.O.C.	Lai, Shen-Yuan	M	2016.03.29	3,159	0	0	0	0	0	(1) Graduated from Sociology Dept., National Taiwan University (2) Special Assistant of Chairman, Chainan Construction Co., Ltd.	-	-	-	-

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
Beverage Technical Group Vice President	R.O.C.	Lu, Ching-Chou	M	2012.03.01	0	0	0	0	0	0	(1) Graduated from Mechanical Engineering Dept., National United University (2) EMBA of National Chung Hsing University	-	-	-	-
Auditing Dept. Senior Assistant Vice President	R.O.C.	Hsieh, Hung-Lung	M	2009.08.11	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	-	-	-	-
Sales Dept. Senior Assistant Vice President	R.O.C.	Fang, Yu-Lung	M	2009.01.01	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	2009.07.01	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.	-	-	-	-
General Administration Dept. Senior Assistant Vice President	R.O.C.	Yen, Ching-Chuan	M	2005.09.06	29,685	0.01%	0	0	0	0	(1) Graduated from Chemical Engineering Dept., Tunghai University (2) Vice General Manager, Daodi international Co., Ltd.	-	-	-	-
R&D Technical Dept. Assistant Vice President	R.O.C.	Hung, Min-Hsiung	M	2013.10.08	33,344	0.01%	103,560	0.04%	0	0	(1) Graduated from Electronics Dept., Mingdao high school (2) Completed a Management Training Program at Tunghai University	-	-	-	-
Sales Dept. Assistant Vice President	R.O.C.	Ting, Chih-Hao	M	2013.05.01	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	2013.10.08	9,372	0.00%	0	0	0	0	Graduated from Chia Nan University of Pharmacy & Science	-	-	-	-
Aseptic Filling Plant Assistant Vice President	R.O.C.	Cheng, Chih-Hung	M	2016.04.01	0	0	2,461	0	0	0	Master degree of Food Science Dept., National Pingtung University of Science and Technology	-	-	-	-

Note 1: The definition of managers above is according to the explanation in Taiwan-Finance-Securities-(III)-0920001301 of Ministry of Finance, which include General Manager, Senior Vice President, Assistant Vice President and CFO.

Note 2: Promoted from Senior Vice President to Group Vice President on April 14, 2017.

Note 3: Promoted from Senior Vice President to Group Vice President on January 1, 2018.

Note 4: Promoted from Senior Assistant Vice President to Vice President on January 1, 2018.

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

### 3.3.1 Remuneration of Directors

December 31, 2017  
Unit: NT\$ Thousands

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	11,078	11,078	0	0	0.9%	0.9%	8,017	18,081	102	102	2,403	0	2,403	0	1.75%	2.57%	—
Director and President	Tsao, Hsh-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																					
Independent Director	Hung, Chao-Nan (Note 3)																					
Independent Director	Huang, Hsiang-Ying (Note 3)																					
Independent Director	Kung, Yi-Lu (Note 3)																					

Note 1: Pension was recorded as expenses and appropriated in 2017.

Note 2: The Company re-elected directors and supervisors on June 15, 2017. CDIB Capital Group finished its term of office on June 15, 2017.

Note 3: The Company set up Audit Committee in 2017, and independent directors Hung, Chao-Nan, Huang, Hsiang-Ying and Kung, Yi-Lu inaugurated newly on June 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 1) Chang, Chun-Shu Liu, Yun-Chang Hung, Chao-Nan (Note 2) Huang, Hsiang-Ying (Note 2) Kung, Yi-Lu (Note 2)	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note 1) Chang, Chun-Shu Liu, Yun-Chang Hung, Chao-Nan (Note 2) Huang, Hsiang-Ying (Note 2) Kung, Yi-Lu (Note 2)	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note 1) Chang, Chun-Shu Hung, Chao-Nan (Note 2) Huang, Hsiang-Ying (Note 2) Kung, Yi-Lu (Note 2)	Lin, Chuan-Nui Dai, Hung-I CDIB Capital Group (Note 1) Chang, Chun-Shu Hung, Chao-Nan (Note 2) Huang, Hsiang-Ying (Note 2) Kung, Yi-Lu (Note 2)
NT\$ 2,000,000 ~ NT\$ 4,999,999	Dai, Hung-Chuan Tsao, Hsih-Chung	Dai, Hung-Chuan Tsao, Hsih-Chung	Liu, Yun-Chang	Liu, Yun-Chang
NT\$ 5,000,000 ~ NT\$ 9,999,999	0	0	Dai, Hung-Chuan Tsao, Hsih-Chung	0
NT\$ 10,000,000 ~ NT\$ 14,999,999	0	0	0	Dai, Hung-Chuan Tsao, Hsih-Chung
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	10	10	10	10

Note 1: The Company re-elected directors and supervisors on June 15, 2017. CDIB Capital Group finished its term of office on June 15, 2017.

Note 2: The Company set up Audit Committee in 2017, and independent directors Hung, Chao-Nan, Huang, Hsiang-Ying and Kung, Yi-Lu inaugurated newly on June 15, 2017.

### 3.3.2 Remuneration of Supervisors

December 31, 2017  
Unit: NT\$ Thousands

Unit: NT\$ 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 (Expired)	0	0	0	0	0	0	0%	0%	None
Supervisor	Tsao, Yu-Yu (Expired)									
Supervisor	Hsih-Yueh Development Co., Ltd. Representative: Hsu, Cheng-Chuan (Expired)									

### 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 General Manager and Senior Vice President

December 31, 2017  
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			
General Manager (President)	Tsao, Hsih-Chung	18,330	28,907	377	377	0	0	10,291	0	10,291	0	2.35%	3.22%	—
Executive Vice President	Liu, Yun-Chang													
Group Vice President (Note 1)	Pai, Wen-Pin													
Group Vice President (Note 1)	Tseng, Wen-Hua													
Group Vice President	Cheng, Ya-Wen													
Vice President	Lee, Chin-Hsiung													
Vice President	Lai, Shen-Yuan													
Vice President	Lu, Jen-Yao													

Note 1: The Company has accrued pension expenses for 2017 and made pension contributions totaling NTD\$ 377 thousand (including NTD\$ 102 thousand under the new system and NTD\$ 275 thousand under the old system).

Note 2: Promoted from Senior Vice President to Group Vice President on April 14, 2017.

### 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 Lu, Jen-Yao Lee, Chin-Hsiung	Liu, Yun-Chang Lu, Jen-Yao Lee, Chin-Hsiung Lai, Shen-Yuan Tseng, Wen-Hua
NT\$ 5,000,000 ~ NT\$ 9,999,999	Tsao, Hsih-Chung Cheng, Ya-Wen	Pai, Wen-Pin Cheng, Ya-Wen
NT\$ 10,000,000 ~ NT\$ 14,999,999	0	Tsao, Hsih-Chung
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, 2017

Unit: NT\$ Thousands

	Title	Name	Stock	Cash	Total Employees' Profit Sharing Bonus	Total Employees' Profit Sharing Bonus Paid to Management Team as a % of 2015 Net Profit
Management Team	President	Tsao, Hsih-Chung	-	13,830	13,830	1.12%
	Executive Vice President	Liu, Yun-Chang				
	Sales Dept. Group Vice President (Note)	Pai, Wen-Pin				
	Sales Dept. Group Vice President (Note)	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				
	Financial Dept. Senior Assistant Vice President	Chuang, Kuei-Ching				
	General Administration Dept. Senior Assistant Vice President	Yen, Ching-Chuan				
	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	Cheng, Chih-Hung				

Note: Promoted from Senior Vice President to Group Vice President on April 14, 2017.

**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 2017 Net Profit		Total Remuneration as % of 2016 Net Profit	
	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities
Directors	1.75%	2.57%	1.71%	2.36%
Supervisors	0.00%	0.00%	0.08%	0.08%
General Manager and Senior Vice President	2.35%	3.22%	2.48%	3.19%

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.
  - (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 8 (A) meetings in 2017 with the attendance record of Board members as follows:

Title	Name	Actual attendance	Attendance by proxy	Attendance Rate (%)	Remarks
Chairman	Dai, Hung-Chuan	8	0	100	Re-elected from June 15, 2017
Director	Tsao, Hsih-Chung	7	1	88	Re-elected from June 15, 2017
Director	Liu, Yun-Chang	7	0	88	Re-elected from June 15, 2017
Director	Chang, Chun-Shu	7	1	88	Re-elected from June 15, 2017
Director	Lin, Chuan-Nui	6	1	75	Re-elected from June 15, 2017
Director	Dai, Hung-I	8	0	100	Re-elected from June 15, 2017
Director	CDIB Capital Group Representative: Cheng, Chien-Hua (Note)	3	0	75	Term of office expired on June 15, 2017. Shall attend 4 times.
Independent Director	Hung, Chao-Nan	4	0	100	Term of office started on June 15, 2017. Shall attend 4 times.
Independent Director	Huang, Hsiang-Ying	4	0	100	Term of office started on June 15, 2017. Shall attend 4 times.
Independent Director	Kung, Yi-Lu	3	1	75	Term of office started on June 15, 2017. Shall attend 4 times.

Note: The Company re-elected directors and supervisors on June 15, 2017. CDIB Capital Group finished its term of office on June 15, 2017.

Other required information:

1. 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:

(1) Article 14-3 of the Securities and Exchange Act.

Meeting Date of the Board of Directors	Content of Motion	All independent directors' opinions	The Company's response
2017.08.11	1. Approved increase (decrease) of corporate guarantee for subsidiaries.	None	Resolved
2017.11.10	1. Approved increase (decrease) of corporate guarantee for subsidiaries.	None	Resolved
2018.03.27	1. Approved 2018 appointment of management team.	None	Resolved
	2. Approved the replacement of CPAs.	None	Resolved
	3. Approved the examination of accountants' independency.	None	Resolved
	4. Approved 2018 audit plan.	None	Resolved
	5. Approved management's report on internal control policy.	None	Resolved
	6. Approved increase (decrease) of corporate guarantee for subsidiaries.	None	Resolved
	7. Resolved to issue the Company's 1 <sup>st</sup> Domestic unsecured corporate bonds in 2018.	None	Resolved
2018.05.11	1. Approved the additional item of 2018 annual shareholders' meeting: Implementation report of the Company's 1 <sup>st</sup> Domestic unsecured corporate bonds.	None	Resolved
	2. Approved separated corporate guarantee extended to the subsidiaries sharing joint bank facility	None	Resolved

(2) Any resolution, to which an independent director objects or expresses reservations, has been recorded or declared in writing: None.

2. 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.

3. Measures taken to strengthen the functionality of the Board of Directors in recent years and implementation status:

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

- (1) Build up and maintain corporate image and pay attention to social responsibility.
- (2) Supervise and manage any risks faced by the Company and ensure the Company to comply with related regulations.
- (3) Stipulate effective and reasonable internal control system.
- (4) Continuously update corporate website to maintain the latest business and financial information for shareholders.
- (5) The Company set up Audit Committee on June 15, 2017 to strengthen corporate governance and management.

Implementation status: Great.

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

#### 1. Audit Committee:

Audit Committee held 2 meetings (A) in the most recent year with the attendance record of independent directors as follows:

Title	Name	Actual attendance (B)	Actual attendance Rate (%) (B/A)	Remarks
Independent Director	Hung, Chao-Nan	2	100	Newly elected on June 15, 2017.
Independent Director	Huang, Hsiang-Ying	2	100	Newly elected on June 15, 2017.
Independent Director	Kung, Yi-Lu	1	50	Newly elected on June 15, 2017.

Other required information:

- If there is any circumstance below in the operation of Audit Committee, the dates, sessions, contents of motion, the resolutions of Audit Committee and the Company's response should be specified:
  - Article 14-5 of the Securities and Exchange Act.
  - Besides above circumstance, any resolutions which are not resolved by Audit Committee but are approved by more than 2/3 of all directors.
- If there is any independent directors' avoidance of motion in conflict of interest, the independent directors' name, content of motion, cause for avoidance and voting should be specified.
- The communication status between independent directors, Chief Audit Executive and CPAs (shall include the material items, communication way and result of finance and sales situation).
  - Communication between independent directors and CPAs:

Date	Communication Item
2017.11.10	CPAs explained and communicated in writing about the content, adjusting entries of Consolidated Financial Statements for the 2017 3rd quarter and auditors' report
2018.03.27	1. CPAs explained and communicated in writing about the content, adjusting entries of 2017 Individual and Consolidated Financial Statements and auditors' report. 2. CPAs explained IFRS 16 "Lease" and its impact assessment.

Note: Based on the Company's Individual and consolidated financial statements and audit report which audited by CPAs, independent directors issued the review report.

- Communication between independent directors and chief audit executive:
 

Chief audit executive and independent directors submit latest audit report and defects follow-up report before the meeting of the Board of Directors and Audit Committee, to explain the Company's implementation status of yearly audit plan and improvement status of internal control defects. It shall summon a meeting at any time if there is any major irregularity.
- The Company set up Audit Committee on June 15, 2017.

2. The Board held 4 meetings (A) in 2017 with the attendance record as follows:

Title	Name	Actual attendance (B)	Actual attendance Rate (%) (B/A)	Remarks
Supervisor	Lin, Chun-Chih	4	100	Term of office expired on June 15, 2017. Shall attend 4 times.
Supervisor	Tsao, Yu-Yu	0	0	Term of office expired on June 15, 2017. Shall attend 4 times.
Supervisor	Hsih-Yueh Development Co., Ltd. Representative: Hsu, Cheng-Chuan	4	100	Term of office expired on June 15, 2017. Shall attend 4 times.

Other required information:

1. The composition and duties of supervisors:

(1) Communication between the supervisors, staff and shareholders of the Company:

1-1 Supervisors come to the Company and communicate with employees from time to time.

1-2 The Company holds the Board of Directors' Meetings and Shareholders' Meetings on a regular basis.

(2) Communication between the supervisors, chief audit executive and CPAs:

2-1 Supervisors communicate with CPAs about financial situation from time to time.

2-2 After audit items finished, the chief audit executive submits internal audit reports to supervisors, and supervisors do not have object opinions.

2-3 The chief audit executive attends the Board of Directors' meetings regularly, and supervisors do not have object opinions.

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/GTSM 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, 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?	V		(1) The Company has designated spokesperson and Acting Spokesperson for handling shareholders' proposal, doubts, disputes and other related matters. Also, it sets up a specific mailbox to deal with shareholders' requests and other related matters in Stakeholders' section on the Company's website.	Conform to Corporate Governance Best-Practice Principles.
(2) Does the Company possess a list of major shareholders and a list of owners of these major shareholders?	V		(2) According to shareholders' list offered by stock affairs agency, the Company possesses a list of major shareholders and a list of owners of these major shareholders and declares insider shareholding outstanding regularly.	Conform to Corporate Governance Best-Practice Principles.
(3) Has the Company established and implemented with its affiliates risk management and firewall system?	V		(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.	Conform to Corporate Governance Best-Practice Principles.
(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		(4) The Company has drawn up "Procedures for Handling Material Inside Information", "Ethical Conduct Codes of Directors, Supervisors and Managers", "Ethical Corporate Management Best Practice Principles", "Procedures for preventing of insider trading" and so forth in 2015, in order to establish policies of information process and disclosure, prevent information being spilled improperly, make sure the information which the Company discloses publicly	Conform to Corporate Governance Best-Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			consistent and accurate, prevent insider trading from happening.	
3. Composition and Responsibilities of the Board of Directors: (1) Has the Board of Directors developed and implemented diverse corporate policies regarding the composition of members?	Y		(1) The Company sets up Corporate Governance Best-Practice Principles, in which “Chapter 3 Enhancing the Function of Board of Directors” has formulated that the composition of the Board of Directors shall be determined by taking diversity into consideration and drawing up an appropriate policy on diversity based on the company's business operations, operating dynamics, and development needs. There are nine seats in the Board of Directors, and all of them possess various professional background and work domain: 1. There is one seat of female director member. 2. Normal director members: composed of the members who possess professional background, expertise and industrial experience, such as Master Degree in Structural Engineering, University of California, Berkeley, U.S.A, Master Degree in Urban Design, University of Sydney, Australia and EMBA of Beijing University, China and so forth. 3. Independent director members: composed of the members who possess professional background, expertise and industrial experience, such as Master Degree in Politics, Arkansas State University, U.S.A, Ph. D. in Public Finance and Economics, Central University of Finance and Economics, Peking, China and Master Degree in Accounting, Soochow University, Taiwan and so forth.	Conform to Corporate Governance Best-Practice Principles.
(2) Besides existing Remuneration Committee and Audit Committee, is the company voluntarily setting up other functional committees?	Y		(2) Besides existing Remuneration Committee and Audit Committee, the Company is evaluating to set up other functional committee.	Other functional committee is being evaluated to set up. Conform to Corporate Governance Best-Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
(3) Does the company have performance evaluation policy for the Board of Directors? Is the evaluation being conducted annually and regularly?	V		(3) The Company has formulated "Regulations Governing the Board Performance Evaluation" on November 12, 2016, and based on which the Company will conduct the evaluation.	Will conduct the evaluation based on these regulations to conform to Corporate Governance Best-Practice Principles.
(4) Does the Company evaluate certified public accountants' level of independence regularly?	V		(4) Based on Corporate Governance Best-Practice Principles, the Company assesses the independence of the respective certified public accountants every year (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.	Conform to Corporate Governance Best-Practice Principles.
4. Whether the listed company sets up full-time (part time) units or personnel responsible for corporate governance and related matters (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, to conduct company's registration and modification, to keep minutes during the Board of Directors' and the shareholders' meeting)?	V		<p>The Company sets up Stock Affairs Office and Finance Department, which assign personnel jointly to deal with corporate governance and related matters, to protect shareholders' rights and enhance the responsibilities of the Board of Directors.</p> <p>The main responsibilities are as below:</p> <ol style="list-style-type: none"> <li>1. Develop appropriate corporate mechanisms and organizational structures to promote the independency of the Board of Directors, enhance the transparency of the Company, comply with laws and regulations and implement internal audit and internal control.</li> <li>2. Consult each director about opinions, formulate agenda, inform all directors of attendance 7-day earlier, provide meeting document before the Board of Directors' meeting. If there is any agenda item which needs stakeholder to recuse, it shall remind the one prior.</li> <li>3. Each year, register the date of shareholders' meeting, report meeting notice, meeting agenda and meeting minutes, revise articles of incorporation and conduct the registration upon amendment before due date in accordance with laws.</li> <li>4. Review the annual corporate governance appraisal index published by corporate governance center, and check</li> </ol>	Conform to Corporate Governance Best-Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			<p>item-by-item to ensure the achievement.</p> <p>5. Inform the members of the Board of Directors promptly after material information of the Company being published. Also, arrange directors to attend professional knowledge refresher course related to finance, sales and so on.</p> <p>6. Form diverse communication channels with investors by holding investor conference more than once a season, attending investment forum irregularly, setting up investment service team.</p>	
5. Has the Company formed channel of communication with stakeholders (including but not limited to shareholder, employee, customer, supplier and so on), set up stakeholders' section on the website, and responded properly to major corporate social responsibility issues of which they are concerned?	V		The Company keeps effective communication channels with stakeholders (including employee, investor/media, customer, supplier/bank and so on), and forms Stakeholders' section on the Company's website in order to respond those major corporate social responsibility issues of which stakeholders are concerned.	Conform to Corporate Governance Best-Practice Principles.
6. Does the Company assign professional stock affairs' agency in handling its affairs related to shareholders' meeting?	V		The Company appoints Stock Affairs Department of KGI Securities in handling the affairs related to shareholders' meeting, also, sets up Stock Affairs Office to deal with related matters.	Conform to Corporate Governance Best-Practice Principles.
7. Information Disclosure: (1) Has the Company set up website to disclose finance, sales and corporate governance information?	V		(1) The Company's website has both Chinese and English versions. Also, there is an investor zone under the Stakeholders' section to disclose finance, sales and corporate governance information.	Conform to Corporate Governance Best-Practice Principles.
(2) Does the Company have any other way of information disclosure, such as setting up an English website, appointing appropriate person to collect and disclose information, implementing fully spokesperson system and webcasting investor conference?	V		(2) The Company establishes a spokesperson system to speak publicly in consistency, and a Stock Affairs Office which is responsible for collecting related information about the Company, disclosing and reporting material information, uploading information, pictures and PowerPoints of investor conference in Investors' section on the Company's website.	Conform to Corporate Governance Best-Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (including but not limited to employee rights & care, investor relation, supplier relation, rights of stakeholders, directors' and supervisors' training record, implementation of risk management policy and risk measurement standard, implementation of customer policy and liability insurance for directors and supervisors)?	V		<p>1. Employee rights: The Company sets up Employee Welfare Committee to protect employee rights and provides comprehensive training, talent cultivation and promotion system.</p> <p>2. Employee care: The Company take employee's physical and mental health into deep consideration, it offers dormitory, coffee bookstore, recreational facilities and Medical office (with professional medical staff, and doctor comes on-site regularly). Also, it sets up Labor Safety and Health Committee, which is responsible for employees' safety and health affairs and assistance of those physical and mental health problems. Moreover, it creates various complaint systems for employees to express opinions (monthly meeting, President mailbox, employee satisfaction survey and so on), and give appropriate respond and improvement.</p> <p>3. Investor relation: The Company continues to maintain good interaction with investors, including disclosing prompt financial information, communicating regularly with investors via various activities (such as investor conference) and implementing fully spokesperson system to deal with related affairs.</p> <p>4. Supplier relation &amp; Rights of stakeholders: Via multiple communication channels and information disclosure, the Company keeps a good dialogue and communication with suppliers and stakeholders. Also, it gathers issues which they concern about and reviews if those activities respond their demands.</p> <p>5. Directors' and supervisors' training record: All directors of the Company have professional industry background and practical experience of business management, and they participate in further studies irregularly.</p> <p>6. Implementation of risk management policy and risk measurement standard: Any significant issues in regards to operating policy, investment, endorsement, loan and</p>	Conform to Corporate Governance Best-Practice Principles.

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			<p>financing are evaluated by the designated departments and exercised the resolution that resulted from the Board meetings. Moreover, yearly auditing plan is drafted based on the result of risk assessed and executed in order to effectively carry out the supervision as well as control the risks.</p> <p>7. Implementation of customer policy: The Company devotes to quality improvement and vertical integration and provides complementary services in every aspect, thus our customers may focus on brand management, channel expansion and enhancement of market competition advantages.</p> <p>8. Liability insurance for directors and supervisors: The Company purchases liability insurance for all directors (independent directors) every year, the insurance coverage is USD 7 million now. Also, the details of liability insurance will be reported to the Board of Directors for approval in January, 2019(after existing insurance is expired).</p>	

9. According to the result of Corporate Governance Evaluation issued in the most recent year by Corporate Governance Center of Taiwan Stock Exchange, please explain the improvement status, and give priority to matters and measures that have not yet been improved:

No	Index	Improvement Status
1.6	Does the company have more the half directors (including at least one seat of independent director) and at least one seat of supervisor (if there is) attend the Shareholders' meeting, and disclose attendance list in the minute?	The Company has established independent directors in 2017, so it will have more than half directors (including at least one seat of independent director) attend the Shareholders' meeting in 2018.
3.7	Does the company disclose fully the opinion to material items, which proposed by independent directors in the Board of Directors' meeting, in its annual report? And the following treatment?	The Company has established independent directors in 2017, so it will disclose fully the opinion proposed by independent directors in the Board of Directors' meeting relating to material items and the following treatments in its annual report of 2018.

Item		Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
		Yes	No	Description	
	3.14			Do the directors and supervisors of the company attend refresher courses and achieve compulsory hours in accordance with regulation of TWSE?	The Company will provide refresher courses information irregularly and encourage all directors to attend and achieve compulsory hours.
	3.23			Do the independent directors of the company attend refresher courses and achieve compulsory hours in accordance with regulation of TWSE?	The Company will provide refresher courses information irregularly and encourage all directors to attend and achieve compulsory hours.
	3.31			Does the company regularly (at least once a year) carry out an evaluation of the performance of the Board of Directors and disclose the evaluation result on its website or in its annual report?	The Company has formulated “Regulations Governing the Board Performance Evaluation” on November 12, 2016, and based on which the Company will conduct the evaluation.
	3.33			Does the company purchase liability insurance for all directors and supervisors, and submit to the Board of Directors?	The Company purchases liability insurance for all directors (independent directors) every year. The details of liability insurance will be submitted to the Board of Directors in January, 2019(after existing insurance is expired).
	3.34			Does the company disclose the communication status between independent directors, Chief Audit Executive and CPAs (such as the communication way, item and result for financial report, finance and sales situation) on the Company’s website?	The Company’s website has both Chinese and English versions. Also, there is an investor zone under the Stakeholders’ section to disclose the communication status between independent directors, Chief Audit Executive and CPAs.
	4.21			Does the company disclose English version of mid-term financial reports (including financial statements and notes) on the Company’s website or Market Observation Post System?	From 2018, the Company will disclose English version of mid-term financial reports (including financial statements and notes).



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	Terms 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		
Independent director	Hung, Chao-Nan		✓		✓	✓	✓	✓	✓	✓	✓	✓	None	-
Independent director	Huang, Hsiang-Ying	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	-
Independent director	Kung, Yi-Lu			✓	✓	✓	✓	✓	✓	✓	✓	✓	None	-

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: From June 15, 2017 to June 14, 2020.

A total of 2 (A) Remuneration Committee meetings were held in 2017. 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%	Term of office expired on June 15, 2017. Shall attend 2 times.
Committee Member	Liu, Zi-Xing	2	0	100%	Term of office expired on June 15, 2017. Shall attend 2 times.
Independent director	Huang, Hsiang-Ying	2	0	100%	Term of office expired and re-elected on June 15, 2017. Shall attend 2 times.
Independent director	Hung, Chao-Nan	0	0	0%	Newly elected on June 15, 2017. Shall attend 0 time.
Independent director	Kung, Yi-Lu	0	0	0%	Newly elected on June 15, 2017. Shall attend 0 time.
Other required information:					
<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>					

### 3.4.5 Corporate Social Responsibility

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
1. Corporate Governance Implementation: (1) Does the company have corporate social responsibility policy and examine the result of the implementation?	V		(1) The Company has stipulated “Corporate Social Responsibility Practical Principles” in accordance with “Corporate Government Best Practice Principles for TWSE/GTSM Listed Companies” and related regulations, and it has been resolved by shareholders’ meeting on 22 <sup>nd</sup> June, 2016. The Company has also established Safety and Hygiene Committee to deal with prevention and response of industrial safety and health accidents and safety related affairs. Also, work environment enhancement being implemented fully in order to enhance effectively the safety and hygiene of work environment.	Conform to Corporate Social Responsibility Best-Practical Principles.
(2) Does the company regularly hold educational training on corporate social responsibility?	V		(2) Achieve the goal of Zero Occupational Hazard by promoting Self-protection System, Responsibility Care System, Contractor Management, Toxic and Chemical Substance Management and Transportation safety management. Also, provide social responsibility propaganda and training courses information from time to time during monthly meeting and morning meeting of departments, in order to protect the employees and the public.	Conform to Corporate Social Responsibility Best-Practical Principles.
(3) Has the company set up exclusive (or concurrently) division in charge of corporate social responsibility dedicated by senior managers authorized by the Board? If so, does the division report to the Board?	V		(3) Promote corporate social responsibility collectively by all functional divisions, and General Administration Department is responsible for supervising and commanding related affairs. However, the Company has not set up officially exclusive (or concurrently) division and reported to the Board yet.	Conform to Corporate Social Responsibility Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
(4) Has the company established reasonable remuneration policy, combined employee performance evaluation system with corporate social responsibility policy, and set up effective employee performance evaluation system?	V		(4) According to respective contribution of work, the Company sets Salary Grading Table to give reasonable salary. Also, assessing personal performance and future development potential of each employee and considering company's operating results to be the basis of salary adjustment and bonus distribution, in order to encourage excellent performance and achieve fair salary. Moreover, via e-mail, bulletin board and morning meeting of department, the Company announces that employee shall comply with all rules. The Company sets Personnel Review Committee as well, to deal with all cases of reward and punishment in a fair and just way and carry out all those regulations such as salary, assessment and policy.	Conform to Corporate Social Responsibility Best-Practical Principles.
2. Sustainable Environment Development: (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		(1) Introduce actively light-weight of plastic cap and PET bottle to reduce the consumption of raw material and carbon emission. The Company focuses on environmental protection work plan: A. Introduce actively Environmental Management System and implement fully environmental pollution prevention in order to promote resource sustainability. B. Comply with environmental regulations, based on which develop related standard operating procedures and carry out. C. Optimize production process, promote clean production, reduce pollution emission, implement pollution control and management, inspect and audit regularly. D. Reduce the use of hazardous substances, and promote policies such as industrial waste minimization, recycling of resources, energy conservation and carbon reduction. E. Strength educational training and enhance	Conform to Corporate Social Responsibility Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
(2) Does the company develop proper environmental management policy suitable for its industry characteristics?	V		<p>environmental knowledge, in order to implement completely corporate environmental responsibilities.</p> <p>(2) The Company offers beverage packaging products and OEM filling service, and the production processes are related to environmental protection, food safety, and customer health and so on. In order to implement completely social responsibility, comply with national regulations and other requests, it devotes to the prevention of environmental pollution and enhancement of employees' safety and health in work place. Also, it sets up "Labor Safety &amp; Health Department" to reach a consensus of "Zero accident and Zero pollution" among all employees. The Company has received many approvals, such as Occupational Health and Safety Management System (OHSAS 18001), Environmental Management System (ISO 14001), Taiwan Occupational Health and Safety Management System (TOSHMS) and so forth. Labor Safety &amp; Health Department and divisions of air pollution, water pollution and waste are responsible for carrying out related prevention control management affairs.</p>	Conform to Corporate Social Responsibility Best-Practical Principles.
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		<p>(3) In 2016, the Company participated "Energy Conservation and Carbon Reduction Technical service team" held by Ministry of Economic Affairs. Detailed descriptions are as below:</p> <p>1. Energy conservation measures and targets</p> <p>A. 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 high efficiency motor; Transit to LED lighting.</p>	Conform to Corporate Social Responsibility Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			<p>B. Improve machine operating efficiency: Add coordinated control and adjustable temperature system to chiller; Add coordinated control and variable frequency control to air pressure system.</p> <p>C. Energy management: Improve capacity on power load; Manage air pressure and air conditioning system; Regulate air conditioning and lighting system.</p> <p>D. Green energy: Install solar energy panel and apply green energy.</p> <p>2. Energy conservation goals</p> <p>A. Energy conservation volume: 930.9 KLOE. (Power saving: 4,047,000 kwh)</p> <p>B. CO2 reduction: 2,108 tons.</p> <p>C. Reduce 5.11% of energy the entire corporate.</p> <p>D. Energy conservation benefit: NT\$ 12.54 million.</p>	
3. Preservation of social welfare:				
(1) Does the company develop related management policies and procedures in compliance with relevant regulations and International Bill of Human Rights?	V		(1) The Company complies with related labor regulations and International Bill of Human Rights, such as gender equality, right of work, prohibition of discrimination and so on. According to Labor Standard Law and related national regulations, it stipulates work rules in order to make sure labor rights.	Conform to Corporate Social Responsibility Best-Practical Principles.
(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		(2) The Company creates diverse communication channels, such as president's mailbox, regular monthly meeting, Labor-Management Conference, employee satisfaction survey and so on, to ensure employees be able to make complaints or suggestions with the most appropriate channel.	Conform to Corporate Social Responsibility Best-Practical Principles.
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular	V		(3) The Company sets up not only Labor Safety & Health Department but also "Occupational Safety and Health Committee", to devote to offer employees	Conform to Corporate Social Responsibility Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
basis?			a work environment with safety and health. All measures, such as establishing medical office, holding annual employee health check, creating labor safety hygiene brochure/monthly report, holding irregular safety & health related speech, onsite operation educational training and disaster prevention drill, have accurate regulations and been fully implemented.	
(4) Does the company develop employee communication mechanism on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		(4) The Company holds all employees' monthly meeting regularly, in which senior managers report operating performance and future management guidelines in person. Every latest business developments of the Company are being fully disclosed, so as to be caught on time by employees.	Conform to Corporate Social Responsibility Best-Practical Principles.
(5) Does the company offer career development training program to employees?	V		(5) The Company establishes "Hon Chuan Academy" to devote to talents cultivation plans. Via various training channels, it provides related professional knowledge and skills for all positions. Hope personal career development and corporate can grow together.	Conform to Corporate Social Responsibility Best-Practical Principles.
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research & development, purchasing, producing, operating and service?	V		(6) and (7) All R&D, purchase, operation and sales process of the Company are complied with national regulations. Also, it receives Food Safety System (FSSC 22000)	Conform to Corporate Social Responsibility Best-Practical Principles.
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		and acquires customer certifications such as international Coca-Cola, Pepsi and so on...; it continues to maintain the quality of products and satisfy customer's need. The Company pays highly attention on consumer rights; Sales Department is the single contact unit to deal with complaint process of the products and services. It will ask related department to cope with the complaints immediately and give a respond and review report.	Conform to Corporate Social Responsibility Best-Practical Principles.
(8) Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	V		(8) According to "Supplier Management Related Regulations" and "Procurement and Tender Management Regulations" of the Company, it requests to progress a qualification check on the	Conform to Corporate Social Responsibility Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	V		suppliers and avoid taking on business transaction with those conflict with social responsibility policy. (9) For all contracts, the Company requests suppliers to comply with government laws and all environmental regulations. If there is any violation, the entire penalty is on the suppliers, and the Company may terminate or remove related clauses in the contracts at any time.	Conform to Corporate Social Responsibility Best-Practical Principles.
4. Enhancing Information Disclosure: (1) Does the Company disclose relevant and reliable information regarding its corporate social responsibility on the website and Market Observation Post System?	V		Related information about corporate social responsibility, such as corporate governance, environmental safety and health, social welfare and so on, are being fully disclosed in annual report and the Company's website.	Conform to Corporate Social Responsibility Best-Practical Principles.
5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the Principles and their implementation: Conform to Corporate Social Responsibility Best-Practical Principles.				
6. Other helpful information in understanding corporate social responsibility: <ul style="list-style-type: none"> <li>The numbers of recruitment toward physically and mentally challenged workers and aboriginal workers has exceeded the quota in law. In addition, the Company has been awarded for "Prize of Exceeding Quota of Disables Recruitment" and "Excellent Employment for Public Goods" by Taichung city government.</li> <li>The Company is the only Greater China group supplier awarded "Excellent Effort in Corporate Social Responsibility" from Coca-Cola.</li> <li>The Company regularly applies activities of blood donation to respond to the concept of "giving blood, saving lives".</li> <li>The Company and employees donated whether money or drinks to the area which had damaged by the natural disasters (ex: 921 earthquake, 88 flood, Sichuan earthquake in China, 331 earthquake in Japan, gas explosion in Kaohsiung), and donated to the charity irregularly, such as TCBC, Red Cross, World Vision, CCF and others. Also, it attends Taichung Volunteer Day every year.</li> <li>After its aseptic filling plants and packaging museum had been completed, it provides publics to visit and fulfill the educational function of the society.</li> <li>Providing a safe and friendly work environment and taking care of the employees' physical and mental health, it achieved "National Occupational Safety and Health Award" by Department of Labor and many other awards from Ministry of Health and Welfare, Ministry of Economic Affairs, Taichung city government, Executive Yuan and so on. Also, it achieved as well 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	
1. Establishment of ethical corporate management policies and programs: (1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		(1) The Company made "Ethical Corporate Management Best Practice Principles" which has been resolved by the shareholders' meeting on June 22, 2016. The articles could be found on the official website (www.honchuan.com.tw), to describe the policy and method. Also, the honest business policy and prevention strategy will be made and implemented by the Audit Department and reported to the Board of Directors regularly.	Conform to Ethical Corporate Management Best-Practical Principles.
(2) Does the company formulate unethical behavior preventive measures listed with clear operating process, code of conduct, violation punishment and appeal process, and the commitment to implement the policies?	V		(2) Through "Ethical Corporate Management Best Practice Principles" and internal regulations of the Company, it implemented one by one the operational procedures, violation punishments, and appeal system regarding ethical corporate management. Also, to employee and supplier, it ruled clearly that the employee is prohibited from receiving rebate and gift of supplier. If any violated, the employee would be punished and supplier would be blacklisted by the Company.	Conform to Ethical Corporate Management Best-Practical Principles.
(3) Does the company establish appropriate precautions against high-potential unethical conduct or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE listed companies?	V		(3) In order to fulfill ethical management, the Company establishes an effective system of accounting and internal control; the internal auditor will audit regularly if the system has been followed.	Conform to Ethical Corporate Management Best-Practical Principles.
2. Fulfill ethical management: (1) Does the company evaluate trading counterparties' ethical record and include ethics-related clauses in the contract?	V		(1) Before conducting business activity, the Company has evaluated the necessary ethical record of trading counterparties and included ethics-related clauses in business contracts.	Conform to Ethical Corporate Management Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
(2) Does the company set up a specialized unit supervised by the Board to promote ethical corporate management, and report to the Board on a regular basis?	V		(2) The Company hasn't set up a specialized unit to promote ethical corporate management, but all departments make their effort to fulfill the responsibility. Also, Legal Affairs Office is taking responsible on verifying all the contracts. If there is any violation, the Company may terminate or remove related clauses in the contracts.	Conform to Ethical Corporate Management Best-Practical Principles.
(3) Does the company establish policy to prevent conflict of interest, provide appropriate communication channels for complaints and implement it?	V		(3) The handbook for employee has described clearly that employees are prohibited from withholding receivables or keeping receivables 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 benefit.	Conform to Ethical Corporate Management Best-Practical Principles.
(4) Does the company establish an effective accounting system and internal control system in order to fulfill ethical management? If so, is it audited regularly by internal audit department or accountant agency?	V		(4) In order to make sure the implementation of ethical management, the Company has established an effective accounting system and internal control system. Also, internal audit department checks the implementation regularly and irregularly.	Conform to Ethical Corporate Management Best-Practical Principles.
(5) Does the company hold internal and external ethical corporate management training courses regularly?	V		(5) The Company holds educational training irregularly for directors, supervisors, managers, and employees.	Conform to Ethical Corporate Management Best-Practical Principles.
3. Whistle-blowing system:				
(1) Does the company create a practical whistleblowing and reward system and set up a convenient channel for reporting unethical activities and reward system? Can the accused be reached by an appropriate person for follow-up?	V		(1) The Company sets up presidents' mailbox and stakeholders' section on the Company's website, for clients, suppliers and employees to report or appeal.	Conform to Ethical Corporate Management Best-Practical Principles.
(2) Does the company develop standardized investigation process and related confidential policy when accepting whistle-blowing case?	V		(2) The Company has incorporated into internal control system with related regulations, clearly describing the punishment and appeal policy when—breach of ethical corporate management occurs.	Conform to Ethical Corporate Management Best-Practical Principles.
(3) Does the company have protection mechanism for whistleblower?	V		(3) The reporter's identity and statement would be totally secured and investigated by the designated person.	Conform to Ethical Corporate Management Best-Practical Principles.

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
4. Enhancing Information Disclosure: (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and Market Observation Post System?	V		(1) The Company sets up an official website, which discloses the business culture and management strategy. Also, it discloses the implementation of ethical corporate management in annual report. (2) The Company establishes General Administration Department in charge with collecting and announcing the Company's information. Also, it reports the setup of spokesman and his related information in accordance with regulation.	Conform to Ethical Corporate Management Best-Practical Principles.
5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the Principles and their implementation: Conform to Ethical Corporate Management Best-Practical Principles.				
6. Other helpful information in understanding the Company's corporate social responsibility practices: (1) In order to fulfill the foundation of ethical corporate management, the Company followed the Company Act, Securities and Exchange Act, Commercial Account Law, related regulations of TWSE/GTSM Listed Companies and other commercial behavior related laws. (2) In "Rules and Procedures for Meetings of the Board of Directors" of the Company, it sets directors' interest avoidance policy, in which any director who has interest -conflicts between himself or his representative for any motion can't participate in the discussion and vote at the meeting. (3) The Company sets up "Operating Procedure for Preventing Insider Trading" to prohibit the directors, supervisors, managers and employees from disclosing the internal material information to anyone. The company holds educational training irregularly to directors, supervisors, managers and employees.				

### 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 2017 was as follows:

Title	Name	Date of Election	Date of Course	Organizer	The course name	Duration
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.02.09	EnWise CPAs & Co.	Implementation of New Income tax regulations	25 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.03.17	R.O.C CPAs Association	Common defects of Public Issued Companies	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.06.23	R.O.C CPAs Association	Countermeasures to revised Money Laundering Control Act	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.07.03	R.O.C CPAs Association	Audit communique No 59-61	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.07.07	R.O.C CPAs Association	From anti-money laundering to survey offshore Company	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.08.11	R.O.C CPAs Association	New audit report	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.08.15	R.O.C CPAs Association	International anti-money laundering trend	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.08.24	R.O.C CPAs Association	Money Laundering Control Act of CPAs	1 hours
independent Director	Huang, Hsiang-Ying	2017.06.15	2017.09.18	R.O.C CPAs Association	Practical application of Closely Held Corporation	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.10.06	R.O.C CPAs Association	How to handle Money Laundering Control Act	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.10.16	R.O.C CPAs Association	Limited partnership and closely held plan	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.10.20	R.O.C CPAs Association	2017 Discipline seminar	4 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.11.29	R.O.C CPAs Association	2017 Tax seminar	2 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2017.12.05	R.O.C CPAs Association	Case analysis of Money Laundering Control Act	3 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 27, 2018

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 2017:

1. Hon Chuan's Board of Directors and Management team 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 of financial report, and compliance with applicable 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, 2017, 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 of financial report, and compliance with applicable regulations.
6. This Statement will be an integral part of HON CHUAN's Annual Report for the year 2017 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 27, 2018, with none of the nine 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 15, 2017	1. Approval of 2016 Financial Statements.	1. Related statements have been submitted to competent authority and publicly reported in accordance with The Company Act and related regulations.
	2. Approval of 2016 Profit Distribution Proposal.	2. July 18, 2017 is the ex-dividend date.
	3. Resolution of amendments to Articles of Incorporation.	3. Be effective after the shareholders' meeting resolved.
	4. Resolution of amendments to Procedures for Acquisition or Disposal of Assets.	4. Be effective after the shareholders' meeting resolved, and the amendments have been publicly reported at M.O.P.S.
	5. Resolution of amendments to Rules and Procedures for shareholders' meeting.	5. Be effective after the shareholders' meeting resolved.
	6. Resolution of amendments to Procedures for Election of Directors and Supervisors.	6. Be effective after the shareholders' meeting resolved.
	7. Resolution of amendments to Procedures for Loaning of Company Funds to other Parties.	7. Be effective after the shareholders' meeting resolved, and the amendments have been publicly reported at M.O.P.S.
	8. Resolution of amendments to Procedures for Endorsements and Guarantees.	8. Be effective after the shareholders' meeting resolved, and the amendments have been publicly reported at M.O.P.S.
	9. Resolution of amendments to Procedures for Trading Derivatives.	9. Be effective after the shareholders' meeting resolved.
	10. Resolution of Directors Election.	10. New directors start term of office on June 15, 2017.
	11. Resolution of Release New Directors and Its Representatives from Non-Competition Restrictions.	11. Be effective after the shareholders' meeting resolved.



### 3.4.11.2 Significant resolutions reached in the Board meeting

Date	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 02, 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>
June 02, 2017	<ol style="list-style-type: none"> <li>1. Approved the examination of accountants' independency.</li> <li>2. Approved that SWIRE COCA-COLA BEVERAGES LTD., TAIWAN BRANCH sold its hot-fill beverage equipments to the Company, and delegated the Company to do OEM production.</li> <li>3. Approved that A Co. delegated the Company to do professional OEM production.</li> <li>4. Approved the investment of bottle water filling production line for CR Beverage and establishment of Hon Chuan Food Packing (Luohe) Co., Ltd. The Company increased capital, which goes through Hon Chuan Holding Limited, Hon Chuan (China) Holding Co., Ltd., and Kai Gang Industries Limited, to Hon Chuan Food Packing (Luohe) Co., Ltd.</li> <li>5. Approved the capital increase of PT Hon Chuan Indonesia.</li> <li>6. Resolution of the increase (decrease) of corporate guarantee for subsidiaries.</li> <li>7. Approved the lists of loan facility's extension and renewal contracts with correspondent banks.</li> </ol>
June 15, 2017	<ol style="list-style-type: none"> <li>1. Approved the appointment of new Chairman and Mr. Dai, Hung-Chuan to be re-elected as Chairman.</li> <li>2. Approved the establishment of Audit Committee as regulations and formulation of Audit Committee Organization Charter.</li> <li>3. Approved the appointment of the Company's three independent directors to be the 3<sup>rd</sup> commissioner of Remuneration Committee.</li> </ol>
June 23, 2017	<ol style="list-style-type: none"> <li>1. Resolution of 2016 record date of cash dividend distribution.</li> </ol>

Date	Major Proposals
August 11, 2017	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the first half year of 2017.</li> <li>2. Approved the investment of bottle water filling production line for CR Beverage and change the investment process to invest Hon Chuan Food Packing (Luohe) Co., Ltd. Hon Chuan (China) Holding Co., Ltd., increased capital to Kai Gang Industries Limited, which re-invested to Hon Chuan Food Packing (Luohe) Co., Ltd.</li> <li>3. Resolution of the status regarding proposal for “Company's capabilities to self-prepared financial statements”.</li> <li>4. Resolution of the increase (decrease) of corporate guarantee for subsidiaries.</li> <li>5. Approved the lists of loan facility's change, extension and renewal contracts with correspondent banks.</li> </ol>
November 10, 2017	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the 3th quarter of 2017.</li> <li>2. Approved that the Company cosigned as a guarantor and issued a support letter for Hon Chuan Holding Limited's five-year USD 70 million syndicated loans.</li> <li>3. Resolution of amendments to Rules and Procedures for Meetings of the Board of Directors.</li> <li>4. Resolution of amendments to Audit Committee Organization Charter.</li> <li>5. Resolution of the status regarding proposal for “Company's capabilities to self-prepared financial statements”.</li> <li>6. Resolution of the increase (decrease) of corporate guarantee for subsidiaries.</li> <li>7. Approved the lists of loan facility's change, extension and renewal contracts with correspondent banks.</li> </ol>
March 27, 2017	<ol style="list-style-type: none"> <li>1. Resolution of 2017 Employees' Compensation and Directors' Remuneration.</li> <li>2. Approval of 2017 Financial Statements.</li> <li>3. Approval of 2017 Consolidated Financial Statements.</li> <li>4. Resolution of 2017 Profit Distribution.</li> <li>5. Resolution of 2017 Business Report.</li> <li>6. Resolution of convene 2018 Annual Shareholders' Meeting on June 15, 2018.</li> <li>7. Approved the period and place of shareholders' proposal of 2018 Annual Shareholders' Meeting.</li> <li>8. Approved 2018 appointment of management team.</li> <li>9. Approved the capital increase of Hon Chuan Holding Limited.</li> <li>10. Approved the investment of Hon Chuan (Algeria) SPA in Algeria and establishment of Hon Chuan (Algeria) SPA.</li> <li>11. Approved the replacement of CPAs.</li> <li>12. Approved the examination of accountants' independency.</li> <li>13. Approved 2018 audit plan.</li> <li>14. Approved management's report on internal control policy.</li> <li>15. Resolution of the status regarding proposal for “Company's capabilities to self-prepare financial statements”.</li> <li>16. Approved the renewal contracts of liability insurance for directors, supervisors and management team.</li> <li>17. Resolution of the increase (decrease) of corporate guarantee for subsidiaries.</li> <li>18. Approved the lists of loan facility's change, extension and renewal contracts with correspondent banks.</li> <li>19. Resolved to issue the Company's 1st Domestic unsecured corporate bonds in 2018.</li> <li>20. Approved the preliminary assessment report of implementing IFRS 16 “Lease”.</li> </ol>



Date	Major Proposals
May 11, 2018	<ol style="list-style-type: none"> <li>1. Acknowledge the consolidated financial statements for the 1th quarter of 2018.</li> <li>2. Approved the investment of plastic cap equipment for Indonesia.</li> <li>3. Approved the additional item of 2018 annual shareholders' meeting: Implementation report of the Company's 1st Domestic unsecured corporate bonds.</li> <li>4. Approved respective corporate guarantee extended to subsidiaries sharing joint bank facilities corporate guarantee amount.</li> <li>5. Approved the lists of loan facility's change, extension and renewal contracts with correspondent banks.</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	Tseng, Done-Yuin	8,100	Policy Design	Business Registration	Human Resource	Other (Note 1)	Subtotal	Jan 01, 2017 ~ Dec 31, 2017	-
	Wu, Li-Dong		0	10	0	263	273		

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 2017, registration fees for amendments to Articles of Incorporation in 2017, registration fees for directors re-election in 2017 and tax consultation fee of HC (Asia) Holding Co., Ltd. In 2017.

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	December 22, 2017		
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 (Shall be revealed as Article 10, Subsection 6, Item 1-4 to 1-7 of this regulation)	None		

### 3.6.2 Regarding the successor CPA

Name of Accounting Firm	Deloitte & Touche
Name of CPAs	Tseng, Done-Yuin and Wu, Li-Dong (Note)
Date of appointment	December 22, 2017
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. Change from Tseng, Done-Yuin and Cheng, Te-Jun to Tseng, Done-Yuin and Wu, Li-Dong on December 22, 2017.

**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	2017		As of April 17, 2018	
		Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged	Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged
Chairman	Dai, Hung-Chuan	0	0	0	0
Director and President	Tsao, Hsih-Chung	0	0	0	0
Director	Lin, Chuan-Nui	(20,000)	0	(20,000)	0
Director and Executive Vice President	Liu, Yun-Chang	0	0	0	0
Director	Dai, Hung-I	148,000	0	148,000	0
Director	CDIB Capital Group (Note 1) Representative: Cheng, Chien-Hua	0	0	0	0
Director	Chang, Chun-Shu	(5,000)	0	(5,000)	0
Supervisor	Lin, Chun-Chih (Note 2)	0	0	0	0
Supervisor	Hsih-Yueh Development Co., Ltd. Representative: Hsu, Cheng-Chuan (Note 2)	0	0	0	0
Supervisor	Tsao, Yu-Yu (Note 2)	0	0	0	0
Independent Director	Hung, Chao-Nan	0	0	0	0
Independent Director	Huang, Hsiang-Ying	0	0	0	0
Independent Director	Kung, Yi-Lu	0	0	0	0
Group Vice President	Pai, Wen-Pin (Note 3)	0	0	0	0
Chief Audit Executive / Senior Assistant Vice President	Hsieh, Hung-Lung	0	0	0	0
-Group Vice President	Tseng, Wen-Hua (Note 3)	0	0	0	0
-Group Vice President	Cheng, Ya-Wen (Note 4)	0	0	0	0
Senior Vice President	Lee, Chin-Hsiung	0	0	0	0
Vice President	Lu, Jen-Yao (Note 5)	0	0	0	0
Vice President	Lai, Shen-Yuan	0	0	0	0
Vice President	Chuang, Kuei-Ching (Note 6)	0	0	0	0
Vice President	Lu, Ching-Chou (Note 6)	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
Assistant Vice President	Hung, Min-Hsiung	0	0	0	0
Assistant Vice President	Tsao, Chien-Hsia	0	0	0	0

Assistant Vice President	Ting, Chih-Hao	0	0	0	0
Senior Assistant Vice President	Fang, Yu-Lung	0	0	0	0
Assistant Vice President	Cheng, Chih-Hung	0	0	0	0

Note 1: The Company re-elected directors on June 15, 2017. CDIB Capital Group finished its term of office on June 15, 2017.

Note 2: The Company set up Audit Committee in 2017, and supervisors finished the term of office on June 15, 2017.

Note 3: Promoted from Senior Vice President to Group Vice President on April 14, 2017.

Note 4: Promoted from Senior Vice President to Group Vice President on January 1, 2018.

Note 5: Promoted from Vice President to Technical Adviser on January 1, 2018.

Note 6: Promoted from Senior Assistant Vice President to Senior Vice President on January 1, 2018.

### 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, 2018

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: Wang, Kuo-Tsai	12,477,964	4.26 %	0	0	0	0	None	None	
Tsao, Hung-Yu	6,679,134	2.28%	0	0	0	0	Tsao, Hsih-Chung	Father and son	
Citibank in custody for Norges Bank Investment Account	5,895,857	2.01%	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	
HSBC in custody for Robeco capital growth funds Investment Account	5,501,000	1.88%	0	0	0	0	None	None	
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	5,066,000	1.73%	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	
Taiwan Life Insurance Co., Ltd. Representative: Huang, Si-Goo	3,869,000	1.32%	0	0	0	0	None	None	
Dai, Hung-Chan	3,665,019	1.25%	670,352	0.23%	0	0	Dai, Hung-I	Brother	

## 3.10 Ownership of Shares in Affiliated Enterprises

December 31, 2017

Unit: Share; %

Affiliated Enterprises (Note1)	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Share	%	Share (Note 2)	%	Share (Note 2)	%
Hon Chuan Holding Limited	340,472,818	100%	—	—	340,472,818	100%
Hon Chuan (China) Holding Co., Ltd.	—	—	118,721,805	100%	118,721,805	100%
Kai Gang Industries Limited	—	—	1,191,155,396	100%	1,191,155,396	100%
Hon Hsing (Samoa) Holding Limited	—	—	126,006,000	100%	126,006,000	100%
Honly Holding Co., Ltd.	—	—	8,920,000	60%	8,920,000	60%
Hon Chuan (Africa) Holding Co., Ltd.	—	—	13,044,118	100%	13,044,118	100%
Hon Shi Mozambique Limitada (Hon Shi Samoa)	—	—	3,138,790	60%	3,138,790	60%
Paeon International Co., LTD	—	—	(Note 2)	23.8%	(Note 2)	23.8%
Hon Chuan Enterprise (Suzhou) Company Limited	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Qingxin) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Zhangzhou) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Chuzhou) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Xiantao) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Suzhou Hongxin Food Packing Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Enterprise (Changsha) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Jinan) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Taiyuan) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Enterprise Packing (Luohe) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Quanche Investment (Suzhou) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
Hon Chuan Food Packing (Anyang) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
HC (Asia) Holdings Co., Ltd.	—	—	194,192,505	100%	194,192,505	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	—	—	86,670,329	100%	86,670,329	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%
Honhua Holdings Co., Ltd.	—	—	3,600,000	60%	3,600,000	60%
Uni Tun Co., Ltd.	—	—	(Note 2)	60%	(Note 2)	60%
Shimada International Limitada	—	—	(Note 2)	60%	(Note 2)	60%
Hon Shi Mozambique Co., Ltd.	—	—	(Note 2)	60%	(Note 2)	60%

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, 2018

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, 2018

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

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

### 4.1.2 Shareholder structure

April 17, 2018

Unit: Person / Share

Structure of Shareholder	Government institutions	Financial institutions	Other juristic person	Natural person	Foreign institution & foreigners	Total
QTY						
Number of persons	1	29	106	25,818	169	26,123
Shareholding	20	17,335,311	41,004,461	180,391,638	54,147,449	292,878,879
Shareholding ratio	-	5.92%	14%	61.60%	18.48%	100%

## 4.1.3 Status of Ownership Dispersion

### 4.1.3.1 Common shares

April 17, 2018  
Unit: Person / Share

Shareholding bracket	Number of shareholders	Shareholding	Shareholding ratio (%)
1 ~ 999	6,487	1,122,283	0.38%
1,000 ~ 5,000	14,635	30,231,864	10.32%
5,001 ~ 10,000	2,506	19,170,041	6.55%
10,001 ~ 15,000	850	10,564,204	3.61%
15,001 ~ 20,000	453	8,272,756	2.82%
20,001 ~ 30,000	436	10,891,771	3.72%
30,001 ~ 40,000	181	6,396,358	2.18%
40,001 ~ 50,000	120	5,518,142	1.88%
50,001 ~ 100,000	206	14,602,438	4.99%
100,001 ~ 200,000	104	14,152,258	4.83%
200,001 ~ 400,000	60	18,094,437	6.18%
400,001 ~ 600,000	25	12,516,469	4.27%
600,001 ~ 800,000	10	6,849,311	2.34%
800,001 ~ 1,000,000	4	3,466,424	1.18%
Over 1,000,001	46	131,030,123	44.75%
Total	26,123	292,878,879	100%

### 4.1.3.2 Preferred shares: None.

## 4.1.4 List of major shareholders

April 17, 2018

Name of major shareholders	Shares	Shareholding	Shareholding ratio (%)
Chunghwa Post Co., Ltd. Representative: Wang, Kuo-Tsai		12,477,964	4.26%
Tsao, Hung-Yu		6,679,134	2.28%
Citibank in custody for Norges Bank Investment Account		5,895,857	2.01%
Dai, Hung-I		5,890,111	2.01%
HSBC in custody for Robeco capital growth funds Investment Account		5,501,000	1.88%
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund		5,066,000	1.73%
Tsao, Hsih-Chung		4,372,243	1.49%
Hon Yi Investment Co., Ltd. Representative: Dai, Hung-I		4,103,453	1.40%
Taiwan Life Insurance Co., Ltd. Representative: Huang, Si-Guo		3,869,000	1.32%
Dai, Hung-Chuan		3,665,019	1.25%

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

Item \ Year		2016	2017	As of March 31, 2018
Market price per share	Maximum	55.60	64.30	58.70
	Minimum	44.20	52.40	52.10
	Average	49.52	58.05	55.73
Net worth per share (Note 1)	Before distribution	40.14	42.61	44.09
	After distribution	37.64	(Note 2)	-
Earnings per share	Weighted average shares	Before adjustment	292,878,879	292,878,879
		After adjustment	292,878,879	N/A
	Earnings per share	Before adjustment	4.02	4.20
		After adjustment	4.02	-
Dividend per share	Cash dividend		2.5	(Note 2)
	Stock dividend	Stock Dividend from Retained earnings	-	-
		Stock Dividend from additional paid-in capital	-	-
	Cumulative un-paid dividend		-	-
Return on investment analysis	Price-Earnings (P/E) Ratio (Note 3)		12.17	13.63
	Profit Ratio (Note 4)		19.57	-
	Cash Dividend Yield (Note 5)		5.11%	-

Note 1: Please fill in based on the year end quantity of issued shares and division status which annual shareholders' meeting resolved.

Note 2: 2017 Profits distributions have not been resolved by the shareholders' meeting.

Note 3: Price-Earnings (P/E) Ratio = Average closing price per share of the year / Earnings per share.

Note 4: Profit Ratio = Average closing price per share of the year / Cash dividend per share.

Note 5: Cash Dividend Yield = Cash dividend per share / Average closing price per share of the year.

### 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 2017 Profits

(Resolved by the Board of Directors' meeting on March 27, 2018, and will be proposed to 2018 Annual shareholders' meeting which held on June 15, 2018 for ratification)

Unit: NTD	
Items	Amount
Unappropriated retained earnings of previous years	1,667,736,210
Remeasurement of defined benefit obligation	<u>(6,031,046)</u>
Unappropriated retained earnings after adjustment	1,661,705,164
Net Income of 2016	1,230,860,723
10% for legal capital reserve	(123,086,072)
Special reserve	<u>(147,598,130)</u>
Retained Earnings Available for Distribution as of 2016	2,621,881,685
Shareholders' Dividend (NTD\$ 2.5 per share)	<u>(732,197,198)</u>
Unappropriated Retained Earnings	<u>1,889,684,487</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 2018.

### **4.1.8.3 Compensation and 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.

The board of directors resolved the profit distribution on March 27, 2018.

Employees' compensation: 1.71% as of NT\$ 24,048,000 in Cash.

Directors' remuneration: 0.79% as of NT\$ 11,077,747 in Cash.

There was no difference between the amount proposed and estimated in the year it was recognized as an expense. After actual distribution amount being resolved in the shareholders' meeting, the difference with recorded amount will be deemed as changes in accounting estimates and included in 2018 profit and loss.

- (2) The percentage of proposed employee bonus paid in shares, relative to the sum of standalone after-tax net income plus total employee bonus: Employees' compensation would be distributed completely in cash, which resolved on March 27, 2018 the board of directors' meeting; so it is not applicable.

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

Units: NTD

Items	2016			
	Recorded amount	Actually paid	Difference (Note)	Remark
Employees' compensation	23,750,500	23,713,000	37,500	Recorded as Other revenue
Directors' and supervisors' remuneration	10,604,013	10,604,013	0	-

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

**4.1.9 Shares Buyback Execution Report:** Up to the date of printing of the annual report, no applicable.

## 4.2 Issuance of Corporate Bonds

### 4.2.1 Issuance of Corporate Bonds

Type of Corporate Bond		The 1st Domestic Unsecured Corporate Bonds in 2018
Issuing Date		April 27, 2018
Denomination		NT\$ 1 million / 1,000 shares
Listing		N/A
Offering Price		Par
Total Amount		NT\$ 3 billion
Rate		Fixed rate of 1.07%
Term		Five years ; Maturity Date is April 27, 2023
Guarantor		None
Trustee		Land Bank of Taiwan
Underwriter		Yuanta Securities Co., Ltd.
Legal Counsel		Yi Cheng United Law Firm Lawyer: Kuo, Hui-Chi
Auditor		Deloitte & Touche CPAs: Tseng, Done-Yuin and Wu, Li-Dong
Repayment		100% principal repayment upon maturity
Outstanding		NT\$ 3 billion
Redemption or Early Repayment Clauses		None
Covenants		None
Credit Rating		Taiwan Ratings Rating date: March 21, 2018 Rating result: twA- (Domestic long-term credit rating)
Other rights of Bond Holders	Amount of Converted or Exchanged Common Shares, ADRs or other Securities	N/A
	Terms or Conditions	N/A
Dilution Effect and Other Adverse Effect on Existing Shareholders		N/A
Custodian		None

- 4.2.2 Information of Convertible Bonds:** None.
- 4.2.3 Information of Exchangeable Bonds:** None.
- 4.2.4 Shelf Registration Status of Bond Issuance:** None.
- 4.2.5 Information of Bonds with Warrants:** None.

**4.3 Implementation Status of Preferred Shares:** None.

**4.4 Implementation Status of Global Depository Receipts:** None.

**4.5 Implementation Status of 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**

Up to the last quarter of printing of the annual report, financing plan is issuing the 1st Domestic Unsecured Corporate Bonds in 2018. The details and implementation status of the financing plan are as follows:

### **4.8.1 Content of Plan**

**4.8.1.1 Date of approval by governing agency:** April 18, 2018.

**4.8.1.2 Total fund required for this plan:** NT\$ 3 billion.

**4.8.1.3 Source of Funds:** Issuance of the 1st Domestic Unsecured Corporate Bonds in 2018, and the total amount is NT\$ 3 billion.

#### 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			
			2018			
			Q1	Q2	Q3	Q4
Loan Repayment	2 <sup>nd</sup> Quarter, 2018	3,000,000	-	3,000,000	-	-

Note: Counter-loan No.10700091911 on April 18, 2018.

#### 4.8.1.5 Expected benefits

Loan Institution	Rate (%)	Contract Period	Purpose of Existing Loan	Amount of Existing Loan	2018		2018		Saved Interest after 2018 (Inclusive)
					2nd Quarter		Total		Total
					Repayment Amount	Reduced Interest	Repayment Amount	Reduced Interest	Reduced Interest
Mega Bills	0.968%	2017/7/7-2019/7/6	Working Capital	300,000	200,000	(Note)	200,000	(Note)	(Note)
International Bills	0.968%	2017/9/6-2019/9/6		200,000	200,000	(Note)	200,000	(Note)	(Note)
China Bills	0.968%	2017/9/4-2019/9/3		200,000	200,000	(Note)	200,000	(Note)	(Note)
Bank of Taiwan	0.98622%	2017/5/5-2019/5/5		200,000	200,000	(Note)	200,000	(Note)	(Note)
Bank Sino Pac	0.9514%	2017/12/5-2020/12/5		350,000	350,000	(Note)	350,000	(Note)	(Note)
KGI Bank	0.95%	2018/3/1-2020/3/1		700,000	700,000	(Note)	700,000	(Note)	(Note)
Bangkok Bank	0.95%	2017/3/31-2018/3/31		390,000	390,000	(Note)	390,000	(Note)	(Note)
DBS Bank	0.95%	2018/2/2-2019/2/2		100,000	100,000	(Note)	100,000	(Note)	(Note)
Taipei Fubon Bank	0.94%	2017/6/12-2019/6/12		140,000	140,000	(Note)	140,000	(Note)	(Note)
Citibank Taiwan	0.92%	2018/1/15-2019/1/15		275,000	275,000	(Note)	275,000	(Note)	(Note)
Far Eastern Bank	0.91%	2018/1/18-2021/1/18		600,000	245,000	(Note)	245,000	(Note)	(Note)
Total					3,000,000		3,000,000	(Note)	(Note)

Note: The purpose of this financing plan aims to repayment of loans. Mainly considering that current interest rates of issuing mid- and long-term bonds are relatively low, the Company, though may not reduce short-term interest costs can lock its mid- and long-term funding costs, in the way to reduce the risk of rate reversion and the reliance upon the banks' loan and enhance the flexibility of fund application. Furthermore, it can strengthen financial structure by maintaining appropriate short-, mid- and long-term funding source allocation.

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

**4.8.1.7 Date of Public Disclosure:** April 26, 2018.

## 4.8.2 Implementation

Plan Item	Implementation		2nd Quarter, 2018	Up to the end of 1st quarter, 2018	Reason and Improvement plan while ahead of / behind the schedule
Loan Repayment	Used Amount	Expected	3,000,000	-	Completely implement at 2nd quarter of 2018 as expected schedule.
		Actual	3,000,000	-	
	Implementation Status	Expected	100%	-	
		Actual	100%	-	

The Company issued the 1st Domestic Unsecured Corporate Bonds in 2018, which resolved by the Board of Directors on March 27, 2018 and approved the registration of Counter-loan No. 10700091911 by Taipei Exchange on April 18, 2018. The issuance has finished on April 27, 2018 and the Company fully repaid its loans at 2nd quarter of 2018 as expected schedule.

## 5. OPERATION HIGHLIGHTS

### 5.1 Business Activities

#### 5.1.1 Business Scope

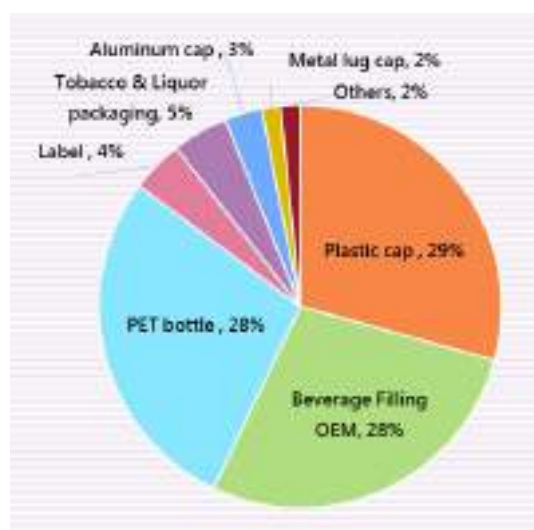
##### 5.1.1.1 Major Business of Hon Chuan

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 2017 sales



Unit: NT\$ Thousands

2017	Net Sales	Percentage
Plastic cap	5,133,102	29.30%
Beverage filling OEM	4,869,552	27.80%
PET Bottle	4,927,903	28.13%
Label	730,638	4.17%
Tobacco & Liquor packaging	792,594	4.52%
Aluminum cap	529,532	3.02%
Metal lug cap	262,876	1.50%
Others	273,261	1.56%
<b>Total</b>	<b>17,519,458</b>	<b>100.00%</b>

### 5.1.1.3 Information of the Group Segments

Products		Item
Cap Product	Aluminum cap	Aluminum cap for carbonated drink, functional beverage, hot-fill drink, long neck security wine cap, chicken essence cap, ring pull cap, spiral bottle cap, I.V. injection aluminum cap, classic aluminum iron box
	Plastic cap	Plastic cap for carbonated drink, mineral water, hot fill drink & aseptic drink
	Metal lug cap	Metal lug cap with safety button, metal lup cap with high temperature resistance and normal temperature, composite metal lug cap with high temperature resistance



Label Product	PVC/PET shrinkable colorful label, OPP film colorful label, PVC shrinkable colorful bottle cover, classic bottle cover, multi-layer LDPE shrinkable film
PET Bottle	Heat-resistance crystallized PET bottle, mineral water bottle, CSD carbonated drink bottle, aseptic bottle, wide neck refrigerated bottle, preform
Beverage Filling OEM	Beverage Filling OEM for PET aseptic bottle, PET hot-fill bottle, TR refrigerated bottle, TBA long conserved products
Tobacco & Liquor Packaging Product	Filter connector, filter paper, BOPP film, malt, chroming tinplate
Other Product	LDPE shrinkable film for multipack

#### 5.1.1.4 New Products Development

Item	Estimated Amount
1. Development of 42mm milk bottle plastic cap	<b>NT\$ 70.44 million</b>
2. Development of 38mm clamshell plastic cap	
3. Development of 1881 double-piece hot-fill plastic cap	
4. Development of 38mm water cap and aseptic cap	
5. Development of 2622 clamshell plastic cap	
6. Development of 1.75g light-weight water cap of Vietnam Pepsi	
7. Development of 1881 2.15g one-piece light-weight CSD cap	
8. Development of light barrier and oxygen barrier PET bottle	
9. Development of PP injected heat-resistance bottle	
10. Development of 63mm heat-resistance PET bottle for metal lug cap	
11. Development of integrated handle bottle	
12. Development of double-layer bag in bottle	
13. Development of 13.2 x 8mm aluminum cap, square iron cap for Eu Yan Sang in HK	
14. Development of 37mm composite cap light-weight	
15. Development of multi-layer barrier film	
16. Development of low temperature PET shrinkable film	
17. Development of shrinkable label eco-friendly ink	
18. Development of creative tearing label bracelet	

#### 5.1.2 Market and Sales Conditions

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

According to the 2017 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 2017 Food Industry Year Book by the Food Industry Research and Development Institute, the scale of 2016 beverage market was approximately \$51.49 billion dollars, decreased by 0.3% from the previous year. Tea is the leading product which stands at around \$19.7 billion with 38.3% market share of the non-alcoholic beverages, up by 1.7% from the previous year. Coffee follows, stands at \$6.39 billion with 12.4% market share, decreased by 5.6% from the previous year. Vegetable juice takes the third place and stands at around \$5.93 billion with 11.5% market share, up by 4.5% 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 Product**

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 Product**

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 crushed materials and deputy brand materials can also be added into the middle layer to reduce the raw material costs.

### **(4) PET Bottle**

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 PP 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.

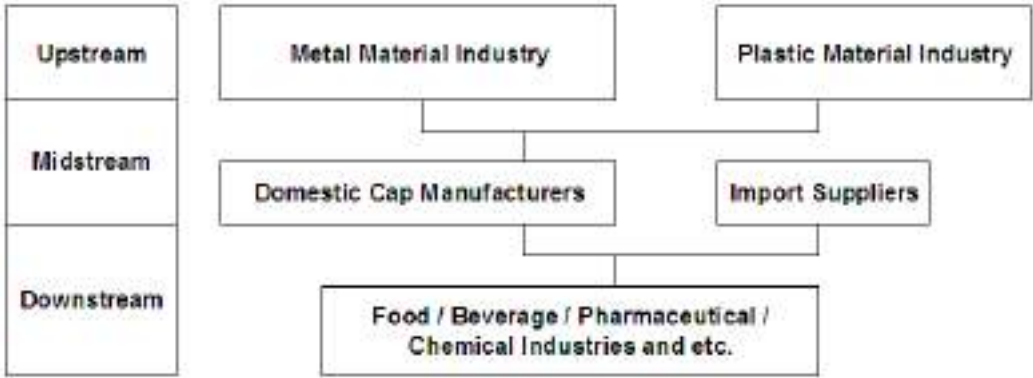
##### ② The Manufacturers and the Import Suppliers

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 Bottle

#### 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.

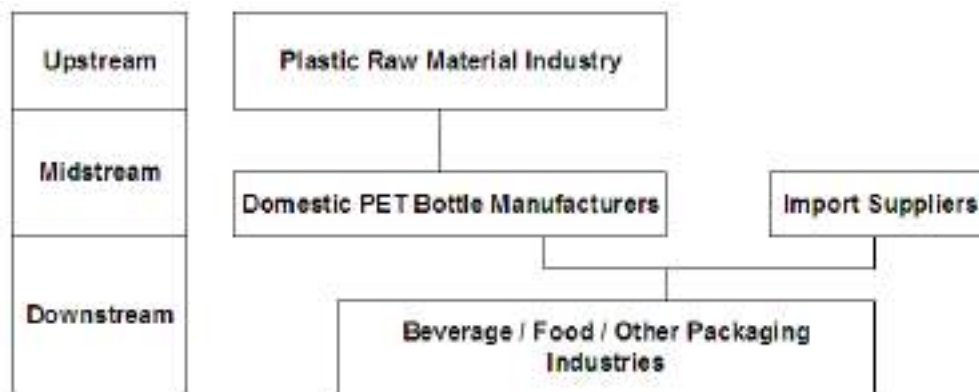
#### ② The Manufacturers and the Import Suppliers

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, carbonated drinks, coffee, mineral water, and sports drinks.

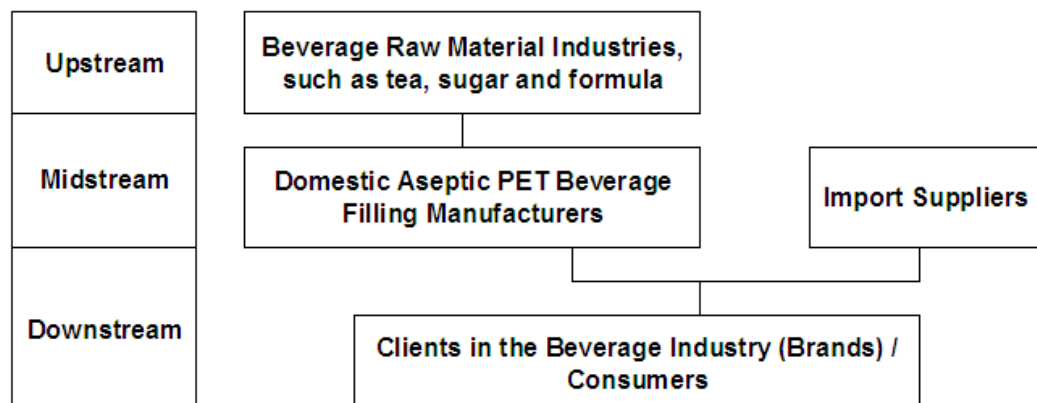
The relationships among the PET bottles manufacturers and sellers are as follows:



### (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 TPE aluminum ring pull closures and metal lug closures, 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 2016, approximately 90% of the market used PET labels, and the rest of 10% used other materials.

## **③ PET Bottle**

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
2017	69,043	1. Development of oxygen-barrier PET bottle 2. Development and mass production of 6L Barreled water cap(Eco-friendly functional cap)
As of March 31, 2018	16,178	3. Development and mass production of 38mm ready-to-drink plastic cap 4. Mass production of 1881 one piece cola cap 5. Mass production of 1881 bottle neck 550ml, 800ml, 1250ml aseptic bottle 6. Mass production of 38mm bottle neck 280ml, 300ml, 400ml, 900ml cold-fill bottle 7. Mass production of 1810 bottle neck 510ml, 570ml cola bottle 8. Mass production of 1810 bottle neck 500ml hot-fill bottle 9. Mass production of 42mm TPE ring pull cap

		10. Development of gas wine 30x60mm aluminum cap 11. Mass production of TTL 30x35mm laser bronzing cap 12. Mass production of RSB63 mm metal lug cap 13. Development of RSB66 mm metal lug cap 14. Development of 30x60mm cap with bronzing at cover 15. New facility assessment of metal lug cap and apply on RTB38, 63mm joint production line 16. Development and mass production of multi-layer PE shrinkable film 17. Development and mass production of shrinkable label with high metallic gloss
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## 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)

The Company's major products in year 2017 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. The main sales targets are all food, beverage, cosmetic and drug industry. The sales regions are mainly Taiwan, Hong Kong, Singapore, Malaysia, Mainland China, Japan, Korea, Thailand, Indonesia, Philippines, Vietnam, Myanmar, New Caledonia(Oceania), Australia, New Zealand, Canada, USA, Pakistan, Oman, Africa, Haiti, Sri Lanka and so on.

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

Unit: NT\$ Thousands

Item		Sales of Domestic Market	Market share (%)
Closure Products	Aluminum Caps	650,000	76%
	Plastic Caps	1,100,000	57%
	Metal Lug caps	280,000	70%
PET Bottles		2,252,000	53%
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) The Company's business model to continuously innovate, focus on the clients and provide customer-oriented services.

The 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, 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 successful mode of international beverage company (such as Coca Cola / Pepsi Cola and so on) is emphasizing on brand management and marketing channel and delegating professional OEM company to do production, in order to grab a bigger source and power to swiftly enhance competitiveness and market share.
- ③ 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.
- 
- ④ 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) The 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	<ol style="list-style-type: none"> <li>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</li> </ol>	Our company’s products belong in the packaging industry. Even though our products do not change as rapidly as the	<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</li> </ol>



Items	Favorable Factors	Unfavorable Factors	Countermeasures
	<p>use of various types of packaging containers, the business risks can be diversified.</p> <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>electronic products, the packaging products do change rapidly as the consumption habits change quickly; we need to constantly develop new products to satisfy the clients' demand for diversification.</p>	<p>the market trends, and participate in exhibitions overseas to collect relevant information.</p>
2. 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

a. Aluminum sheet → raw material aluminum sheet – coating & printing → automatic slitting → automatic cap pressing → automatic knurling → high frequency liner forming → computer visual inspection → finished product

b. Aluminum sheet → raw material aluminum sheet – coating & printing →



automatic slitting → automatic cap pressing → clean → security burn printing → braille → polish → knurling → liner → computer visual inspection → finished product

(2) Plastic Cap Category

Material casting → injection, press molding → shape modifying → cutting → printing → liner forming → laser QR Code → computer visual inspection → finished product

(3) Lug Cap Category

a. Printing and coating iron sheet → cap pressing → pre-rolling → forming → gluing → oven → computer visual inspection → finished product

b. Printing and coating iron sheet → cap pressing → pre-rolling → forming → gluing → oven → combination → 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 Supplier	Supply Situation
Aluminum Caps	Aluminum sheets	CSAC, Italy aluminum industry, Shen Fa	Good
Plastic Caps	PP chips, PE chips, Liner, Slip agent	Hanwha total, USI, Min Yen, pttpm, Kuan Yeh, Nantex, LCY, Hyosung, Basell, Formosa plastics	Good
Metal Lug Caps	SPTE	Sumitomo, Uni-president, thyssenkurpp	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, Shinkong, Far Eastern	Good
Beverage Filling OEM	Tea, Fructose, Sugar, Condensed milk, Milk powder, Carton and etc.	Li Yu, Tairoun, Taisugar, Foodarts, 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, purchase amount and increase (decrease) reason of Major Suppliers with over 10% of the total Purchases in one of the last two years: None the purchase amount of single supplier in 2016 and 2017 exceed 10% of the total purchase.

### 5.2.4.2 List of Major Customers

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

Unit: NT\$ Thousands

Item	2016				2017				As of March 31, 2018			
	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	2,916,493	18%	None	X	2,575,465	15%	None	Y	482,602	10%	None
2	Y	2,017,704	12%	None	Y	1,938,241	11%	None	X	438,605	10%	None
3	Others	11,576,481	70%	None	Others	13,005,752	74%	None	Others	3,724,025	80%	None
	Net Sales	16,510,678	100%		Net Sales	17,519,458	100%		Net Sales	4,645,232	100%	

## 5.2.5 Production over the Last Two Years

Unit: NT\$ Thousands/ 1,000 Pcs/ 1,000 Boxes

Category \ Year	Unit	2016			Unit	2017		
		Capacity	Quantity	Value		Capacity	Quantity	Value
PET Bottle	pcs	19,276,237	4,140,523	4,090,878	pcs	19,276,237	5,222,573	5,099,258
Beverage OEM	pcs	3,003,484	1,056,160	4,969,345	pcs	2,568,653	1,355,399	3,850,570
Cap	pcs	40,832,132	23,900,887	5,431,382	pcs	40,832,132	26,830,940	4,915,018
Label	pcs	8,820,254	2,719,428	974,958	pcs	7,613,449	2,589,201	917,632
Tobacco & Liquor Packaging		-	1,821	686,966		-	1,592	739,671
Aluminum Cap	pcs	819,060	597,165	313,197	pcs	819,060	583,243	342,350
Metal lug Cap	pcs	268,056	244,485	164,943	pcs	268,056	234,371	170,410
TR Filling OEM	box	100,000	73,060	431,641	box	100,000	61,616	350,135
Other		-	6,547	50,285		-	445	200,280
Total				17,113,595				16,585,324

## 5.2.6 Net Sales over the Last Two Years

Unit: NT\$ Thousands/ 1,000 Pcs/ 1,000 Boxes

Category \ Year	Unit	2016				Unit	2017			
		Domestic		Overseas			Domestic		Overseas	
		Quantity	Value	Quantity	Value		Quantity	Value	Quantity	Value
PET Bottle	pcs	3,403,882	3,859,019	299,237	451,246	pcs	3,997,019	4,399,235	326,166	514,118
Beverage OEM	pcs	1,162,824	4,175,639	1,214	9,944	pcs	1,286,505	4,398,593	2,663	17,388
Cap	pcs	20,183,221	4,908,630	1,006,673	260,366	pcs	20,432,558	4,863,777	1,191,767	282,797
Label	pcs	2,304,700	637,294	105,639	44,202	pcs	2,255,290	678,252	122,767	52,386
Tobacco&Liquor Packaging		1,801	229,359	224	479,625		1,759	322,383	37	470,211
Aluminum Cap	pcs	501,989	425,204	70,580	48,548	pcs	538,409	499,923	35,179	26,674
Metal lug Cap	pcs	189,678	198,238	51,823	65,158	pcs	191,277	211,524	43,715	51,207
TR Filling OEM	box	73,019	533,335	-	-	box	61,600	453,354	-	-
Other		7,907	181,365	-	3,506		406	267,918	38	9,718
Total			15,148,083		1,362,595			16,094,959		1,424,499

## 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, 2018

Year		2016		2017		As of March 31, 2018	
Number of Employees	Direct	2,579		2,572		2,597	
	Indirect	1,753		1,716		1,868	
	Total	4,332		4,289		4,465	
Average Age		32.07		32.56		33.22	
Average Years of Service		4.04		4.72		5.25	
Education	Ph.D.	0	0.00%	0	0.00%	0	0.00%
	Masters	76	1.75%	80	1.87%	84	1.88%
	Bachelor's Degree	1,630	37.63%	1,747	40.73%	1,771	39.66%
	Senior High School	1,865	43.05%	1,671	38.96%	1,630	36.51%
	Below Senior High School	761	17.57%	791	18.44%	980	21.95%

## 5.4 The Expenditure for Environmental Protection

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 updated air pollution control equipment in March 2017 and permitted by Environmental Protection Bureau and authorized to management license (Order No. Taichung City Government- Environment-Air-Operation-0419-01).

### 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 OHSAS 18001:2007+CNS 15506(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 control.
  - (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 and achieved Excellent Award of Enterprise Addictive Substances Internal Announcement Competition.
  - (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 9 people.
- ▲ Occupational safety and health nurses, total 2 people.
- ▲ Organic operation supervisor certificate, total 6 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 143 people.
- ▲ Fixed forklift (over 3 tons) certificate, 24 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 2017 education training courses, and their titles and the implementations status are as follows:

Name of courses	Number of courses	Total participants	Total hours
Professional	111	1,672	3,105
management	78	2,130	12,696
Labor safety	118	6,321	8,825
Total	307	10,123	24,626

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, 2018

Agreement	Counterparty	Period	Major Content	Restriction
Sales Contract	Taiwan Tobacco & Liquor Corporation	2017.08.23 ~2020.08.23	Barley Malt	None
Sales Contract	Taiwan Tobacco & Liquor Corporation	2017.09.25 ~2020.09.24	Barley Malt	None
Sales Contract	Kinmen Winery	2013.12.06 ~2019.12.05	2013 Golden Laser Security Aluminum Cap	None
Long-term Loan Contract	Syndicated Loan of Land bank and others	2017.12.29 ~2022.12.29	To repay loan, support investment plans and enrich capital	Restriction of Financial Ratio
Long-term Loan Contract	Mizuho Bank	2017.10.03 ~2020.09.29	To repay loan and overseas investment funds	None

## 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 Item		Financial Data Within The Last 5 Years (Note 1)					As of March 31, 2018 (Note 1)
		2013	2014	2015	2016	2017	
Current Assets		7,417,713	7,951,069	8,067,666	7,757,428	8,866,914	10,170,992
Property, Plant and Equipment		16,963,110	19,139,083	18,796,260	17,991,011	17,501,552	17,356,347
Intangible Assets		78,928	77,698	76,484	388,673	356,763	348,385
Other Assets		899,435	2,029,116	2,177,210	1,254,194	1,559,298	1,739,965
Total Assets		25,359,186	29,196,966	29,117,620	27,391,306	28,284,527	29,615,689
Current Liabilities	Before Distribution	8,812,180	11,309,968	10,448,772	9,649,899	7,030,797	8,601,815
	After Distribution	9,461,800	11,991,633	11,034,530	10,382,096	Note 2	Note 2
Non-current Liabilities		5,602,626	6,217,608	5,665,851	5,065,234	8,090,967	7,394,410
Total Liabilities	Before Distribution	14,414,806	17,527,576	16,114,623	14,715,133	15,121,764	15,996,225
	After Distribution	15,064,426	18,209,241	16,700,381	15,447,330	Note 2	Note 2
Shareholders' Equity(Before Distribution)		9,945,006	10,623,481	11,945,505	11,755,680	12,480,831	12,914,230
Capital Stock		2,598,479	2,598,479	3,098,479	2,928,789	2,928,789	2,928,789
Additional Paid-in Capital		3,283,868	3,283,868	5,412,868	5,127,397	5,507,513	5,507,513
Retained Earnings	Before Distribution	4,133,366	4,446,978	4,713,939	4,920,100	5,412,733	5,685,169
	After Distribution	3,483,746	3,765,313	4,128,181	4,187,903	Note 2	Note 2
Other Equity		(70,707)	294,156	(444,446)	(1,220,606)	(1,368,204)	(1,207,241)
Treasury Stock		—	—	(835,335)	—	—	—
Non-controlling Equity		999,374	1,045,909	1,057,492	920,493	681,932	705,234
Total Equity	Before Distribution	10,944,380	11,669,390	13,002,997	12,676,173	13,162,763	13,619,464
	After Distribution	10,294,760	10,987,725	12,417,239	11,943,976	Note 2	Note 2

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2018 is reviewed by CPA, others are all audited by CPA.

Note 2: Proposal for Distribution of 2017 Profits has not yet to be resolved in the shareholders' meeting.

### 6.1.1.2 Condensed Consolidated Balance Sheet – ROC GAAP

2013-2017 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, 2018 (Note 1)
	2013	2014	2015	2016	2017	
Operating Income	16,605,620	17,226,474	16,578,377	16,510,678	17,519,458	4,645,232
Gross Profit	2,896,799	2,800,934	3,065,672	3,402,415	3,320,581	792,416
Operating Profit or Loss	1,436,049	1,149,533	1,264,115	1,671,197	1,510,380	371,184
Non-Operating Income and Expense	(78,534)	(8,349)	(233,032)	(173,374)	36,614	(7,671)
Net Income Before Tax	1,357,515	1,141,184	1,031,083	1,497,823	1,546,994	363,513
Net Income from Continuing Operations	1,130,253	935,284	886,141	1,190,294	1,261,983	275,554
Income (or Loss) from Discontinued Operations	—	—	—	—	—	—
Net Income (Loss)	1,130,253	935,284	886,141	1,190,294	1,261,983	275,554
Other Comprehensive Income (Loss) (After-tax)	122,834	415,743	(869,561)	(969,372)	(89,321)	184,084
Total Comprehensive Income (Loss)	1,253,087	1,351,027	16,580	220,922	1,172,662	459,638
Net Income Attributable to the Parent	1,110,310	966,212	948,965	1,178,224	1,230,861	266,207
Net Income Attributable to Non-Controlling Interests	19,943	(30,928)	(62,824)	12,070	31,122	9,347
Total Comprehensive Income Attributable to the Parent	1,161,631	1,328,095	210,024	395,933	1,077,232	436,336
Total Comprehensive Income Attributable to Non-Controlling Interests	91,456	22,932	(193,444)	(175,011)	95,430	23,302
Earnings Per Share (NT\$)	4.27	3.72	3.26	4.02	4.20	0.91

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2018 is reviewed by CPA, others are all audited by CPA.

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

2013-2017 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

Year Item		Financial Data Within The Last 5 Years (Note 1)				
		2013	2014	2015	2016	2017
Current Assets		2,230,017	2,109,244	2,741,611	2,383,278	2,514,309
Property, Plant and Equipment		5,088,933	4,927,412	4,750,140	4,609,382	4,924,787
Intangible Assets		14,483	8,802	5,654	1,992	1,340
Other Assets		8,502,528	9,861,732	10,084,786	10,415,111	12,401,509
Total Assets		15,835,961	16,907,190	17,582,191	17,409,763	19,841,945
Current Liabilities	Before Distribution	2,222,663	2,704,531	2,488,911	3,193,278	2,411,190
	After Distribution	2,872,283	3,386,196	3,074,669	3,925,475	Note 2
Non-current Liabilities		3,668,292	3,579,178	3,147,775	2,460,805	4,949,924
Total Liabilities	Before Distribution	5,890,955	6,283,709	5,636,686	5,654,083	7,361,114
	After Distribution	6,540,575	6,965,374	6,222,444	6,386,280	Note 2
Shareholders' Equity(Before Distribution)		9,945,006	10,623,481	11,945,505	11,755,680	12,480,831
Capital Stock		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	5,412,868	5,127,397	5,507,513
Retained Earnings	Before Distribution	4,133,366	4,446,978	4,713,939	4,920,100	5,412,733
	After Distribution	3,483,746	3,765,313	4,128,181	4,187,903	Note 2
Other Equity		(70,707)	294,156	(444,446)	(1,220,606)	(1,368,204)
Treasury Stock		—	—	(835,335)	—	—
Non-controlling Equity		—	—	—	—	—
Total Equity	Before Distribution	9,945,006	10,623,481	11,945,505	11,755,680	12,480,831
	After Distribution	9,295,386	9,941,816	11,359,747	11,023,483	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 2017 Profits has not yet to be resolved in the shareholders' meeting.

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

2013-2017 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				
	2013	2014	2015	2016	2017
Operating Income	7,365,859	7,851,416	7,167,803	7,133,662	7,456,868
Gross Profit	1,684,354	1,726,960	1,670,918	1,782,171	1,887,073
Operating Profit or Loss	971,169	931,447	842,112	952,558	986,457
Non-Operating Income and Expense	291,024	204,789	254,487	378,001	382,603
Net Income Before Tax	1,262,193	1,136,236	1,096,599	1,330,559	1,369,060
Net Income from Continuing Operations	1,110,310	966,212	948,965	1,178,224	1,230,861
Income (or Loss) from Discontinued Operations	—	—	—	—	—
Net Income (Loss)	1,110,310	966,212	948,965	1,178,224	1,230,861
Other Comprehensive Income (Loss) (After-tax)	51,321	361,883	(738,941)	(782,291)	(153,629)
Total Comprehensive Income (Loss)	1,161,631	1,328,095	210,024	395,933	1,077,232
Net Income Attributable to the Parent	1,110,310	966,212	948,965	1,178,224	1,230,861
Net Income Attributable to Non-Controlling Interests	—	—	—	—	—
Total Comprehensive Income Attributable to the Parent	1,161,631	1,328,095	210,024	395,933	1,077,232
Total Comprehensive Income Attributable to Non-Controlling Interests	—	—	—	—	—
Earnings Per Share (NT\$)	4.27	3.72	3.26	4.02	4.20

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

2013-2017 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 CPAs	Auditor's opinions
2013	Deloitte & Touche Yen, Hsiao-Fang, Cheng, Te-Jun	Modified Unqualified Opinion
2014	Deloitte & Touche Yen, Hsiao-Fang, Tseng, Done-Yuin (Note 1)	Modified Unqualified Opinion
2015	Deloitte & Touche Yen, Hsiao-Fang, Tseng, Done-Yuin	Modified Unqualified Opinion
2016	Deloitte & Touche Yen, Hsiao-Fang, Tseng, Done-Yuin	Unqualified Opinion and other matters
2017	Deloitte & Touche Tseng, Done-Yuin, Wu, Li-Dong (Note 2)	Unqualified Opinion and other matters

Note 1: 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.

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

## 6.2 Five-Year Financial Analysis

### 6.2.1 Consolidated Financial Analysis – IFRS

Analysis Item \ Year		Financial Data Within The Last 5 Years (Note 1)					As of March 31, 2018 (Note 1)
		2013	2014	2015	2016	2017	
Finance Structure	Debt to Asset Ratio (%)	56.84	60.03	55.34	53.72	53.46	54.01
	Long-term Capital to Property, Plant and Equipment Ratio (%)	97	93.00	98.75	98.13	120.92	120.54
Solvency	Current Ratio (%)	84.18	70.3	77.21	80.39	126.12	118.24
	Quick Ratio (%)	52.34	43.02	51.22	52.97	78.22	79.8
	Interest Coverage	8.11	5.65	5.34	7.46	7.86	7.33
Operating Ability	Accounts Receivable Turnover (Times)	7.95	7.67	6.72	6.55	6.62	5.56
	Average Collection Days	46	48	54	56	55	66
	Inventory Turnover (Times)	7.48	7.07	7.22	7.5	6.95	6.60
	Accounts Payable Turnover (Times)	17.61	18.44	18.92	17.69	16.35	14.25
	Average Inventory Turnover Days	49	52	51	49	53	55
	Fixed Asset, Machinery and Facility Turnover (Times)	0.98	0.9	0.88	0.92	1	1.07
	Total Asset Turnover (Times)	0.65	0.59	0.57	0.6	0.62	0.63
Profitability	Return on Asset (%)	5.69	4.33	3.85	5.03	5.34	1.15
	Return on Equity (%)	10.55	8.27	7.18	9.27	9.77	2.06
	Pre-tax Profit to Paid-in Capital Ratio (%)	52.24	43.92	33.28	51.14	51.57	12.67
	Net Margin (%)	6.81	5.43	5.35	7.21	7.2	5.93
	Earnings Per Share (NT\$)	4.27	3.72	3.26	4.02	4.2	0.91
Cash Flow	Cash Flow Ratio (%)	25.32	22.05	30.3	44.79	31.73	4.98
	Cash Flow Adequacy Ratio (%)	57.04	50.67	61.49	76.64	73.11	85.89
	Cash Flow Re-investment Ratio (%)	5.29	6.05	7.57	11.45	3.91	1.15
Leverage	Operating Leverage	2.21	2.64	2.6	2.29	2.42	2.46
	Financial Leverage	1.15	1.27	1.23	1.16	1.18	1.18

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

1. The increase of Long-term Capital to Fixed Asset, Machinery and Facility Ratio: The Company increases mid- and long-term loan and repays short-term loan in 2017.
2. The increase of Current Ratio: The Company increases mid- and long-term loan and repays short-term loan in 2017.
3. The increase of Quick Ratio: The Company increases mid- and long-term loan and repays short-term loan in 2017; and Current preferred stock liability is expired and redeemed.
4. The increase of Return on Asset: Due to the increase of 2017 Consolidate net profit.
5. The decrease of Cash Flow Ratio: Due to the rise of oil price, the Company increases inventory level, and stocks are more than 2016.
6. The decrease of Cash Flow Re-investment Ratio: Due to the rise of oil price, the Company increases inventory level, and stocks are more than 2016; and increase of cash dividend.

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2018 is reviewed by CPA, others are all audited by CPA.



## 6.2.2 Non-consolidated Financial Analysis – IFRS

Analysis Item \ Year		Financial Data Within The Last 5 Years (Note 1)				
		2013	2014	2015	2016	2017
Finance Structure	Debt to Asset Ratio (%)	37.2	37.17	32.06	32.48	37.1
	Long-term Capital to Fixed Asset Ratio (%)	266.06	286.8	316.38	307.11	352.72
Solvency	Current Ratio (%)	100.33	77.99	110.15	74.63	104.28
	Quick Ratio (%)	53.14	40.49	72.89	45.93	55.63
	Interest Coverage	21.04	15.28	18.39	25.35	26.94
Operating Ability	Accounts Receivable Turnover (Times)	8.2	9.23	7.79	7.63	7.67
	Average Collection Days	45	40	47	48	48
	Inventory Turnover (Times)	7.69	7.76	7.55	7.87	7.1
	Accounts Payable Turnover (Times)	12.77	13.17	11.38	9.93	9.25
	Average Inventory Turnover Days	48	47	48	46	51
	Property, Plant and Equipment Turnover (Times)	1.45	1.59	1.51	1.55	1.51
	Total Asset Turnover (Times)	0.47	0.46	0.41	0.41	0.38
Profitability	Return on Asset (%)	8.16	6.31	5.81	6.99	6.84
	Return on Equity (%)	11.26	9.4	8.41	9.94	10.16
	Pre-tax Profit to Paid-in Capital Ratio (%)	48.57	43.73	35.39	45.43	46.74
	Net Margin (%)	15.07	12.31	13.24	16.52	16.51
	Earnings Per Share (NT\$)	4.27	3.72	3.26	4.02	4.2
Cash Flow	Cash Flow Ratio (%)	61.14	49.63	54.12	46.01	45.08
	Cash Flow Adequacy Ratio (%)	48.99	45.57	47.21	51.9	49.6
	Cash Flow Re-investment Ratio (%)	3.36	3.81	3.4	4.6	1.55
Leverage	Operating Leverage	3.68	4.34	4.3	3.82	3.85
	Financial Leverage	1.07	1.09	1.08	1.06	1.06

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

1. The increase of Current Ratio: The Company increases mid- and long-term loan and repays short-term loan in 2017.
2. The increase of Quick Ratio: The Company increases mid- and long-term loan and repays short-term loan in 2017.
3. The decrease of Cash Flow Re-investment Ratio: Due to the increase of long-term investment to subsidiary, purchase of fixed assets and cash dividend in 2017.

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

## 6.2.3 Consolidated Financial Analysis – ROC GAAP

2013-2017 Consolidated Financial Statements were prepared in accordance with IFRSs, so that no Taiwan-GAAP version was prepared.

## 6.2.4 Non-consolidated Financial Analysis – ROC GAAP

2013-2017 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 to Asset Ratio = Total Liabilities / Total Assets
- (2) Long-term Capital to Property, Plant and Equipment Ratio = (Total Equity – Non-current 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 = Net Income / Average Total Equity
- (3) Net Margin = Net Income / Net Sales
- (4) Earning 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 Re-investment Ratio = (Cash Provided by Operating Activities - Cash Dividend) / (Gross Property, Plant and Equipment + Long-term Investment + Other Non-current Asset + 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 Audit Committees' Review Report in the most recent year**

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

#### **Audit Committees' Review Report**

We hereby state as following:

This proposal is the presentation by the Board of Directors of the Company's 2017 Business Report, Financial Statements, and the Profit Allocation Proposal. Of these items, the Individual and Consolidated Financial Statements have been audited by external auditors Tseng, Done-Yuin and Wu, Li-Dong of Deloitte & Touche, Taiwan, and an unqualified opinion and report have been issued on the Financial Statements. The aforementioned items have been reviewed and determined to be correct and accurate by Audit Committee. Per the regulations in Article 14-4 of Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

To

2018 Annual Shareholders' Meeting of Taiwan Hon Chuan Enterprise Co., Ltd.

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

Audit Committee      Chairman: Hung, Chao-Nan

Commissioner: Huang, Hsiang-Ying

Commissioner: Kung, Yi-Lu

March 27, 2018

## 6.4 Financial Statements of the most recent year

### 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017 are stated as follows :

### Revenue recognition

The Group manufactures and sells plastic caps and PET bottles, PET preforms and provides beverage filling OEM service. Because revenues from the main products 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 main products for the year ended December 31, 2017 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 main products 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 tested 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, 2017 and 2016. The total assets of these consolidated subsidiaries were 15.60% (NT\$4,412,758 thousand) and 15.54% (NT\$4,256,344 thousand) of the consolidated assets as of December 31, 2017 and 2016, respectively. The net sales of these subsidiaries were 10.42% (NT\$1,825,164 thousand) and 9.21% (NT\$1,520,507 thousand) of the consolidated net sales in 2017 and 2016, respectively. These investees' financial 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, 2017 and 2016 on which we have issued an unmodified report with other matter paragraph.

### **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 audit committee, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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, 2017 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 Done-Yuin Tseng and Li-Dong Wu.

Deloitte & Touche  
Taichung, Taiwan  
Republic of China  
March 27, 2018

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, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,211,899	8	\$ 2,414,908	9
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	31,935	-	83,123	-
Debt investments with no active market - current (Notes 4 and 10)	352,063	1	31,613	-
Notes receivable from unrelated parties (Note 4)	189,106	1	158,671	1
Trade receivables from unrelated parties (Notes 4 and 11)	2,576,145	9	2,274,230	8
Trade receivables from related parties (Notes 4 and 30)	1,828	-	3,144	-
Inventories (Notes 4, 5 and 12)	2,337,063	8	1,745,646	6
Other current assets (Notes 16, 30 and 31)	<u>1,166,875</u>	<u>4</u>	<u>1,046,093</u>	<u>4</u>
Total current assets	<u>8,866,914</u>	<u>31</u>	<u>7,757,428</u>	<u>28</u>
NONCURRENT ASSETS				
Available for sale financial assets - noncurrent (Notes 4 and 8)	8,350	-	9,231	-
Financial assets measured at cost - noncurrent (Notes 4 and 9)	39,092	-	40,005	-
Long-term investments at equity-method (Notes 4 and 14)	22,814	-	28,639	-
Property, plant and equipment (Notes 4, 15, 31 and 32)	17,501,552	62	17,991,011	66
Computer software (Note 4)	3,507	-	5,860	-
Goodwill (Notes 4 and 17)	353,256	1	382,813	2
Deferred tax assets (Notes 4 and 24)	182,237	1	165,705	1
Prepayments for equipment	974,236	4	647,003	2
Other noncurrent assets (Note 16)	<u>332,569</u>	<u>1</u>	<u>363,611</u>	<u>1</u>
Total noncurrent assets	<u>19,417,613</u>	<u>69</u>	<u>19,633,878</u>	<u>72</u>
TOTAL	<u>\$ 28,284,527</u>	<u>100</u>	<u>\$ 27,391,306</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 18 and 31)	\$ 5,156,313	18	\$ 6,660,381	24
Short-term bills payable (Note 18)	-	-	300,000	1
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	15,955	-	-	-
Notes payable to unrelated parties	3,736	-	200,045	1
Trade payables to unrelated parties	910,731	3	622,514	2
Current tax liabilities (Notes 4 and 24)	80,427	1	108,505	1
Current portion of long-term liabilities (Notes 4, 18 and 31)	-	-	258,000	1
Preferred stock liabilities (Notes 4, 19 and 23)	-	-	583,188	2
Other current liabilities (Notes 20 and 30)	<u>863,635</u>	<u>3</u>	<u>917,266</u>	<u>3</u>
Total current liabilities	<u>7,030,797</u>	<u>25</u>	<u>9,649,899</u>	<u>35</u>
NONCURRENT LIABILITIES				
Long-term borrowings (Notes 4, 18 and 31)	7,999,920	28	4,978,194	19
Deferred tax liabilities (Notes 4 and 24)	44,129	-	36,105	-
Net defined benefit liabilities - noncurrent (Notes 4 and 21)	35,641	-	36,522	-
Other noncurrent liabilities (Note 20)	<u>11,277</u>	<u>-</u>	<u>14,413</u>	<u>-</u>
Total noncurrent liabilities	<u>8,090,967</u>	<u>28</u>	<u>5,065,234</u>	<u>19</u>
Total liabilities	<u>15,121,764</u>	<u>53</u>	<u>14,715,133</u>	<u>54</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT				
Common stock	2,928,789	10	2,928,789	11
Capital surplus	5,507,513	20	5,127,397	19
Retained earnings				
Legal reserve	1,299,560	5	1,181,738	4
Special reserve	1,220,606	4	444,446	2
Unappropriated earnings	2,892,567	10	3,293,916	12
Other equity	<u>(1,368,204)</u>	<u>(5)</u>	<u>(1,220,606)</u>	<u>(5)</u>
Total equity attributable to owners of the parent	12,480,831	44	11,755,680	43
NON-CONTROLLING INTERESTS	<u>681,932</u>	<u>3</u>	<u>920,493</u>	<u>3</u>
Total equity	<u>13,162,763</u>	<u>47</u>	<u>12,676,173</u>	<u>46</u>
TOTAL	<u>\$ 28,284,527</u>	<u>100</u>	<u>\$ 27,391,306</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 27, 2018)



# 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			
	2017		2016	
	Amount	%	Amount	%
SALES (Notes 4 and 30)	\$ 17,519,458	100	\$ 16,510,678	100
COST OF GOODS SOLD (Notes 4, 12, 23 and 30)	<u>14,198,877</u>	<u>81</u>	<u>13,108,263</u>	<u>79</u>
GROSS PROFIT	<u>3,320,581</u>	<u>19</u>	<u>3,402,415</u>	<u>21</u>
OPERATING EXPENSES (Notes 23 and 30)				
Selling and marketing expenses	902,855	5	801,332	5
General and administrative expenses	838,303	5	865,206	5
Research and development expenses	<u>69,043</u>	<u>-</u>	<u>64,680</u>	<u>1</u>
Total operating expenses	<u>1,810,201</u>	<u>10</u>	<u>1,731,218</u>	<u>11</u>
PROFIT FROM OPERATIONS	<u>1,510,380</u>	<u>9</u>	<u>1,671,197</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Notes 19 and 23)	(225,642)	(1)	(231,701)	(1)
Other gains and losses (Notes 4 and 23)	240,427	1	140,085	1
Net foreign exchange gain (loss) (Note 4)	<u>21,829</u>	<u>-</u>	<u>(81,758)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>36,614</u>	<u>-</u>	<u>(173,374)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	1,546,994	9	1,497,823	9
INCOME TAX EXPENSE (Notes 4 and 24)	<u>285,011</u>	<u>2</u>	<u>307,529</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,261,983</u>	<u>7</u>	<u>1,190,294</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
(Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 21)	(7,266)	-	(7,387)	-
Income tax expense related to items that may be reclassified subsequently (Note 24)	1,235	-	1,256	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(82,281)	-	(961,340)	(6)

(Continued)

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings PerShare)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
Unrealized gain on available-for-sale financial assets	\$ (1,009)	-	\$ (1,901)	-
Other comprehensive income (loss) for the year, net of income tax	(89,321)	-	(969,372)	(6)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,172,662</u>	<u>7</u>	<u>\$ 220,922</u>	<u>1</u>
NET INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,230,861	7	\$ 1,178,224	7
Non-controlling interests	<u>31,122</u>	<u>-</u>	<u>12,070</u>	<u>-</u>
	<u>\$ 1,261,983</u>	<u>7</u>	<u>\$ 1,190,294</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,077,232	6	\$ 395,933	2
Non-controlling interests	<u>95,430</u>	<u>1</u>	<u>(175,011)</u>	<u>(1)</u>
	<u>\$ 1,172,662</u>	<u>7</u>	<u>\$ 220,922</u>	<u>1</u>
EARNINGS PER SHARE (Note 25)				
Basic	\$ 4.20		\$ 4.02	
Diluted	\$ 4.20		\$ 3.97	

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

(With Deloitte & Touche auditors' report dated March 27, 2018)

(Concluded)

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
	Share Capital (Note 22)	Capital Surplus (Notes 4 and 22)	Retained Earnings (Notes 4, 21, 22 and 24)			Other Equity		Treasury Shares (Note 22)	Total	Non-controlling Interests (Note 13)	Total Equity
			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, 2016	\$ 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
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)
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 (loss) for the year ended December 31, 2016	-	-	-	-	1,172,093	(774,259)	(1,901)	-	395,933	(175,011)	220,922
Cancellation of treasury shares	(169,690)	(285,471)	-	-	(380,174)	-	-	835,335	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(12,672)	(12,672)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	50,684	50,684
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
Appropriation of 2016 earnings											
Legal reserve	-	-	117,822	-	(117,822)	-	-	-	-	-	-
Special reserve	-	-	-	776,160	(776,160)	-	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(732,197)	-	-	-	(732,197)	-	(732,197)
Net profit for the year ended December 31, 2017	-	-	-	-	1,230,861	-	-	-	1,230,861	31,122	1,261,983
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,031)	(146,589)	(1,009)	-	(153,629)	64,308	(89,321)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,224,830	(146,589)	(1,009)	-	1,077,232	95,430	1,172,662
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	380,116	-	-	-	-	-	-	380,116	(380,116)	-
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	64,300	64,300
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(18,175)	(18,175)
BALANCE AT DECEMBER 31, 2017	\$ 2,928,789	\$ 5,507,513	\$ 1,299,560	\$ 1,220,606	\$ 2,892,567	\$ (1,365,021)	\$ (3,183)	\$ -	\$ 12,480,831	\$ 681,932	\$ 13,162,763

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche auditors' report dated March 27, 2018)

# 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	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 1,546,994	\$ 1,497,823
Adjustments for:		
Depreciation and amortization expenses	2,142,368	2,154,420
Impairment loss recognized (reversed) on trade receivables	3,461	894
Net loss (gain) on fair value change of financial assets and liabilities designated as at fair value through profit or loss	16,090	(50,933)
Finance costs	225,642	231,701
Interest income	(20,854)	(23,745)
Loss recognized on associates under equity method	3,695	4,441
Loss on disposal of property, plant and equipment	9,071	5,788
Impairment loss on financial assets	-	86
Impairment loss recognized (reversed) on non-financial assets	15,339	(7,858)
Unrealized net loss (gain) on foreign currency exchange	(33,192)	103,279
Others	(2,069)	2,557
Net changes in operating assets and liabilities		
Financial assets held for trading	48,601	(13,280)
Notes receivable	(30,682)	(225)
Trade receivables	(387,604)	91,077
Inventories	(678,965)	(4,292)
Other current assets	(158,275)	73,133
Notes payable	(196,141)	(1,262)
Trade payables	320,837	197,668
Other payable	194,015	-
Other current liabilities	(223,268)	500,409
Net defined benefit liabilities	(8,147)	(11,165)
Cash generated from operations	2,786,916	4,750,516
Interest received	21,073	24,113
Interest paid	(209,050)	(209,704)
Income tax paid	(367,936)	(242,461)
Net cash generated from operating activities	2,231,003	4,322,464
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of debt investments with no active market	(328,383)	-
Repayment debt investments with no active market at maturity	-	5,834
Return of capital from financial assets measured at cost	913	-
Acquisition of associates	-	(30,401)
Disposal of associates	-	29,221
Net cash outflow on acquisition of subsidiaries (Note 26)	-	(340,928)
Payments for property, plant and equipment	(1,037,842)	(702,260)
Proceeds from disposal of property, plant and equipment	13,440	132,834
Increase in refundable deposits	(5,788)	(1,052)
Purchase of intangible assets	(1,463)	-

(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	
	2017	2016
Increase in other assets	\$ (19,923)	\$ -
Increase in prepayments for equipment	(1,379,067)	(1,164,022)
Increase in other prepayments	(3,495)	-
Other investing activities	<u>-</u>	<u>(1,152)</u>
Net cash used in investing activities	<u>(2,761,608)</u>	<u>(2,071,926)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments of) short-term borrowings	(1,153,314)	(1,302,186)
Proceed from (repayments of) short-term bills payable	(300,000)	300,000
Repayments of corporate bonds	-	(575,500)
Proceeds from long-term borrowings	9,816,994	1,817,880
Repayments of long-term borrowings	(6,824,866)	(1,794,101)
Payments for preferred stock liabilities	(557,211)	-
Dividends paid to owners of the Corporation	(732,197)	(585,758)
Dividends paid to non-controlling interests	(18,175)	(12,672)
Changes in non-controlling interests	<u>64,300</u>	<u>28,967</u>
Net cash generated from (used in) financing activities	<u>295,531</u>	<u>(2,123,370)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>32,065</u>	<u>(134,219)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(203,009)	(7,051)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,414,908</u>	<u>2,421,959</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,211,899</u>	<u>\$ 2,414,908</u>

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

(With Deloitte & Touche auditors' report dated March 27, 2018)

(Concluded)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (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 of the Corporation and its subsidiaries (referred to collectively as “the Group”) 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 27, 2018.

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

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

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

#### 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 and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include and 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 of the Group, 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 relationships with whom the Group has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions 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 conditions after a business combination and the expected benefit at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 30 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments 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
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
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 amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

## IFRS 9 “Financial Instruments” and related amendments - Classification, measurement and impairment of financial assets

With regard 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 contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss 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 collecting contractual cash flows and selling 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 gains or losses 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 the 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.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares measured at cost will be measured at fair value instead; the difference between the previous book value and fair value should be recognized in the component of other equity at initial recognition.
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, financial instruments measured at FVTOCI, lease receivables, contract assets, certain written loan commitments and financial guarantee contracts arising from IFRS 15 “Revenue from Contracts with Customers”. A loss allowance for 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.

The Group has performed a preliminary assessment that it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group will elect not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9, but will recognize the cumulative effect of the initial application at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	<b>Carrying Amount as of December 31, 2017</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2018</b>
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through other comprehensive income - current	\$ -	\$ 399,505	\$ 399,505
Debt investments with no active market - current	352,063	(352,063)	-
Available for sale financial assets - noncurrent	8,350	(8,350)	-
Financial assets measured at cost - noncurrent	<u>39,092</u>	<u>(39,092)</u>	<u>-</u>
Total effect on assets	<u>\$ 399,505</u>	<u>\$ -</u>	<u>\$ 399,505</u>
Retained earnings	\$ 5,412,733	\$ 5,644	\$ 5,418,377
Other equity - financial assets at fair value through other comprehensive income	<u>-</u>	<u>(5,644)</u>	<u>(5,644)</u>
Total effect on equity	<u>\$ 5,412,733</u>	<u>\$ -</u>	<u>\$ 5,412,733</u>

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 IFRS 15, other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

#### IFRS 16 "Leases"

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

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 leases 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 assets separately from the interest expense accrued on the lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the 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 and issued into effect by the FSC.

##### **b. Basis of preparation**

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

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 an 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 an 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 dates of acquisitions up to the effective dates of disposals, 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 interests of the Group 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.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition.

See Note 13, Table 8 and Table 9 for detailed information on subsidiaries (including percentages of ownership and main businesses).

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 acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree 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 (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising 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 translated using the exchange rate at the date of the transaction.

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; and 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 progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at 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 which 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 an 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 capital surplus from investments in associates accounted for using the equity method. 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 using 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 using 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 an 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 the investment's 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 and impairment loss.

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 the estimates 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 pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized on 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 lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the 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 any 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 corresponding 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 an acquisition or issuance 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 categories

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 such financial assets are either held for trading or 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 dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 29.

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 measured 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 such investments are disposed of or are 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 measured 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 the 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 equivalents, trade receivables and debt investments with no active market) are measured using the effective interest method at amortized cost 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 assets, 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 defaults on receivables.

For a financial asset 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 carried 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 any 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, 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 measured at cost, the amount of the impairment loss is measured as the difference between such an 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 a 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.

The 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, issuance or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities are classified as at fair value through profit or loss when such financial liabilities are 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 dividends paid on the financial liability. Fair value is determined in the manner described in Note 29.

b) Derecognition of financial liabilities

The difference between the carrying amount of a 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 (i.e. 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 premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the 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 hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instrument 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. Allowances for sales returns and liabilities 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) Rendering of services

Service income (including that from operating services provided under service concession arrangements) is recognized when services are provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that 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 a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as an expenses 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 the which is 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 services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses 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 liabilities (assets)) are recognized as employee benefits expense in the period in which 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 liabilities (assets) represent 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 vested 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 expenses reflect the revised estimate, with a corresponding adjustment to 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 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 carryforwards 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 assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized 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 liabilities are settled or the assets are 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 revisions affect 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

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and the historical experience with product sales 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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand and petty cash	\$ 6,706	\$ 14,204
Checking accounts and demand deposits	1,564,768	1,534,186
Cash equivalent (investments with original maturities of less than 3 months)		
Time deposits	<u>640,425</u>	<u>866,518</u>
	<u>\$ 2,211,899</u>	<u>\$ 2,414,908</u>

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Bank balance	0%-13%	0%-13%
Time deposit	4.20%	1.15%-4.80%



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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Financial assets held for trading</u>		
Non derivative financial assets		
Domestic convertible bonds	\$ 31,935	\$ 32,070
Domestic stock of publicly quoted entity	-	2,463
Derivative financial assets		
Foreign exchange forward contracts	-	48,590
	<u>\$ 31,935</u>	<u>\$ 83,123</u>
	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Financial liabilities held for trading</u>		
Derivative financial liabilities		
Foreign exchange forward contracts	\$ 15,955	\$ -

Outstanding foreign exchange forward contracts were as follows:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Notional Amount</b>
<u>December 31, 2017</u>			
Buy	USD/EUR	2018.4.20	USD712/EUR600
	USD/NTD	2018.1.8-2018.3.26	USD19,395/TWD587,163
	EUR/TWD	2018.1.15-2018.2.26	EUR1,757/TWD63,622
	CNY/USD	2018.1.19-2018.9.13	CNY76,991/USD11,500
<u>December 31, 2016</u>			
Buy	USD/EUR	2017.2.24	USD1,138/EUR1,000
	CNY/USD	2017.2.27-2017.11.21	CNY221,133/USD33,000

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>2017</b>	<b>2016</b>
Overseas stock of publicly quoted entity	<u>\$ 8,350</u>	<u>\$ 9,231</u>

## 9. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Domestic unlisted common shares	\$ 30,447	\$ 31,360
Overseas unlisted preferred shares	<u>8,645</u>	<u>8,645</u>
	<u>\$ 39,092</u>	<u>\$ 40,005</u>

Management believed that the fair value of the above unlisted equity investments held by the Group had fair values which 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.

## 10. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Corporate bonds (1)	\$ 30,971	\$ 31,613
Financial product investment (2)	<u>321,092</u>	<u>-</u>
	<u>\$ 352,063</u>	<u>\$ 31,613</u>

- 1) 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.
- 2) The market interest rates of the financial product investment were 3.30%-4.15% per annum, as of December 31, 2017.

## 11. TRADE RECEIVABLES - NET

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Trade receivables from unrelated parties	\$ 2,620,847	\$ 2,315,022
Less: Allowance for impairment loss	<u>(44,702)</u>	<u>(40,792)</u>
	<u>\$ 2,576,145</u>	<u>\$ 2,274,230</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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Up to 90 days	\$ 2,387,788	\$ 2,215,040
91-180 days	145,079	56,732
More than 181 days	<u>87,980</u>	<u>43,250</u>
	<u>\$ 2,620,847</u>	<u>\$ 2,315,022</u>

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

The Group's did not have past due but not impaired account receivable on December 31, 2017 and 2016.

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 40,792	\$ 40,314
Add: Impairment losses recognized on trade receivables	3,461	894
Foreign exchange translation gains and losses	<u>449</u>	<u>(416)</u>
Balance at December 31	<u>\$ 44,702</u>	<u>\$ 40,792</u>

## 12. INVENTORIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Finished goods	\$ 812,256	\$ 567,963
Work in progress	250,292	224,989
Raw materials and supplies	1,256,376	929,533
Inventories in transit	<u>18,139</u>	<u>23,161</u>
	<u>\$ 2,337,063</u>	<u>\$ 1,745,646</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$14,198,877 thousand and \$13,108,263 thousand, respectively.

The cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of \$15,339 thousand and inventory reversals of write-downs of \$7,858 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	
			2017	2016
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	94.17	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
Hon Chuan China	Hon Chuan (Africa) Holding Co., Ltd. ("Hon Chuan Africa")	Overseas reinvested holding company and international trade	100	100
	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
	Honhwa Holdings Co., Ltd. ("Honhwa")	Overseas reinvested holding company and international trade	60	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership	
			December 31	
			2017	2016
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 filling OEM service	100	100
	Hon Chuan Food Packing (Zhangzhou) Co., Ltd. (“Zhangzhou Hon Chuan”)	Manufacture and sale of PET bottles and beverage filling OEM 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 filling OEM service	100	100
	Hon Chuan Enterprise Packing (Luocho) Co., Ltd. (“Luocho Hon Chuan”)	Manufacture and sale of PET bottles and beverage filling OEM service	100	-
Samoa Hon Hsing	Suzhou Hongxin Food Packing Co., Ltd. (“Suzhou Hongxin”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Food Packing (Taiyuan) Co., Ltd. (“Taiyuan Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Enterprise (Changsha) Co., Ltd. (“Changsha Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Food Packing (Jinan) Co., Ltd. (“Jinan Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	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	100
Hon Chuan Africa	Hon Shi Mozambique Limitada (“Hon Shi Samoa”)	Overseas reinvested holding company and international trade	60	60
Hon Shi Samoa	Shimada International Limitada (“Shimada”)	Manufacture and sales of plastic caps PET bottles and LDPE membrane	100	100
	Hon Shi Mozambique Co., Ltd. (“Hon Shi Mozambique”)	Manufacture and sales of plastic caps	100	100
Hon Hua	Uni Tun Co., Ltd. (Uni Tun)	Water filling	100	-

(Concluded)

Ningbo Hon Chuan has been liquidated in May, 2017.

Samoa Hon Chuan increased the capital of Hon Chuan China with cash in November 2017 to hold 94.17% equity of Hon Chuan China.

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	
	2017	2016
Hon Chuan China	5.83%	23.16%

See Table 8 and Table 9 for the information on places of incorporation and principal places of business.

Name of Subsidiary	Income by Subsidiaries		Non-Controlling Interests	
	December 31		December 31	
	2017	2016	2017	2016
Hon Chuan China	\$ 43,198	\$ 14,601	\$ 278,638	\$ 541,874

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	
	2017	2016
Current assets	\$ 3,621,264	\$ 3,043,494
Non-current assets	8,163,254	8,713,704
Current liabilities	(5,506,015)	(7,338,715)
Non-current liabilities	<u>(1,498,741)</u>	<u>(658,833)</u>
Equity	<u>\$ 4,779,762</u>	<u>\$ 3,759,650</u>
Equity attributable to:		
Owners of Hon Chuan China	\$ 4,501,111	\$ 3,217,776
Non-controlling interests of Hon Chuan China	<u>278,651</u>	<u>541,874</u>
	<u>\$ 4,779,762</u>	<u>\$ 3,759,650</u>

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Revenue	<u>\$ 5,936,380</u>	<u>\$ 5,949,305</u>
Gain for the year	\$ 201,328	\$ 63,041
Other comprehensive income for the year	<u>575,662</u>	<u>(650,281)</u>
Total comprehensive income for the year	<u>\$ 776,990</u>	<u>\$ (587,240)</u>
Gain attributable to:		
Owners of Hon Chuan China	\$ 158,130	\$ 48,440
Non-controlling interests of Hon Chuan China	<u>43,198</u>	<u>14,601</u>
	<u>\$ 201,328</u>	<u>\$ 63,041</u>
Total comprehensive income (loss) attributable to:		
Owners of Hon Chuan China	\$ 660,094	\$ (451,236)
Non-controlling interests of Hon Chuan China	<u>116,896</u>	<u>(136,004)</u>
	<u>\$ 776,990</u>	<u>\$ (587,240)</u>
Net cash flow from:		
Operating activities	\$ 502,763	\$ 1,513,777
Investing activities	(1,003,479)	(227,211)
Financing activities	<u>234,219</u>	<u>(937,709)</u>
Net cash inflow (outflow)	<u>\$ (266,497)</u>	<u>\$ 348,857</u>

#### 14. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Associates</u>		
Unlisted company		
Paeon International Co., Ltd (“Paeon Company”)	<u>\$ 22,814</u>	<u>\$ 28,639</u>

At the end of the reporting period, the proportions of ownership and voting rights in associates held by the Group were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Name of Associates</u>		
Paeon Company	23.08%	23.08%

## Aggregate information of associates

**For the Year Ended December  
31**

**2017                      2016**

The Group's share of:

Loss from continuing operations                      \$ (3,695)                      \$ (4,441)

The financial statements of the associate accounted for by the equity method used as basis for the above amounts were for the same periods but were not audited.

Refer to Table 8 for the nature of activities, principal place of business and countries of incorporation of the associates.

## **15. PROPERTY, PLANT AND EQUIPMENT**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Reclassified Amount</b>	<b>Effects of foreign currency exchange differences</b>	<b>Ending Balance</b>
<u>For the Year Ended</u>						
<u>December 31, 2017</u>						
<u>Cost</u>						
Freehold Land	\$ 769,054	\$ -	\$ -	\$ 238,108	\$ (11,587)	\$ 995,575
Buildings	5,749,096	24,958	(158)	26,292	(79,325)	5,720,863
Equipment	20,067,683	221,044	(931,812)	636,742	(453,676)	19,539,981
Other Equipment	6,386,817	196,604	(169,912)	361,592	(98,995)	6,676,106
Property in Construction	<u>389,328</u>	<u>676,418</u>	<u>-</u>	<u>(292,543)</u>	<u>(23,807)</u>	<u>749,396</u>
	<u>33,361,978</u>	<u>\$ 1,119,024</u>	<u>\$(1,101,882)</u>	<u>\$ 970,191</u>	<u>\$ (667,390)</u>	<u>33,681,921</u>
<u>Accumulated depreciation</u>						
Buildings	1,397,860	\$ 217,279	\$ (83)	\$ -	\$ (15,738)	1,599,318
Equipment	10,437,937	1,347,597	(916,529)	-	(180,486)	10,688,519
Other Equipment	<u>3,535,170</u>	<u>553,123</u>	<u>(162,759)</u>	<u>-</u>	<u>(33,002)</u>	<u>3,892,532</u>
	<u>15,370,967</u>	<u>\$ 2,117,999</u>	<u>\$(1,079,371)</u>	<u>\$ -</u>	<u>\$ (229,226)</u>	<u>16,180,369</u>
	<u>\$17,991,011</u>					<u>\$17,501,552</u>



	Beginning Balance	Acquisition s Through Business Combinati on	Additions	Disposals	Reclassifie d Amount	Effects of foreign currency exchange differences	Ending Balance
<u>For the Year Ended</u> <u>December 31, 2016</u>							
<u>Cost</u>							
Freehold Land	\$ 715,116	\$ -	\$ -	\$ -	\$ 58,477	\$ (4,539)	\$ 769,054
Buildings	5,269,115	31,894	14,281	(272)	679,129	(245,051)	5,749,096
Equipment	19,986,640	18,154	144,523	(338,921)	1,317,597	(1,060,310)	20,067,683
Other Equipment	5,704,837	24,351	427,586	(47,766)	532,393	(254,584)	6,386,817
Property in Construction	<u>1,261,307</u>	<u>-</u>	<u>69,460</u>	<u>-</u>	<u>(945,289)</u>	<u>3,850</u>	<u>389,328</u>
	<u>32,937,015</u>	<u>\$ 74,399</u>	<u>\$ 655,850</u>	<u>\$(386,959)</u>	<u>\$1,642,307</u>	<u>\$1,560,634</u>	<u>33,361,978</u>
<u>Accumulated depreciation</u>							
Buildings	1,253,913	\$ 367	\$ 213,050	\$ (138)	\$ -	\$ (69,332)	1,397,860
Equipment	9,737,729	12,759	1,402,893	(221,877)	-	(493,567)	10,437,937
Other Equipment	<u>3,149,113</u>	<u>18,008</u>	<u>505,140</u>	<u>(40,425)</u>	<u>-</u>	<u>(96,666)</u>	<u>3,535,170</u>
	<u>14,140,755</u>	<u>\$ 31,134</u>	<u>\$2,121,083</u>	<u>\$(262,440)</u>	<u>\$ -</u>	<u>\$(659,565)</u>	<u>15,370,967</u>
	<u>\$18,796,260</u>						<u>\$17,991,011</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over their 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 31 for the carrying amount of property, plant and equipment pledged by the Group to secure borrowings granted to the Group.

## 16. OTHER ASSETS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Office supplies	\$ 479,885	\$ 432,968
Prepaid expenses and prepayment for purchases	335,933	194,855
Prepayments for lease	290,450	332,988
Other receivables	45,344	25,862
Refundable deposits	42,576	37,039
Tax refund receivable	29,232	109,328
Restricted assets (Note 31)	25,642	65,674
Others	<u>250,382</u>	<u>210,990</u>
	<u>\$ 1,499,444</u>	<u>\$ 1,409,704</u>

Current	\$ 1,166,875	\$ 1,046,093
Non-current	<u>332,569</u>	<u>363,611</u>
	<u>\$ 1,499,444</u>	<u>\$ 1,409,704</u>

As of December 31, 2017 and 2016, prepaid lease payments mainly include legitimate land use rights of subsidiaries in mainland China, Hon Chuan Vietnam and Hon Chuan Myanmar which are located in China, Vietnam and Myanmar.

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 31.

## 17. GOODWILL

Changes in goodwill were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 382,813	\$ 64,496
Additional during the year (Note 26)	-	310,631
Effect of foreign currency exchange differences	<u>(29,557)</u>	<u>7,686</u>
Balance at December 31	<u>\$ 353,256</u>	<u>\$ 382,813</u>

## 18. BORROWINGS

### a. Short-term borrowings

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Unsecured borrowings</u>		
Bank loans for working capital	\$ 5,143,126	\$ 5,841,644
Loans for purchasing raw materials	13,187	18,737
<u>Secured borrowings</u>		
Collateral loans (Note 31)	<u>-</u>	<u>800,000</u>
	<u>\$ 5,156,313</u>	<u>\$ 6,660,381</u>

Rate of interest per annum (%)

Bank loans for working capital	0.69-4.70	0.70-4.35
Loans for purchasing raw materials	1.13-2.43	1.33-2.11
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>2017</b>	<b>2016</b>
Bank loans for working capital-March, 2019 to November 2022	\$ 7,999,920	\$ 5,236,194
Less: Current portion of long-term loans	<u>-</u>	<u>(258,000)</u>
	<u>\$ 7,999,920</u>	<u>\$ 4,978,194</u>

Rate of interest per annum (%)

Bank loans for working capital	0.95-3.20	0.80-2.20
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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. The Corporation had repaid the syndicated term loan in June 2016.

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. LIABILITY COMPONENT OF PREFERRED STOCKS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Convertible preferred stock	\$ -	\$ 596,625
Less: Liability component of preferred stocks discount	<u>-</u>	<u>(13,437)</u>
	-	583,188
Less: Current portions	<u>-</u>	<u>(583,188)</u>
Non-current	<u>\$ -</u>	<u>\$ -</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. The preferred shares expired in August 2017 and redeemed in November 2017.

Dividends on liability component of preferred stock were \$23,924 thousand and \$37,142 thousand for the years ended December 31, 2017 and 2016, respectively (Note 23).

## 20. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Payable for salaries	\$ 227,621	\$ 217,556
Payable for purchase of equipment	94,300	82,181
Advance receipts	32,203	36,230
Payable for bonus to employees	24,048	23,751
Payable for annual leave	21,347	20,933
Payable for remuneration of directors and supervisors	11,078	10,604
Deferred revenue	10,741	13,833
Others	<u>453,574</u>	<u>526,591</u>
	<u>\$ 874,912</u>	<u>\$ 931,679</u>
Current	\$ 863,635	\$ 917,266
Non-current	<u>11,277</u>	<u>14,413</u>
	<u>\$ 874,912</u>	<u>\$ 931,679</u>

## 21. 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 plans adopted by the Corporation in accordance with the Labor Standards Law is operated by the government of the ROC. 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>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ 155,211	\$ 153,623
Fair value of plan assets	<u>(119,570)</u>	<u>(117,101)</u>
Net defined benefit liability	<u>\$ 35,641</u>	<u>\$ 36,522</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 Liabilities (Assets)</b>
Balance at January 1, 2016	<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 loss - changes in demographic assumptions	632	-	632
Actuarial loss - changes in financial assumptions	3,157	-	3,157
Actuarial 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>
Service cost			
Current service cost	1,152	-	1,152
Net interest expense (income)	<u>2,112</u>	<u>(1,701)</u>	<u>411</u>
Recognized in profit or loss	<u>3,264</u>	<u>(1,701)</u>	<u>1,563</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	561	561
Actuarial (gain) loss - changes in demographic assumptions	297	-	297
Actuarial (gain) loss - changes in financial assumptions	1,483	-	1,483
Actuarial (gain) loss - experience adjustments	<u>4,925</u>	<u>-</u>	<u>4,925</u>
Recognized in other comprehensive income	<u>6,705</u>	<u>561</u>	<u>7,266</u>
Contributions from the employer	-	(9,710)	(9,710)
Benefits paid	<u>(8,381)</u>	<u>8,381</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 155,211</u>	<u>\$ (119,570)</u>	<u>\$ 35,641</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 plans' 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>2017</b>	<b>2016</b>
Discount rate	1.250%	1.375%
Expected rate of salary increase	1.375%	1.375%

If possible reasonable changes 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>2017</b>	<b>2016</b>
Discount rate(s)		
0.25% increase	\$ (3,026)	\$ (3,119)
0.25% decrease	\$ 3,123	\$ 3,223
Expected rate(s) of salary increase		
0.25% increase	\$ 3,005	\$ 3,107
0.25% decrease	\$ (2,926)	\$ (3,021)

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Expected contributions to the plans for the next year	\$ 9,710	\$ 13,168
Average duration of the defined benefit obligation	10 years	11 years

## 22. EQUITY

### a. Share capital

	<b>December 31</b>	
	<b>2017</b>	<b>2016</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>292,879</u>
Shares issued	<u>\$ 2,928,789</u>	<u>\$ 2,928,789</u>

### b. Capital surplus

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Arising from issuance of common shares (1)	\$ 4,927,127	\$ 4,927,127
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition (1)	380,116	-
Arising from employee share options (2)	148,820	148,820
Arising from share warrants (2)	<u>51,450</u>	<u>51,450</u>
	<u>\$ 5,507,513</u>	<u>\$ 5,127,397</u>

1) 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 to once a year).

2) The capital surplus from employee stock options and share warrants may not be used for any purpose.

### c. Retained earnings and dividends 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 the distribution of employees' compensation.

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 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 the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration to directors and supervisors before and after the amendment, please refer to d. Employee benefits expense, depreciation and amortization expenses in Note 23-4.

The dividends 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 2016 and 2015 approved in the shareholders' meetings on June 15, 2017, and June 22, 2016, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Legal reserve	\$ 117,822	\$ 94,896		
Special reserve	776,160	22,656		
Cash dividends	732,197	585,758	\$2.5	\$ 2

The appropriation of earnings for 2017 had been proposed by the Corporation's board of directors on March 27, 2018. The appropriation and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 123,086	
Special reserve	147,598	
Cash dividends	732,197	\$2.5

The appropriation of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on June 15, 2018.

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, 2016	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 the 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.

## 23. NET PROFIT FROM CONTINUING OPERATIONS

a. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Gain on valuation of financial assets	\$ (43,908)	\$ 53,025
Interest income	20,854	23,745
Loss on disposal of property, plant and equipment	(9,071)	(5,788)
Loss recognized on associates under equity method	(3,695)	(4,441)
Default fine income	220,365	-
Miscellaneous income	<u>55,882</u>	<u>73,544</u>
	<u>\$ 240,427</u>	<u>\$ 140,085</u>

b. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest on bank	\$ 201,718	\$ 188,606
Interest on convertible preferred stock (Note 19)	23,924	37,142
Interest on convertible bonds	<u>-</u>	<u>5,953</u>
	<u>\$ 225,642</u>	<u>\$ 231,701</u>

c. Employee benefits expense, depreciation and amortization expenses

	For the Year Ended December 31					
	2017			2016		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefits expense						
Payroll expense	\$ 1,137,193	\$ 446,605	\$ 1,583,798	\$ 1,141,254	\$ 428,495	\$ 1,569,749
Labor and health insurance expense	46,502	19,350	65,852	43,588	17,642	61,230
Pension expense	23,403	58,888	82,291	23,163	64,903	88,066
Other employee benefits expense	27,503	73,864	101,367	24,613	88,659	113,272
Depreciation expenses	1,975,411	142,588	2,117,999	1,985,876	135,207	2,121,083
Amortization expenses	9,262	15,107	24,369	9,994	23,343	33,337

d. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration to directors and supervisors at the rates of 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, 2017 and 2016 which have been approved by the Corporation's board of directors on March 27, 2018 and March 24, 2017, respectively, were as follows:

	For the Year Ended December 31			
	2017		2016	
	%	Cash	%	Cash
Employees' compensation	1.71%	\$ 24,048	1.74%	\$ 23,751
Remuneration to directors and supervisors	0.79%	11,078	0.78%	10,604

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

There was no difference between the actual amounts of employees' compensation and remuneration to directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Corporation's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 24. TAXES

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
In respect of the current year	\$ 302,038	\$ 269,859
Income tax expense of unappropriated earnings	-	24,531
In respect of prior periods	(9,754)	23,029
Deferred tax		
In respect of the current year	<u>(7,273)</u>	<u>(9,890)</u>
Income tax expense recognized in profit or loss	<u>\$ 285,011</u>	<u>\$ 307,529</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Income tax expense calculated at the statutory rate	\$ 336,839	\$ 300,859
Nondeductible expenses in determining taxable income	13,312	2,205
Deductible items in determining taxable income	(479)	(479)
Tax-exempt income	(41,753)	(93,466)
Unrecognized loss carryforwards	5,206	50,850
Unrecognized deductible temporary differences	(18,360)	-
Additional income tax on unappropriated earnings	-	24,531
Adjustments for prior year's tax	<u>(9,754)</u>	<u>23,029</u>
Income tax expense recognized in profit or loss	<u>\$ 285,011</u>	<u>\$ 307,529</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.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$1,689 thousand and \$4,285 thousand, respectively, in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Deferred tax assets and liabilities

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>For the Year Ended</u> <u>December 31, 2017</u>				
<u>Deferred Tax Assets</u>				
Temporary differences				
Tax losses	\$143,540	\$ 17,938	\$ -	\$161,478
Defined benefit obligation	7,764	(2,940)	1,235	6,059
Inventories	3,169	2,353	-	5,522
Other	<u>11,232</u>	<u>(2,054)</u>	<u>-</u>	<u>9,178</u>
	<u>\$ 165,705</u>	<u>\$ 15,297</u>	<u>\$ 1,235</u>	<u>\$ 182,237</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>11,822</u>	<u>8,024</u>	<u>-</u>	<u>19,846</u>
	<u>\$ 36,105</u>	<u>\$ 8,024</u>	<u>\$ -</u>	<u>\$ 44,129</u>
<u>For the Year Ended</u> <u>December 31, 2016</u>				
<u>Deferred Tax Assets</u>				
Temporary differences				
Tax losses	\$ 136,803	\$ 6,737	\$ -	\$ 143,540
Defined benefit obligation	8,328	(1,820)	1,256	7,764
Inventories	7,291	(4,122)	-	3,169
Other	<u>18,901</u>	<u>(7,669)</u>	<u>-</u>	<u>11,232</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

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>For the Year Ended</u> <u>December 31, 2017</u>				
<u>Deferred Tax Assets</u>				
Temporary differences				
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>

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

As of December 31, 2017 and 2016, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$282,446 thousand and \$167,513 thousand, respectively.

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

As of December 31, 2017, the approved tax-exempt expansion projects were as follows:

<u>Expansion Projects</u>	<u>Tax-exempt Period</u>	
Capitalization of earnings (stock dividend) in 2008 and cash funded expansion in 2009	December 2013 to December 2017	
<b>Investee</b>	<b>Unused Amount</b>	<b>Expiry Year</b>
Suzhou Hon Chuan	\$ 76,989	108-111
Suzhou Honxin	515,470	108-111
Chuzhou Hon Chan	45,779	108-111
Xiantao Hon Chuan	<u>64,759</u>	109-111
	<u>\$ 702,997</u>	

As of December 31, 2017 under the local regulations of Suzhou Hon Chuan, Xiantao Hon Chuan, Chuzhou Hon Chuan and Suzhou Hongxin, their loss carryforwards may be offset against future taxable income.

e. Integrated income tax

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Unappropriated earnings		
Generated before January 1, 1998	\$ -	\$ -
Generated on and after January 1, 1998	<u>-</u>	<u>3,293,916</u>
	<u>\$ -</u>	<u>\$ 3,293,916</u>
Imputation credits accounts	Note	<u>\$ 422,121</u>
	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
		<b>(Actual)</b>
Creditable ratio for distribution of earnings	Note	15.69%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

f. Income tax assessments

Income tax returns of the Corporation through 2015 have been examined and cleared by the tax authorities.

## 25. EARNINGS PER SHARE

	<b>Net profit attributable to owners of the Corporation</b>	<b>Number of Shares (In Thousands)</b>	<b>Earnings Per Share (NT\$)</b>
<u>For the year ended December 31, 2017</u>			
Basic	\$ 1,230,861	292,879	<u>\$ 4.20</u>
Dilutive effects - employees' compensation or bonus issue to employees	<u>-</u>	<u>507</u>	
Dilutive	<u>\$ 1,230,861</u>	<u>293,386</u>	<u>\$ 4.20</u>
<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>

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.

## 26. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
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. Consideration 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) \$ 310,631

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>

\$ 340,928

## 27. 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>2017</b>	<b>2016</b>
Not later than 1 year	\$ 33,501	\$ 30,579
Later than 1 year and not later than 5 years	116,641	100,701
Later than 5 years	<u>56,931</u>	<u>61,195</u>
	<u>\$ 207,073</u>	<u>\$ 192,475</u>

## 28. 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 reviews the capital structure on a quarterly basis. As part of this review, the key management personnel considers 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.

## 29. 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, 2017</u>			
Financial assets at fair value through profit or loss (FVTPL)			
Domestic convertible bonds	\$ 31,935	\$ -	\$ 31,935
Available-for-sale financial assets			
overseas stock of publicly quoted entity	\$ 8,350	\$ -	\$ 8,350
Financial liabilities at fair value through profit or loss (FVTPL)			
foreign exchange forward contracts	\$ -	\$ 15,955	\$ 15,955
<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	2,463	-	2,463
	\$ 34,533	\$ 48,590	\$ 83,123
Available-for-sale financial assets			
overseas stock of publicly quoted entity	\$ 9,231	\$ -	\$ 9,231

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

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign exchange 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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets</u>		
FVTPL	\$ 31,935	\$ 83,123
Available-for-sale financial assets	8,350	9,231
Loans and receivables		
Cash and cash equivalents	2,211,899	2,414,908
Financial assets measured at cost	39,092	40,005
Debt investments with no active market	352,063	31,613
Notes receivable and trade receivable	2,767,079	2,436,045
<u>Financial liabilities</u>		
FVTPL	15,955	-
Amortized cost		
Short-term borrowings	5,156,313	6,660,381
Short-term bills payable	-	300,000
Notes payable and trade payable	914,467	822,559
Long-term borrowing (including current portion)	7,999,920	5,236,194
Preferred stock liabilities	-	583,188

c. Financial risk management objectives

The Group's major financial instruments included equity and debt investments, trade receivable, trade payables, bonds payable and borrowings. 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 are set out in Note 33.

### 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, 2017 and 2016 would have changed by decreasing \$3,698 thousand and \$4,237 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, 2017 and 2016 would have changed by decreasing \$2,791 thousand and \$1,765 thousand, respectively.

### Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

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>2017</b>	<b>2016</b>
Fair value interest rate risk		
Financial assets	\$ 352,063	\$ 31,613
Financial liabilities	-	883,188
Cash flow interest rate risk		
Financial liabilities	13,156,233	11,896,575

### Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each 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, 2017 and 2016 would decrease by \$15,875 thousand and \$16,621 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 would cause a financial loss to the Group due to the 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 consolidated balance sheets; and
- The amount of contingent liabilities in relation to financial guarantees 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 35% and 45% in total trade receivables as of December 31, 2017 and 2016, 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, 2017 and 2016, the Corporation had available unutilized short-term bank loan facilities of \$8,094,023 thousand and \$5,742,063 thousand, respectively.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has 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, 2017</u>			
Non-derivative financial liabilities			
Borrowings	\$ 5,156,313	\$ 7,999,920	\$13,156,233
Non-interest bearing liabilities	<u>914,467</u>	<u>-</u>	<u>914,467</u>
	<u>\$ 6,070,780</u>	<u>\$ 7,999,920</u>	<u>\$14,070,700</u>
<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>

## 30. 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. Related Party Categories / Names

<b>Related Party</b>	<b>Relationship with the Consolidated Company</b>
Food and Drink Public Company Limited	Others
Chiu Vorng Vorng Mary Company Co., LTD.	Others
Ann Huang	Others

b. Sales of goods

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net sales		
Others	<u>\$ 8,577</u>	<u>\$ 6,756</u>
Rental expenses (recorded under manufacturing or operation expenses)		
Others	<u>\$ 3,263</u>	<u>\$ 3,176</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>2017</b>	<b>2016</b>
Accounts receivable		
Others	<u>\$ 1,828</u>	<u>\$ 3,144</u>
Other receivable (recorded under current assets)		
Others	<u>\$ 3,422</u>	<u>\$ 1,701</u>
Other payables (recorded under other current liabilities)		
Others	<u>\$ 32,574</u>	<u>\$ 57,312</u>

c. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 50,470	\$ 47,163
Post-employment benefits	<u>319</u>	<u>380</u>
	<u>\$ 50,789</u>	<u>\$ 47,543</u>

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

### 31. 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>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 534,823	\$ 1,391,593
Restricted assets (recorded under other current assets)	<u>25,642</u>	<u>65,674</u>
	<u>\$ 560,465</u>	<u>\$ 1,457,267</u>

### 32. 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, 2017 and 2016 were as follows:

- a. As of December 31, 2017 and 2016, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$177,085 thousand and \$614,006 thousand, respectively.
- b. Unrecognized commitments are as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Acquisition of property, plant and equipment	<u>\$ 1,140,388</u>	<u>\$ 184,595</u>



### 33. 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						
2017			2016			
Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars	
<u>Financial assets of monetary items</u>						
USD	\$ 14,834	29.76	\$ 441,460	\$ 24,071	32.25	\$ 776,290
EUR	3,093	35.57	110,018	2,675	33.90	90,683
<u>Financial liabilities of monetary items</u>						
USD	27,179	29.76	808,847	37,317	32.25	1,203,473
EUR	11,009	35.57	391,590	7,942	33.90	269,234

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 realized and unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
2017			2016	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1	\$ (15,952)	-	\$ (2,776)
USD	30.43	2,926	32.26	(414)
RMB	4.50	30,359	4.86	(106,025)
MZM	0.4783	10,333	0.5173	4,139
IDR	0.0023	(335)	0.0025	16,729
THB	0.90	(2,397)	0.92	(2,801)
		<u>\$ 24,934</u>		<u>\$ (91,148)</u>

### 35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)

- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities). (Table 3)
  - 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)
  - 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. (Table 5)
  - 6) Disposal of individual real estate at prices of at least NT \$300 million or 20% of the paid-in capital. (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (None)
  - 8) Receivables from related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (Table 6)
  - 9) Trading in derivative instruments. (Note 7)
  - 10) Intercompany relationships and significant intercompany transactions. (Table 7)
  - 11) Information on investees. (Table 8)
- 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 9)
  - 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 7)
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 7)
    - c) The amount of property transactions and the amount of the resultant gains or losses. (Table 7)
    - 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 7)

### 35. 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, 2017</u>				
Revenue from external customers	\$ 7,386,706	\$ 10,132,752	\$ -	\$ 17,519,458
Inter-segment revenue	<u>70,162</u>	<u>37,464</u>	<u>(107,626)</u>	<u>-</u>
Segment revenue	<u>\$ 7,456,868</u>	<u>\$ 10,170,216</u>	<u>\$ (107,626)</u>	<u>\$ 17,519,458</u>
Segment income	<u>\$ 986,456</u>	<u>\$ 523,924</u>		<u>\$ 1,510,380</u>
Financial costs				(225,642)
Foreign exchange gain				21,829
Other gains and losses				<u>240,427</u>
Profit before tax				<u>\$ 1,546,994</u>
<u>For the Year ended December 31, 2016</u>				
Revenue from external customers	\$ 7,061,831	\$ 9,448,847	\$ -	\$ 16,510,678
Inter-segment revenue	<u>71,831</u>	<u>40,827</u>	<u>(112,658)</u>	<u>-</u>
Segment revenue	<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>		<u>\$ 1,671,197</u>
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>

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

Segment profit represented the profit before tax earned by each segment without interest income, gains or losses on disposal of property, plant and equipment, exchange gains or losses, valuation gains or losses 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>2017</b>	<b>2016</b>
Packaging materials	\$11,584,051	\$10,904,119
Beverages (included bottle filling and OEM)	4,869,552	4,718,929
Others	<u>1,065,855</u>	<u>887,630</u>
	<u>\$17,519,458</u>	<u>\$16,510,678</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>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Taiwan	\$ 7,386,706	\$ 7,061,831	\$ 5,154,456	\$ 4,795,182
China	5,923,846	5,923,745	7,995,302	8,562,665
Southeast Asia	4,088,624	3,439,741	5,626,312	5,630,568
Others	<u>120,282</u>	<u>85,361</u>	<u>389,050</u>	<u>401,883</u>
	<u>\$ 17,519,458</u>	<u>\$ 16,510,678</u>	<u>\$ 19,165,120</u>	<u>\$ 19,390,298</u>

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

- e. Information on major customers

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

	<b>For the Year Ended December 31</b>	
<b>Names</b>	<b>2017</b>	<b>2016</b>
Customer A	\$ 2,575,465	\$ 2,916,493
Customer B	1,938,241	2,017,704

TABLE 1

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO RELATED ENTITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of Dollars, Unless Otherwise Specified)

No.	Lender	Borrower	Financial Statement Account	Related Party	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	\$ 2,409,072 (US\$ 80,950)	\$ 1,711,795 (US\$ 57,520)	\$ 1,711,795 (US\$ 57,520)	2.79%-3.17%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 4,397,164	\$ 4,397,164
		Kai Gang	Receivable from related parties	Yes	74,400 (US\$ 2,500)	-	-	2.79%-2.85%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
		Samoa Hon Hsing	Receivable from related parties	Yes	15,773 (US\$ 530)	15,773 (US\$ 530)	15,773 (US\$ 530)	3.08%-3.17%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
		Hon Chuan Asia	Receivable from related parties	Yes	336,288 (US\$ 11,300)	-	-	2.79%-3.08%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
		Xiantao Hon Chuan	Receivable from related parties	Yes	59,520 (US\$ 2,000)	59,520 (US\$ 2,000)	59,520 (US\$ 2,000)	3.29%-3.67%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
2	Kai Gang	Samoa Hon Chuan	Receivable from related parties	Yes	89,280 (US\$ 3,000)	89,280 (US\$ 3,000)	89,280 (US\$ 3,000)	2.87%-3.17%	Short-term financing	-	Operating Capital	-	-	-	2,114,129	2,114,129
		Hon Chuan China	Receivable from related parties	Yes	308,016 (US\$ 10,350)	308,016 (US\$ 10,350)	308,016 (US\$ 10,350)	2.79%-3.17%	Short-term financing	-	Operating Capital	-	-	-	2,114,129	2,114,129
		Qingxin Hon Chuan	Receivable from related parties	Yes	163,680 (US\$ 5,500)	-	-	3.29%-3.35%	Short-term financing	-	Operating Capital	-	-	-	2,114,129	2,114,129
3	Samoa Hon Hsing	Hon Chuan China	Receivable from related parties	Yes	416,640 (US\$ 14,000)	416,640 (US\$ 14,000)	416,640 (US\$ 14,000)	2.79%-3.17%	Short-term financing	-	Operating Capital	-	-	-	1,932,424	1,932,424
		Samoa Hon Chuan	Receivable from related parties	Yes	184,512 (US\$ 6,200)	-	-	2.79%-2.93%	Short-term financing	-	Operating Capital	-	-	-	1,932,434	1,932,424
4	Hon Chuan Asia	Hon Chuan Indonesia	Receivable from related parties	Yes	160,704 (US\$ 5,400)	119,040 (US\$ 4,000)	119,040 (US\$ 4,000)	3.29%-3.67%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
			Account receivable-related parties	Yes	48,953 (EUR\$ 1,376)	-	-	-	Business transaction	48,953 (EUR\$ 1,376)	-	-	-	-	48,953	2,749,145
		Honlly	Receivable from related parties	Yes	27,452 (US\$ 922)	27,452 (US\$ 922)	27,452 (US\$ 922)	3.29%-3.67%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
		Hon Chuan Vietnam	Receivable from related parties	Yes	89,280 (US\$ 3,000)	-	-	3.29%-3.37%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
			Account receivable-related parties	Yes	40,025 (EUR\$ 1,125)	-	-	-	Business transaction	40,025 (EUR\$ 1,125)	-	-	-	-	40,025	2,749,145
		Samoa Honlly	Receivable from related parties	Yes	14,880 (US\$ 500)	14,880 (US\$ 500)	14,880 (US\$ 500)	3.67%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
		Hon Chuan Myanmar	Account receivable-related parties	Yes	5,373 (EUR\$ 151)	-	-	-	Business transaction	5,373 (EUR\$ 151)	-	-	-	-	5,373	2,749,145

5	Suzhou Hon Chuan	Chuzhou Hon Chuan	Receivable from related parties	Yes	97,922 (RMB 21,500)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
		Xiantao Hon Chuan	Receivable from related parties	Yes	54,654 (RMB 12,000)	13,663 (RMB 3,000)	13,663 (RMB 3,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
		Suzhou Hongxin	Receivable from related parties	Yes	68,317 (RMB 15,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
		Luoch Hon Chuan	Receivable from related parties	Yes	49,644 (RMB 10,900)	49,644 (RMB 10,900)	49,644 (RMB 10,900)	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
6	Changsha Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	113,862 (RMB 25,000)	11,386 (RMB 2,500)	11,386 (RMB 2,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126
		Chuzhou Hon Chuan	Receivable from related parties	Yes	179,903 (RMB 39,500)	179,903 (RMB 39,500)	179,903 (RMB 39,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126
		Xiantao Hon Chuan	Receivable from related parties	Yes	81,981 (RMB 18,000)	75,149 (RMB 16,500)	75,149 (RMB 16,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126
		Suzhou Hongxin	Receivable from related parties	Yes	22,772 (RMB 5,000)	22,772 (RMB 5,000)	22,772 (RMB 5,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126

(Continued)

No.	Lender	Borrower	Financial Statement Account	Related Party	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		
7	Zhongzhou Hon Chung	Qingxin Hon Chuan	Receivable from related parties	Yes	\$ 91,090 (RMB 20,000)	\$ 81,070 (RMB 17,800)	\$ 81,070 (RMB 17,800)	4.35%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 497,702	\$ 497,702
		Xiantao Hon Chuan	Receivable from related parties	Yes	40,990 (RMB 9,000)	40,990 (RMB 9,000)	40,990 (RMB 9,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	497,702	497,702
		Suzhou Honxin	Receivable from related parties	Yes	68,317 (RMB 15,000)	68,317 (RMB 15,000)	68,317 (RMB 15,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	497,702	497,702
8	Jinan Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	31,881 (RMB 7,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
		Xiantao Hon Chuan	Receivable from related parties	Yes	25,050 (RMB 5,500)	25,050 (RMB 5,500)	25,050 (RMB 5,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
		Chuzhou Hon Chuan	Receivable from related parties	Yes	9,109 (RMB 2,000)	9,109 (RMB 2,000)	9,109 (RMB 2,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
		Suzhou Hon Chung	Receivable from related parties	Yes	9,109 (RMB 2,000)	9,109 (RMB 2,000)	9,109 (RMB 2,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
9	Taiyuan Hon Chuan	Xiantao Hon Chuan	Receivable from related parties	Yes	132,080 (RMB 29,000)	91,090 (RMB 20,000)	91,090 (RMB 20,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	608,978	608,978
		Chuzhou Hon Chuan	Receivable from related parties	Yes	27,327 (RMB 6,000)	27,327 (RMB 6,000)	27,327 (RMB 6,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	608,978	608,978
10	Samoa Honly	Cambodia Honly	Receivable from related parties	Yes	90,768 (US\$ 3,050)	90,768 (US\$ 3,050)	90,768 (US\$ 3,050)	-	Short-term financing	-	Operating Capital	-	-	-	120,100	120,100

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, 2017.

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, 2017

(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)	\$ 6,003,610	\$ 2,916,480 (US\$ 98,000)	\$ 2,916,480 (US\$ 98,000)	\$ 1,621,920 (US\$ 54,500)	\$ -	24	\$ 12,007,220	Y	-	-
		Hon Chuan China	(Note 4)	6,003,610	3,868,800 (US\$ 130,000)	3,720,000 (US\$ 125,000)	3,720,000 (US\$ 125,000)	-	31	12,007,220	Y	-	-
		Hon Chuan Asia	(Note 4)	6,003,610	1,428,480 (US\$ 48,000)	1,190,400 (US\$ 40,000)	397,167 (US\$ 13,346)	-	10	12,007,220	Y	-	-
		Qingxin Hon Chuan	(Note 4)	6,003,610	446,400 (US\$ 15,000)	446,400 (US\$ 15,000)	320,373 (US\$ 10,765)	-	4	12,007,220	Y	-	Y
		Taiyuan Hon Chuan	(Note 4)	6,003,610	238,080 (US\$ 8,000)	238,080 (US\$ 8,000)	59,520 (US\$ 2,000)	-	2	12,007,220	Y	-	Y
		Samoa Hon Hsing	(Note 4)	6,003,610	565,440 (US\$ 19,000)	565,440 (US\$ 19,000)	416,640 (US\$ 14,000)	-	5	12,007,220	Y	-	-
		Kai Gang	(Note 4)	6,003,610	446,400 (US\$ 15,000)	-	-	-	-	12,007,220	Y	-	-
		Suzhou Hongxin	(Note 4)	6,003,610	89,280 (US\$ 3,000)	-	-	-	-	12,007,220	Y	-	Y
		Jinan Hon Chuan	(Note 4)	6,003,610	297,600 (US\$ 10,000)	-	-	-	-	12,007,220	Y	-	Y
		Xiantao Hon Chuan	(Note 4)	6,003,610	312,182 (US\$ 10,490)	133,622 (US\$ 4,490)	-	-	1	12,007,220	Y	-	Y
		Qingxin Hon Chuan (Note 5)	(Note 4)	6,003,610	178,262 (US\$ 5,990)	178,262 (US\$ 5,990)	38,486 (US\$ 1,293)	-	1	12,007,220	Y	-	Y
		Zangzhou Hon Chuan (Note 5)	(Note 4)								Y	-	Y
		Chuzhou Hon Chuan (Note 5)	(Note 4)								Y	-	Y
		Kai Gang (Note 6)	(Note 4)	6,003,610	297,600 (US\$ 10,000)	297,600 (US\$ 10,000)	119,692 (US\$ 4,022)	-	2	12,007,220	Y	-	Y
		Suzhou Hongxin (Note 6)	(Note 4)								Y	-	Y
		Qingxin Hon Chuan (Note 6)	(Note 4)								Y	-	Y
		Xiantao Hon Chuan (Note 6)	(Note 4)								Y	-	Y
		Xiantao Hon Chuan (Note 7)	(Note 4)	6,003,610	297,600 (US\$ 10,000)	297,600 (US\$ 10,000)	-	-	2	12,007,220	Y	-	Y
		Jinan Hon Chuan (Note 7)	(Note 4)								Y	-	Y
		Chuzhou Hon Chuan (Note 7)	(Note 4)								Y	-	Y
1	Hon Chuan Thailand	Hon Fu Thailand	(Note 4)	6,003,610	55,056 (THB 60,000)	45,880 (THB 50,000)	5,276 (THB 5,750)	-	-	12,007,220	-	-	-

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: Loan facilities share with these three companies.

Note 8: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.

**TABLE 3****TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2017****(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, 2017			
				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	39,143	\$ 447	2	\$ 447
	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
	<u>Corporate Bonds</u>						
	Adimmune Corporation	-	Financial instruments at fair value through profit or loss - current	300,000	31,935	-	31,935
Samoa Hon Chuan	<u>Corporate Bonds</u>						
	Garden Fresh	-	Debt investments with no active market - current	-	30,971 (US\$ 1,041)	-	30,971 (US\$ 1,041)
Hon Chuan Thailand	<u>Capital Stock</u>						
	Ichitan Company	-	Available-for-sale financial assets - noncurrent	1,000,000	8,350 (THB 9,100)	0.08	8,350 (THB 9,100)

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 8 and 9.

Note 3: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.



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

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of Dollars, Unless Otherwise Specified)**

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal		Ending Balance	
					Number of Shares	Amount (Note 1)	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount (Note 1)
The Corporation	Samoa Hon Chuan	Investments accounted for using equity method	-	Parent - subsidiary	299,080,843	\$ 10,180,172	43,200,000	\$ 1,322,743	1,808,024	\$ 54,470	340,472,818	\$ 12,124,157
Samoa Hon Chuan	Hon Chuan Asia	Investments accounted for using equity method	-	Parent - subsidiary	171,592,505	5,892,004 (US\$ 197,984)	22,600,000	672,576 (US\$ 22,600)	-	-	194,192,505	7,042,525 (US\$ 236,644)
	Hon Chuan China	Investments accounted for using equity method	-	Parent - subsidiary	91,230,576	2,969,334 (US\$ 99,776)	18,500,000	550,560 (US\$ 18,500)	-	-	109,730,576	4,501,111 (US\$ 151,247)
Hon Chuan China	Kai Gang	Investments accounted for using equity method	-	Parent - subsidiary	1,097,377,292	4,836,298 (US\$ 162,510)	93,778,104	357,120 (US\$ 12,000)	-	-	1,191,155,396	5,708,147 (US\$ 191,806)

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

Note 2: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.

Note 3: The remittance is disposal of indirect investment of Ningbo Hon Chuan Company's equity investment.

Note 4: Significant intercompany accounts and transactions have been eliminated.

TABLE 5

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
The Corporation	Land and building	2017.8.4	\$ 351,429	\$ 130,029	Guan Hua Construction Co., Ltd.	None	-	-	-	\$ -	Refer to market price, agreed by both parties	Operating requirement	-

Note: The amount is according to the contract.

**TABLE 6****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, 2017****(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)	\$ 1,711,795 (US\$ 57,520)	-	\$ -	Depend on the operation	\$ -	\$ -
Kai Gang	Hon Chuan China	(Note 1)	308,016 (US\$ 10,350)	-	-	Depend on the operation	-	-
Samoa Hon Hsing	Hon Chuan China	(Note 1)	416,640 (US\$ 14,000)	-	-	Depend on the operation	-	-
Hon Chuan Asia	Hon Chuan Indonesia	(Note 1)	119,040 (US\$ 4,000)	-	-	Depend on the operation	-	-
Changsha Hon Chuan	Chuzhou Hon Chuan	(Note 1)	179,903 (RMB 39,500)	-	-	Depend on the operation	-	-

Note 1: Investees which the Corporation directly or indirectly holds more than 50% of the voting shares.

Note 2: Significant intercompany accounts and transactions have been eliminated.

TABLE 7

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

## INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

(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	\$ 59,650	T/T 180 days	-
		Hon Chuan Asia and its subsidiaries	1	Purchase	31,941	T/T 180 days	-
		Hon Chuan Asia and its subsidiaries	1	Accounts Receivable	13,235	T/T 180 days	-
		Hon Chuan China and its subsidiaries	1	Sales	6,265	T/T 180 days	-
		Hon Chuan China and its subsidiaries	1	Purchase	5,358	T/T 180 days	-
		Hon Chuan Africa and its subsidiaries	1	Sales	4,248	T/T 180 days	-
1	Samoa Hon Chuan	Hon Chuan China and its subsidiaries	3	Receivable from related parties	1,787,088	Depend on working capital sufficiency	6
		Hon Chuan China and its subsidiaries	3	Interest revenue	54,005	Depend on working capital sufficiency	-
		Hon Chuan China and its subsidiaries	3	Interest receivable	12,904	Depend on working capital sufficiency	-
		Hon Chuan China and its subsidiaries	3	Payables to related parties	89,280	Depend on working capital sufficiency	-
		Hon Chuan Africa	3	Sales	9,363	T/T 180 days	-
2	Hon Chuan Asia	Among Hon Chuan Asia's subsidiaries	3	Receivable from related parties	161,372	Depend on working capital sufficiency	1
		Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	161,391	T/T 180 days	1
		Among Hon Chuan Asia's subsidiaries	3	Accounts Payable	11,830	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	83,255	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Sales	148,453	T/T 180 days	1
3	Hon Chuan Thailand	Among Hon Chuan Asia's subsidiaries	3	Sales	4,635	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	121,004	T/T 180 days	1
		Among Hon Chuan Asia's subsidiaries	3	Accounts Payable	25,596	T/T 180 days	-
4	Hon Fu Thailand	Among Hon Chuan Asia's subsidiaries	3	Sales	4,375	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	254	T/T 180 days	-
5	Hon Chuan Malaysia	Among Hon Chuan Asia's subsidiaries	3	Sales	10,919	T/T 180 days	-
6	Hon Chuan Indonesia	Among Hon Chuan Asia's subsidiaries	3	Sales	21	T/T 180 days	-
7	Hon Chuan Vietnam	Among Hon Chuan Asia's subsidiaries	3	Sales	16,693	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	14,124	T/T 180 days	-
8	Samoa Honly	Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	57,646	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Receivable from related parties	90,768	Depend on working capital sufficiency	-
		Among Hon Chuan Asia's subsidiaries	3	Sales	13,305	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts payable	48,281	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Other receivables	104,257	Depend on working capital sufficiency	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	54,097	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
9	Hon Shi Samoa	Among Hon Chuan Africa's subsidiaries	3	Other receivables	\$ 49,405	Depend on working capital sufficiency	-
10	Shimada	Among Hon Chuan Africa's subsidiaries	3	Sales	9,834	T/T 180 days	-
		Among Hon Chuan Africa's subsidiaries	3	Purchase	400	T/T 180 days	-
11	Hon Chuan China	Among Hon Chuan China's subsidiaries	3	Payable to related parties	724,953	Depend on working capital sufficiency	3
		Among Hon Chuan China's subsidiaries	3	Interest expense	18,275	Depend on working capital sufficiency	-
12	Suzhou Hon Chuan	Among Hon Chuan China's subsidiaries	3	Receivable from related parties	63,307	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Accounts receivable	32,868	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	67,705	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Purchase	5,187	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Account payable	40,936	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales of property, plant and equipment	20,431	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Purchase of property, plant and equipment	34,673	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Other income	26,994	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Manufacturing expense	23,039	Depend on working capital sufficiency	-
13	Suzhou Hongxin	Among Hon Chuan China's subsidiaries	3	Purchase	5,959	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Other payables	27,277	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Payable to related parties	100,199	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Other receivables	18,019	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Sales	56	T/T 180 days	-
14	Jinan Hon Chuan	Among Hon Chuan China's subsidiaries	3	Sales	40,382	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Purchase	5,596	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Purchase of property, plant and equipment	60,477	Depend on working capital sufficiency	-
		Among Hon Chuan China's subsidiaries	3	Receivable from related parties	34,159	Depend on working capital sufficiency	-
15	Taiyuan Hon Chuan	Among Hon Chuan China's subsidiaries	3	Purchase	4,815	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	1,218	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Receivable from related parties	118,417	Depend on working capital sufficiency	-
16	Changsha Hon Chuan	Among Hon Chuan China's subsidiaries	3	Receivable from related parties	266,438	Depend on working capital sufficiency	1
		Among Hon Chuan China's subsidiaries	3	Purchase	1,283	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Interest revenue	13,105	Depend on working capital sufficiency	-
17	Qingxin Hon Chuan	Among Hon Chuan China's subsidiaries	3	Purchase	1,792	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Sales	16,208	T/T 180 days	-
		Among Hon Chuan China's subsidiaries	3	Payable to related parties	81,070	Depend on working capital sufficiency	-
18	Zhangzhou Hon Chuan	Among Hon Chuan China's subsidiaries	3	Receivable from related parties	40,991	Depend on working capital sufficiency	-

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 8**

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

**INFORMATION ON INVESTEEES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(In Thousands of Dollars, Unless Stated Otherwise)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of DECEMBER 31, 2017			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 4)	Note
				December 31, 2017	December 31, 2016	Shares	%	Carrying Amount (Note 4)			
The Corporation	Samoa Hon Chuan	Samoa	Overseas reinvested holding company and international trade	\$ 10,463,071	\$ 9,194,798	340,472,818	100	\$ 12,124,517	\$ 443,554	\$ 443,554	Subsidiary
Samoa Hon Chuan	Hon Chuan China	Cayman Island	Overseas reinvested holding company	3,888,620 (US\$ 130,666)	3,338,060 (US\$ 112,166)	109,730,576	94.17	4,501,111 (US\$ 151,247)	201,338 (US\$ 6,616)	(Note 1)	Indirect subsidiary
	Hon Chuan Asia	Cayman Island	Overseas reinvested holding company and international trade	5,830,192 (US\$ 195,907)	5,157,616 (US\$ 173,307)	194,192,505	100	7,042,525 (US\$ 236,644)	244,065 (US\$ 8,020)	(Note 1)	Indirect subsidiary
	Hon Chuan Africa	Samoa	Overseas reinvested holding company and international trade	388,189 (US\$ 13,044)	325,693 (US\$ 10,944)	13,044,118	100	428,395 (US\$ 14,395)	14,486 (US\$ 476)	(Note 1)	Indirect subsidiary
	Paean Company	Seychelles	Overseas reinvested holding company	27,915 (US\$ 938)	27,915 (US\$ 938)	-	23.08	22,814 (US\$ 767)	(16,007) (US\$ 526)	(Note 1)	Investments accounted for using equity method
Hon Chuan China	Kai Gang	Hong Kong	Overseas reinvested holding company	4,537,210 (US\$ 152,460)	4,180,090 (US\$ 140,460)	1,191,155,396	100	5,708,147 (US\$ 191,806)	237,126 (US\$ 7,792)	(Note 1)	Indirect subsidiary
	Samoa Hon Hsing	Samoa	Overseas reinvested holding company	3,749,939 (US\$ 126,006)	3,749,939 (US\$ 126,006)	126,006,000	100	4,887,009 (US\$ 164,214)	166,280 (US\$ 5,464)	(Note 1)	Indirect subsidiary
Hon Chuan Asia	Hon Chuan Thailand	Thailand	Manufacture and sale of plastic caps and PET bottles	1,234,980 (US\$ 41,498)	1,234,980 (US\$ 41,498)	137,000,000	100	2,088,765 (US\$ 70,187)	145,891 (US\$ 4,794)	(Note 1)	Indirect subsidiary
	Hon Chuan Indonesia	Indonesia	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	2,580,847 (US\$ 86,722)	2,500,911 (US\$ 84,036)	86,670,329	100	2,296,311 (US\$ 77,161)	66,950 (US\$ 2,200)	(Note 1)	Indirect subsidiary
	Hon Chuan Vietnam	Vietnam	Manufacture and sale of plastic caps and PET bottles	892,800 (US\$ 30,000)	744,000 (US\$ 25,000)	-	100	1,035,648 (US\$ 34,800)	69,568 (US\$ 2,286)	(Note 1)	Indirect subsidiary
	Hon Chuan Malaysia	Malaysia	Manufacture and sale of plastic caps and PET bottles	776,706 (US\$ 26,099)	776,706 (US\$ 26,099)	81,259,900	100	699,300 (US\$ 23,498)	15,703 (US\$ 516)	(Note 1)	Indirect subsidiary
	Hon Chuan Myanmar	Myanmar	Manufacture and sale of plastic caps and PET bottles	707,871 (US\$ 23,786)	707,871 (US\$ 23,786)	89,524,394	70	612,401 (US\$ 20,578)	13,755 (US\$ 452)	(Note 1)	Indirect subsidiary
	Samoa Honly	Samoa	Overseas reinvested holding company and international trade	265,459 (US\$ 8,920)	208,915 (US\$ 7,020)	8,920,000	60	179,542 (US\$ 6,033)	(62,781) (US\$ 2,063)	(Note 1)	Indirect subsidiary
	Honly	Cambodia	Overseas reinvested holding company and international trade	26,248 (US\$ 882)	26,248 (US\$ 882)	490	49	26,754 (US\$ 899)	1,552 (US\$ 51)	(Note 1)	Indirect subsidiary
	Hon Hua	Samoa	Overseas reinvested holding company and international trade	107,136 (US\$ 3,600)	-	3,600,000	60	105,618 (US\$ 3,549)	(2,556) (US\$ 84)	(Note 1)	Indirect subsidiary
Hon Chuan Thailand	Hon Fu Thailand	Thailand	Manufacture and sale of plastic caps, labels, pp bottles and PET bottles	116,225 (THB 126,662)	116,225 (THB 126,662)	12,666,225	65	194,316 (THB 211,768)	(618) (THB 685)	(Note 1)	Indirect subsidiary
Samoa Honly	Cambodia Honly	Cambodia	Beverage filling service	178,560 (US\$ 6,000)	178,560 (US\$ 6,000)	6,000,000	100	40,890 (US\$ 1,374)	(64,820) (US\$ 2,130)	(Note 1)	Indirect subsidiary
Hon Chuan Africa	Hon Shi Samoa	Samoa	Overseas reinvested holding company and international trade	388,189 (US\$ 13,044)	325,693 (US\$ 10,944)	3,138,790	60	417,324 (US\$ 14,023)	22,185 (US\$ 729)	(Note 1)	Indirect subsidiary

Hon Shi Samoa	Shimada	Africa	Manufacture and sales of plastic caps PET bottles and LDPE membrane	27,052	27,052	-	100	79,281	24,954	(Note 1)	Indirect subsidiary
	Hon Shi Mozambique	Africa	Manufacture and sales of plastic caps	(US\$ 909)	(US\$ 909)			(US\$ 2,664)	(US\$ 820)		
				72,079	24,463	1,600,000	100	79,400	700	(Note 1)	Indirect subsidiary
				(US\$ 2,422)	(US\$ 822)			(US\$ 2,668)	(US\$ 23)		
Hon Hua	Uni Tun	Myanmar	Bottled water filling	3,125	-	-	100	684	(2,465)	(Note 1)	Indirect subsidiary
				(US\$ 105)				(US\$ 23)	(US\$ 81)		

Note 1: Not applicable.

Note 2: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.

Note 3: Information on investments in mainland China, please see Table 9.

Note 4: Significant intercompany accounts and transactions have been eliminated.

TABLE 9

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

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(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, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee (Note 2)	% Ownership of Direct or Indirect Investment (Note 1)	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2017 (Notes 2 amd 5)	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
Suzhou Hon Chuan	Manufacture and sale of various plastic caps, labels and aluminum closures	\$ 609,782 (US\$ 20,490)	(Note 1)	\$ 511,307 (US\$ 17,181)	\$ 61,871 (US\$ 2,079)	\$ -	\$ 573,178 (US\$ 19,260)	\$ (3,348)	94.17%	\$ (3,104)	\$ 1,004,304	\$ -
Qingxin Hon Chuan	Manufacture and sale of various plastic caps, labels, PET bottles and beverage filling OEM service	1,577,280 (US\$ 53,000)	(Note 1)	340,841 (US\$ 11,453)	108,832 (US\$ 3,657)	-	449,673 (US\$ 15,110)	120,967	94.17%	94,674	1,833,955	-
Zhangzhou Hon Chuan	Manufacture and sale of PET bottles and beverage filling OEM service	1,190,400 (US\$ 40,000)	(Note 1)	121,242 (US\$ 4,074)	69,281 (US\$ 2,328)	-	190,523 (US\$ 6,402)	120,967	94.17%	91,053	1,147,707	-
Suzhou Hongxin	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	1,368,960 (US\$ 46,000)	(Note 1)	739,268 (US\$ 24,841)	52,824 (US\$ 1,775)	-	792,092 (US\$ 26,616)	(81,010)	94.17%	(64,790)	864,347	-
Jinan Hon Chuan	Manufacture and sale of plastic caps and PET bottles and beverage filling OEM service	863,040 (US\$ 29,000)	(Note 1)	145,943 (US\$ 4,904)	74,936 (US\$ 2,518)	-	220,879 (US\$ 7,422)	124,132	94.17%	97,839	1,308,291	-
Changsha Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	550,560 (US\$ 18,500)	(Note 1)	234,896 (US\$ 7,893)	57,615 (US\$ 1,936)	-	292,511 (US\$ 9,829)	56,421	94.17%	44,218	967,843	-
Taiyuan Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	982,080 (US\$ 33,000)	(Note 1)	288,404 (US\$ 9,691)	88,298 (US\$ 2,967)	-	376,702 (US\$ 12,658)	62,629	94.17%	52,586	1,469,855	-
Ningbo Hon Chuan	Manufacture and sale of packing materials for electronic components and caps for batteries	104,160 (US\$ 3,500)	(Note 1)	104,160 (US\$ 3,500)	-	53,806 (US\$ 1,808)	50,354 (US\$ 1,692)	(3,561)	-	(3,560)	-	-
Chuzhou Hon Chuan	Manufacture and sale of various plastic caps and PET bottles	297,600 (US\$ 10,000)	(Note 1)	-	13,809 (US\$ 464)	-	13,809 (US\$ 464)	18,685	94.17%	13,999	244,966	-
Xiantao Hon Chuan	Manufacture and sale of various plastic caps and PET bottles and beverage filling OEM service	446,400 (US\$ 15,000)	(Note 1)	-	23,094 (US\$ 776)	-	23,094 (US\$ 776)	(28,971)	94.17%	(19,750)	385,568	-
Quanhe	Equity investment	27,327 (RMB 6,000)	(Note 1)	-	-	-	-	2	94.17%	2	25,698	-
Anyang Hon Chuan	Sale of PE/PET packaging food packaging	36,436 (RMB 8,000)	(Note 1)	-	-	-	-	3,146	94.17%	2,533	38,430	-
Luoeh Hon Chuan	Manufacture and sale of various plastic caps, PET bottles and beverage filling OEM service	357,120 (US\$ 12,000)	(Note 1)	-	-	-	-	(3,013)	94.17%	(2,556)	337,281	-



Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 2,982,815 (USD 100,229 )	\$ 7,363,606 (USD 247,433 )	(Note 3)

- Note 1: The Corporation invested in China through third parties.
- Note 2: 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.
- Note 3: 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 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.
- Note 5: Significant intercompany accounts and transactions have been eliminated, except those of Ningbo Company, a company that has been liquidated in May 2017.

**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**

Unit: NT\$ Thousands

Item \ Year	2017	2016	Increase (Decrease) Amount	Change Ratio (%)	Change Analysis
Current Assets	8,866,914	7,757,428	1,109,486	14.30	
Property, Plant and Equipment	17,501,552	17,991,011	(489,459)	(2.72)	
Intangible Assets	356,763	388,673	(31,910)	(8.21)	
Other Assets	1,559,298	1,254,194	305,104	24.33	1
Total Assets	28,284,527	27,391,306	893,221	3.26	
Current Liabilities	7,030,797	9,649,899	(2,619,102)	(27.14)	2
Non-current Liabilities	8,090,967	5,065,234	3,025,733	59.74	
Total Liabilities	15,121,764	14,715,133	406,631	2.76	
Capital Stock	2,928,789	2,928,789	0	0.00	
Additional Paid-in Capital	5,507,513	5,127,397	380,116	7.41	
Retained Earning	5,412,733	4,920,100	492,633	10.01	
Non-controlling Equity	681,932	920,493	(238,561)	(25.92)	3
Other Equity	(1,368,204)	(1,220,606)	(147,598)	(12.09)	
Treasury Shares	0		0		
Total Equity	13,162,763	12,676,173	486,590	3.84	

Please explain the variation reason for which exceeding 20%:

1. The increase of Other Assets: Due to the increase of pre-payment for equipment this year.
2. The decrease of Current Liabilities: Due to the fact that current preferred stock liability is expired and redeemed by the Company.
3. The decrease of Non-controlling Equity: Due to the redemption of China's preferred stock, which causes the decrease of Minority interest.

## 7.2 Analysis of Financial Performance

### 7.2.1 Financial performance analysis

Unit: NT\$ Thousands

Item \ Year	2017	2016	Increase (Decrease) Amount	Change Ratio (%)	Change Analysis
Net Sales	17,519,458	16,510,678	1,008,780	6.11	
Cost of Goods Sold	14,198,877	13,108,263	1,090,614	8.32	
Gross Profit	3,320,581	3,402,415	(81,834)	(2.41)	
Operating Expense	1,810,201	1,731,218	78,983	4.56	
Profit From Operation	1,510,380	1,671,197	(160,817)	(9.62)	
Non-operating Income and Expense	36,614	(173,374)	209,988	121.12	1
Profit Before Income Tax	1,546,994	1,497,823	49,171	3.28	
Income Tax Fee	285,011	307,529	(22,518)	(7.32)	
Net Income	1,261,983	1,190,294	71,689	6.02	
Other Comprehensive Income	(89,321)	(969,372)	880,051	90.79	2
Total Comprehensive Income of This Year	1,172,662	220,922	951,740	430.80	
Please explain the variation reason for which exceeding 20%:					
1. The increase of Non-operating Income and Expense: Due to the increase of foreign exchange gains and compensation revenue of this year.					
2. The variation of Other Comprehensive Income: Due to the influence of cumulative translation adjustment of this year.					

### 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 "2018 Sales Forecast and Sales Policy".

## 7.3 Analysis of Cash Flow

### 7.3.1 Liquidity Analysis within the last 2 years

Item \ Year	2017	2016	Different (%)
Cash Flow Ratio (%)	31.73	44.79	(29.16)
Cash Flow Adequacy Ratio (%)	73.11	76.64	(4.16)
Cash Re-investment Ratio (%)	3.91	11.45	(65.85)
Please explain the variation reason for which exceeding 20%: 1. Cash Flow Ratio and Cash Flow Adequacy Ratio are decreased than last period: Due to the rise of oil price, the Company increases inventory level, and stocks are more than 2016. 2. Cash Re-investment Ratio: Due to the rise of oil price, the Company increases inventory level, and stocks are more than 2016; and current preferred stock liability is expired and redeemed.			

### 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	
2,211,899	4,827,463	2,022,796	5,016,566	Investment Plan	Financial Plan
				-	-
1. Cash liquidity analysis for next year: (1) Operating activities: Mainly arising from expected profits of 2018 business activities, which causes the inflow of net cash. (2) Investing activities: Expected increase of capital expenditures, which causes the outflow of net cash. (3) Financing activities: Issues corporate bonds of NT\$ 3 billion and expects to repay the banks' loan, which causes the inflow of net cash.					
2. Contingency plans for insufficient cash and liquidity analysis: 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 Capital Expenditure	
				2017	2018
Hon Chuan	Equity fund & Bank loan	Finished before the 4 <sup>th</sup> quarter of 2018	2,375,025	1,606,154	768,871

### 7.4.2 Impact on the financial and business conditions

In view of the gradual growth of beverage market, demographic dividend of emerging markets, continuous enhancement of consumption level, Hon Chuan distributed actively in Taiwan, China, South-east Asia and Africa in 2017. We invested new production lines for hot-fill beverage, foil package and bottled water, and signed up long-term cooperation contracts with several prestigious beverage companies. Also, we bought back the shares of Hon Chuan (China) Holding Co., Ltd., from 76.84% to 94.17%, which can increase group operating profits. The Company will consistently explore those potential emerging markets, through proprietorship or joint venture, to produce and sell beverage and other packaging materials for food and drinks. The niche market strategy is expected to lead the Company into a goal of sustainable management and development.

## 7.5 Re-investment policy in the most recent year, main reason for profit or loss resulted, its improvement plan, and next year's investment plan

### Analysis of Re-investment

Unit: NT\$ Thousands

Explanation Item	Amount (Note)	Policy	Main Reason for Profit or Loss Resulted	Improvement Plan	Other Investment Plan in the Future
Hon Chuan Holding Limited	10,744,578	Expand great China, South-east Asia and Africa markets.	The benefits of cultivating in great China and South-east Asia markets appear. Overall financial performance is profitable in 2017, although individual companies have different performance.	Two markets are still in the 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, 2018.

## **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 2016, the US dollar remained relatively weak because of the Quantitative Easing (QE) policy. In 2017, US Dollar Index continued the trend of decline, due to some factors such as the intense situation of China-US trade, tax policy of US government and twin deficits of US. The prediction of rate rise for 3 times in 2018 also weakens economy recovery. Moreover, recently the China-US trade war is getting fierce, which brings more variability to sustainability and economic development of global financial market. 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	2017	2016
Net foreign exchange gain (loss)	21,829	(81,758)
Unrealized gain or loss on financial instrument in available-for sale	(1,009)	(1,901)
Net Sales	17,519,458	16,510,678
Profit from Operations	1,510,380	1,671,197
Profit before Income Tax	1,546,994	1,497,823
Interest revenue	20,854	23,745
Interest expense (Note 1)	225,642	231,701

Note 1: The interest expenses for 2016 include the interest expenses of NT\$ 5,953 thousand which recognized from first domestic unsecured convertible bonds issued by the Company.

## 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	2017	2016
Gain (or Loss) on valuation of financial asset	(43,908)	53,025

### **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 2018, 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 71.

### **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**

The 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 China, South-east Asia and Africa 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: None.**

#### **7.6.13 Other important risks or countermeasures: None.**

### **7.7 Other important Matters: None.**

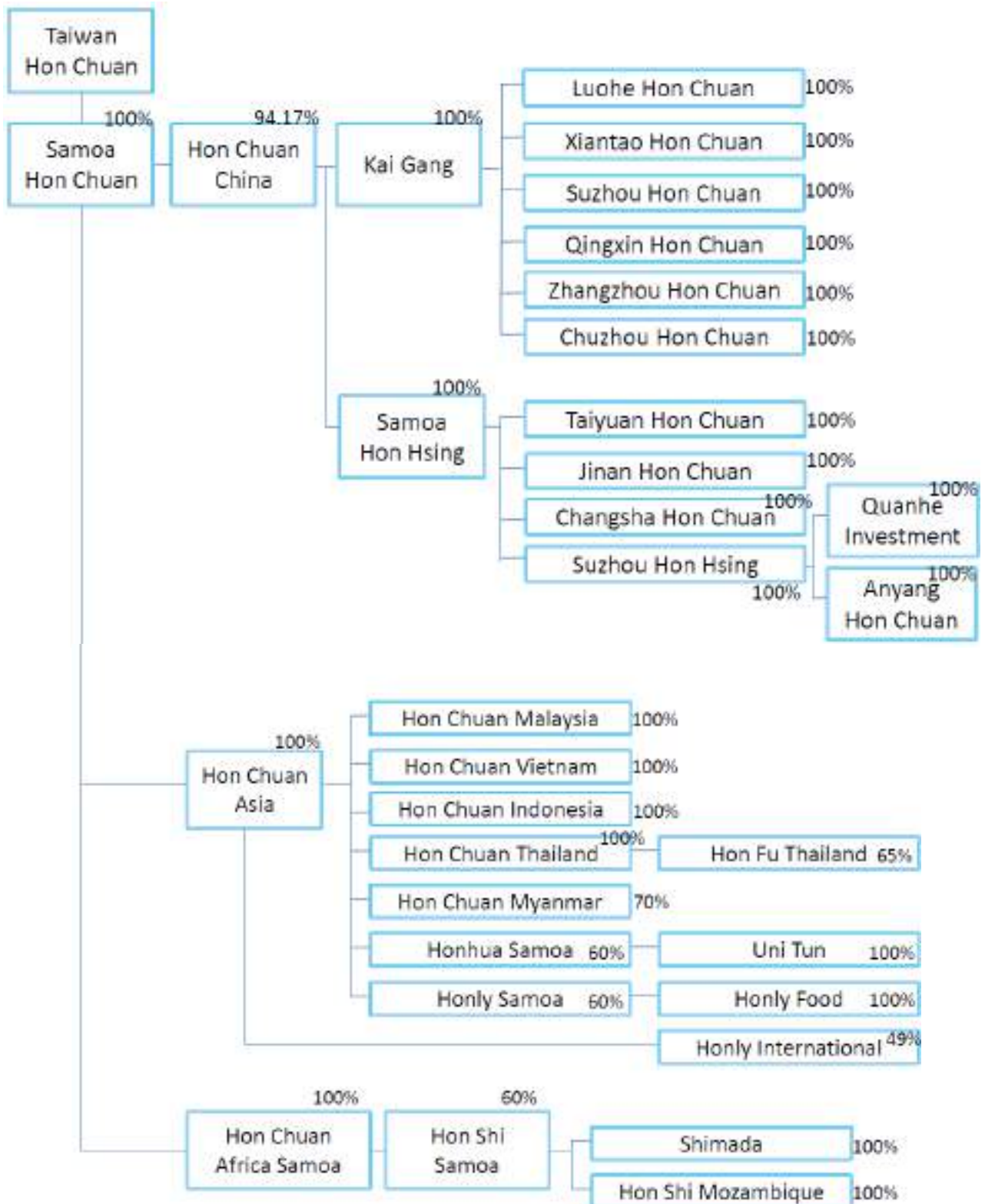
## 8. Special Disclosures

### 8.1 Summary of Affiliated Enterprises

#### 8.1.1 Consolidated Business Report of Affiliated Companies

##### 8.1.1.1 Affiliated Companies Chart

As of December 31, 2017



### 8.1.1.2 Summary of 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	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 340,472,818	International Equity Investment and Trade Business
Hon Chuan (China) Holding Co., Ltd.	January 10, 2003	The Grand Pavilion Commercial Centre, Oleander Way, 802 West Bay Road, Grand Cayman, KY1-1208, Cayman Island	USD\$ 11,872,181	International 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\$ 153,462,424	International Equity Investment
Hon Hsing (Samoa) Holding Limited	June 18, 2002	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 126,006,000	International Equity Investment
Hon Chuan (Africa) Holdings Co., Ltd.	July 10, 2015	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 13,044,118	International Equity Investment and Trade Business
Hon Shi (Samoa) Holding Limited	October 15, 2015	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 5,231,316	International Equity Investment and Trade Business
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
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 OEM
Suzhou Hongxin Food Packing Co., Ltd.	May 23, 2002	No.58A 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 OEM
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 OEM
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 OEM

Hon Chuan Food Packing (Taiyuan) Co., Ltd.	December 11, 2002	State Level Tai Yuan Development Zone, Shan Xi, China	USD\$ 33,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM
Hon Chuan Food Packing (Zhangzhou) Co., Ltd.	March 21, 2012	Xingtai Industrial Park of Changtai Economic Development Zone, Fujian province, PRC	USD\$ 40,000,000	Manufacture and sale of PET bottles and beverage filling OEM
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, preforms and caps
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 OEM
Hon Chuan Food Packing (Louhe) Co., Ltd.	June 22, 2017	South side, Yongchang Road Eastern section, Industrial Cluster Zone, Linyi County, Luohe City, Henan Province	USD\$ 12,000,000	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM
Quanhe Investment (Suzhou) Co., Ltd.	May 04, 2015	No.43A, Yingbin Road, Puli Town, Wuzhong District, Suzhou City	RMB\$ 6,000,000	International 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\$ 8,000,000	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\$ 194,192,504	International Equity Investment and Trade Business
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 and PET bottles
Hon Chuan FD Packaging Co., Ltd.	January 17, 2005	695/4 M001, Banbund-Bankai Rd, Klongkew, Banbung Chonburi 20220 Thailand	THB\$ 194,865,000	Manufacture and sale of PET bottles and labels
PT Hon Chuan Indonesia	September 29, 2004	Delta Silicon V, jalan kenari raya Blok G2 No.1 & 17, Cikarang Pusat, Indonesia	IDR\$ 1,026,803,314,494	Manufacture and sale of plastic caps and PET bottles and beverage filling OEM
Hon Chuan Vietnam Co., Ltd.	October 17, 2007	No.29, VSIP II Street 7, Vietnam-Singapore Industrial Park II, Hoa Phu Ward, Thu Dau Mot Town, Binh Duong Province, Vietnam	VND\$ 626,373,500,000	Manufacture and sale of 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\$ 32,278,529,792	Manufacture and sale of plastic caps and PET bottles
Honhua Holdings Co., Ltd.	October 17, 2016	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 4,320,000	International Equity Investment and Trade Business
Uni Tun Co., Ltd.	November 08, 2016	No.525, Pyay Road, Hmawbi Township, Yangon, Myanmar	MMK\$ 142,342,365	Bottled water filling OEM
Honly Holding Co., Ltd.	January 30, 2014	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 13,600,000	International Equity Investment and Trade Business
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\$ 1,800,000	International Equity Investment and Trade Business
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	Beverage filling OEM
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\$ 161,584,000	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	10,132,471	13,837,271	1,712,754	12,124,517	9,363	(1,909)	443,554
Hon Chuan (China) Holding Co., Ltd.	353,316	10,607,814	5,828,053	4,779,761	(15,646)	(40,524)	201,328
Kai Gang Industries Limited	4,567,042	5,665,135	0	5,665,135	844	(178)	237,135
Hon Hsing (Samoa) Holding Limited	3,749,939	5,319,964	432,951	4,887,013	0	(25)	166,288
Hon Chuan (Africa) Holdings Co., Ltd.	388,193	428,409	0	428,409	1,468	1,162	14,472
Hon Shi (Samoa) Holding Limited	155,684	219,898	629	219,269	0	(3,479)	22,182
Hon Chuan Enterprise (Suzhou) Company Limited	609,782	1,184,365	117,882	1,066,483	576,233	(18,414)	(3,361)
Suzhou Hongxin Food Packing Co., Ltd.	1,368,960	1,155,875	238,030	917,845	602,752	(108,131)	(81,031)
Hon Chuan Enterprise (Changsha) Co., Ltd.	550,560	1,063,391	35,625	1,027,766	409,750	48,450	56,425
Hon Chuan Food Packing (Jinan) Co., Ltd.	863,040	1,436,450	47,159	1,389,291	971,208	165,867	124,143
Hon Chuan Food Packing (Taiyuan) Co., Ltd.	982,080	1,686,945	126,102	1,560,843	953,208	82,198	62,628
Hon Chuan Food Packing (Qingxin) Co., Ltd.	1,577,280	2,586,402	638,909	1,947,493	1,684,822	154,953	120,955
Hon Chuan Food Packing (Zhangzhou) Co., Ltd.	1,190,400	1,237,502	18,754	1,218,748	293,455	(64,101)	120,957
Hon Chuan Food Packing (Chuzhou) Co., Ltd.	297,600	541,210	281,080	260,130	400,902	34,346	18,692
Hon Chuan Food Packing (Xiantao) Co., Ltd.	446,400	747,000	337,566	409,434	180,179	(21,062)	(28,985)



Hon Chuan Food Packing (Luohe) Co., Ltd.	357,120	409,823	51,652	358,171	0	(1,975)	(3,021)
HC (Asia) Holdings Co.,Ltd.	5,779,169	7,466,325	439,239	7,027,086	256,084	(5,288)	244,063
Hon Chuan (Thailand) Co., Ltd.	1,257,098	2,310,127	210,511	2,099,616	1,613,349	148,818	145,867
Hon Chuan FD Packaging Co., Ltd.	178,806	334,286	33,240	301,046	265,349	3,126	(617)
PT Hon Chuan Indonesia	2,585,947	2,567,961	264,722	2,303,239	971,302	82,831	66,940
Hon Chuan Vietnam Co., Ltd.	762,297	1,127,674	72,317	1,055,357	646,512	79,260	69,561
Hon Chuan Malaysia Sdn. Bhd.	574,669	751,926	47,005	704,921	327,274	24,786	15,711
Hon Chuan (Myanmar) Co., Ltd.	705,092	842,584	115,710	726,874	327,859	14,765	13,767
Honhua Holdings Co., Ltd.	128,563	126,796	746	126,050	0	(81)	(2,548)
Uni Tun Co., Ltd.	3,131	1,085	388	697	0	(2,467)	(2,467)
Honly Holding Co., Ltd.	404,736	343,281	81,736	261,545	80,979	2,049	(62,787)
Honly International Co., Ltd.	53,568	116,368	61,783	54,585	0	(444)	1,551
Honly Food & Beverage Co., Ltd.	178,560	313,153	272,045	41,108	86,663	(64,960)	(64,809)
Shimada International Limitada	182	128,759	49,484	79,275	103,210	21,770	24,968
Hon Shi Mozambique Co., Ltd.	81,475	143,187	54,786	88,401	27,308	(11,846)	690

(Note 1) Foreign exchange rates (to NTD) for balance sheet amounts are as follows:

USD: 29.76, RMB: 4.5545, THB: 0.91759, RP: 0.002232, VND: 0.00119, MYR: 7.071988, MMK: 0.021844, MZN: 0.504224

(Note 2) Foreign exchange rates (average, to NTD) for income statement amounts are as follows:

USD: 30.432, RMB: 4.492859, THB: 0.901791, RP: 0.002282, VND: 0.001217, MYR: 6.798996, MMK: 0.022368,

MZN: 0.478269

**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 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.)	340,472,818	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)	111,802,005	94.17%
		● Dai, Hung-I (Representative of Trans Victory Trading Limited)	6,919,800	5.83%
Kai Gang Industries Limited	Director	Lin, Chuan-Nui, Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan (China) Holding Co., Ltd.)	1,191,155,396	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, Tsao, Chien-Hsia (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, Tsao, Chien-Hsia (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, Tsao, Chien-Hsia (Representative of Kai Gang Industries Limited)	-	100%
Hon Chuan Food Packing (Chuzhou) Company Limited	Director	Tsao, Chien-Hsia, Liu, Yun-Chang, Fang, Yu-Lung (Representative of Kai Gang Industries Limited)	-	100%
Hon Chuan Food Packing (Xiantao) Company Limited	Director	Tsao, Chien-Hsia, Liu, Yun-Chang, Fang, Yu-Lung (Representative of Kai Gang Industries Limited)	-	100%

Hon Chuan Food Packing (Luohe) Company Limited	Director	Liu, Yun-Chang, Hsieh, Hung-Lung, Chuang, Kuei-Ching (Representative of Kai Gang Industries Limited)	-	100%
HC (Asia) Holdings Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan Holding Limited)	194,192,504	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	● Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of Hon Chuan (Thailand) Co., Ltd.)	12,666,225	65%
		● Kasem Deemaitree, Mrs.Chintana Assodrmitee (Representative of F&D)	6,820,275	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.)	86,670,329	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	● Dai, Hung-Chuan, Tsao, Hsih-Chung, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	89,524,394	70%
		● Daw Zin Mar Cho, Daw Aye Mya Aung (Representative of Pack Master Co., Ltd.)	38,367,597	30%
Honly Holding Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of HC (Asia) Holdings Co., Ltd.)	8,920,000	60%
		● Chiu, Hsien-Tsai	4,680,000	40%
Honly International Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsih-Chung, Cheng, Ya-Wen, Dai, Hung-I, Tsao, Hung-Yu (Representative of HC (Asia) Holdings Co., Ltd.)	490	49%
		● Chuang, Savy	510	51%
Honly Food & Beverage Co., Ltd.	Director	● Tsao, Hsih-Chung, Dai, Hung-Chuan, Pai, Wen-Pin, Chang, Yu-Hung (Representative of HC (Asia) Holdings Co., Ltd.)	3,600,000	60%
		● Chiu, Hsien-Tsai, Chuang, Savy, Chiu, Pin-Hao	2,400,000	40%

Hon Chuan (Africa) Holdings Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan Holding Limited)	13,944,118	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>	3,138,790 2,092,526	60% 40%
Shimada International Limitada	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>	- -	60% 40%
Hon Shi Mozambique Co., Ltd.	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>	- -	60% 40%
Honhua Holdings Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Yang, Cheng-Lin, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)</li> <li>● Chia, Hsin-Hua</li> </ul>	3,600,000 720,000	60% 40%
Uni Tun Co., Ltd.	Director	● DAW MYA THAZIN KYAWE, DAW WIN WIN KHAING, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	-	100%

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, 2017, 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 Report No.10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, 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 27, 2018

**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



## **TAIWAN HON CHUAN GROUP**

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