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Taiwan Hon Chuan Enterprise Co., Ltd.

Annual Report 2018



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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.

1. Spokesperson and Acting Spokesperson

Spokesperson : Emily Lu

Title : Investor Relations Officer

Tel : (04) 2359-0088*5107

E-mail : emily@mail.honchuan.com.tw

Acting Spokesperson : Chelsea Wang

Title : Investor Relations Assistant Officer

Tel : (04) 2359-0088*5120

E-mail : 1040219@mail.honchuan.com.tw

2. Headquarters, Branches and Plants

Headquarter : No.6, 2nd Rd., Taichung Industrial Park, Taichung City

Tel : (04) 2359-0088

Taichung Branch : No.11, Jing 3rd Rd., Wuqi Dist., Taichung City

Tel : (04) 2659-5208

Taichung 1st Plant : No.6, 2nd Rd., Taichung Industrial Park, Taichung City

Tel : (04) 2359-0088

Taichung 2nd Plant : No.7, 2nd Rd., Taichung Industrial Park, Taichung City

Tel : (04) 2359-0088

Taichung 1st Aseptic Filling Plant : No.11, Jing 3rd Rd., Wuqi Dist., Taichung City

Tel : (04) 2659-5208

Taichung 2nd Aseptic Filling Plant : No.6, Daye Rd., Wuqi Dist., Taichung City

Tel : (04) 2659-5609

3. Stock Service Agent

Name : KGI Securities Co., Ltd, Dept. of Stock Transfer Agency

Address : 5F, No.2, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City

Tel : (02) 2389-2999

Website : www.kgieworld.com.tw

4. Auditors

Office : Deloitte Touche Tohmatsu Certified Public Accountants LLP

Auditors : Tseng, Done-Yuin 、 Wu, Li-Dong

Address : 12F, No.156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City

Tel : (02) 2545-9988

Taichung Branch : 27F, No.218, Sec. 2, Taiwan Blvd., West Dist., Taichung City

Tel : (04) 2328-0055

Website : www.deloitte.com.tw

5. Overseas Securities Exchange: None

6. Website: www.honchuan.com.tw

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1. Letter to Shareholders

Looking back at 2018, a year marked by volatile political and economic situations worldwide, businesses faced intensified market competition, increased raw material costs, interest rates and labor costs, and increasingly stringent tax systems and environmental regulations, and thus resulted in a less favorable operating environment for businesses. To counter changes in the external environment in recent years, the Company has actively adjusted and adopted its strategies accordingly. Through continuous efforts of all employees, we hope to reduce the risks and impacts caused by external changes. The recognition of reimbursement income from customers in 2017 led to a higher base period. Even though revenue in 2018 increased, the overall growth in profitability remained static. In 2018, consolidated sales reached NTD\$ 19,929,717,000, increased by 13.76% from NTD\$ 17,519,458,000 in 2017. Profit after tax totaled at NTD\$ 1,102,204,000, a decrease of 12.66% from last year's NTD\$ 1,261,983,000. Earnings per share were 3.73 dollars for the year of 2018 conclusively.

Hence, the Company sets its operational direction of the year based on the theme of lean management and proposes the following six main strategies,

- (1) "Adjust" structure: continuously promote corporate governance, carry out management information system and enhance personnel qualifications and capabilities.
- (2) "Increase" efficiency: continuously adjust assembly lines in order to uplift automation processes and capacity utilization.
- (3) "Reduce" costs: set up lean management committee to implement budget and cost control, tender offer management processes and purchase negotiation strategies.
- (4) "Invent" products: develop innovative niche products and cross-industry packaging.
- (5) "Deepen" cooperation: continuously develop new accounts, establish mutually beneficial and win-win business models and partnerships.
- (6) "Maintain" profit: continuously aim at long-term development and solid operations, comply with laws and regulations, create value for the Company and shareholders.

Despite a rather challenging year for operations, Taiwan Hon Chuan is committed to the development of business competitiveness and the accomplishment of corporate strategic directions. The Company is dedicated to professional development, product innovation, market expansion, cost management and personnel training by ways of pragmatic commercial strategies, steady growing trajectory, bottom-up resources integration, accumulated experience with international clients and modern production

management technology.

Looking ahead, Taiwan Hon Chuan will continue to strive towards our core missions; “focusing on our core business, developing global markets, respecting our customers, caring for our employees and fulfilling our social responsibilities”. We aim to solidify our home market in Taiwan, and replicate our success story across the globe in markets such as Mainland China, South East Asia, Africa and other high potential regions. We look forward to a new era of Taiwan Hon Chuan through our persistent efforts in 2019.

Chairman :
Dai, Hung-Chuan

President :
Tsao, Hsih-Chung

Chief Accounting officer :
Cheng, Ya-Wen

1.2 Business Report

1.2.1 2018 Operating Result

1.2.1.1 2018 Execution of Business Plans

In 2018, the consolidated revenue posted at NTD\$ 19,929,717 thousand, increased by 13.76% from 2017. The consolidated income before tax booked NTD\$ 1,481,953 thousand, decreased by 4.20% from 2017; The consolidated income after tax reached NTD\$ 1,102,204 thousand, 12.66% lower than previous year. The earning per share was 3.73 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 2018.

1.2.1.3 Financial Results and Profitability Analysis

Item		2018	2017
Finance Structure (%)	Debt to Assets Ratio	55.54	53.46
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio	131.32	120.92
Solvency (%)	Current Ratio	144.43	126.12
	Quick Ratio	90.11	78.22
	Interest Coverage (times)	6.96	7.86
Profitability (%)	Return on Assets	4.68	5.34
	Return on Equity	8.40	9.77
	Pre-tax Profit to Paid-in Capital Ratio	50.60	52.82
	Net Margin	5.53	7.20
	Earnings Per Share (NTD\$)	3.73	4.20

1.2.1.4 Research and Development

Hon Chuan pays highly attention on R&D, with continuously innovative activities, to ensure a leading position in industry. We not only promote the lightness of products in order to save energy and reduce carbon dioxide, but also develop a multitude of new functions, new materials and cross-industry products to enhance the value of the products. The R&D achievement for 2018 was as follows:

- (1) 48MM plastic cap lightening (reduced from 7.6g to 6g)
- (2) Eco-friendly convenient cap
- (3) 1810 Aseptic cap lightening (reduced from 2.53g to 2.2g)
- (4) 38MMBHA (changed from 16 mold cavities to 36 mold cavities)
- (5) 3.4g 38MM aseptic cap
- (6) Mass production of 1881 bottle neck 585ml hot-fill bottle
- (7) Mass production of 1810 bottle neck 1000ml hot-fill bottle
- (8) Mass production of 1810 bottle neck 510ml Soda bottle
- (9) Mass production of 1810 bottle neck 600ml, 620ml cold-fill bottle
- (10) Mass production of 38mm bottle neck 400ml, 950ml cold-fill bottle
- (11) Mass production of 1881 bottle neck 450ml, 580ml, 1000ml aseptic bottle
- (12) Optimization and mass production of high-frequency formation inner pad
- (13) Complete development and mass production of 12.8 x 8.0mm aluminum

- cap
- (14) Development and mass production of 12g aluminum combination
- (15) Development and mass production of 35g, 75g spiral iron cap
- (16) Development of low temperature PET shrinkable film
- (17) Development of environmental friendly white printing ink for shrinkable label
- (18) Development of creative tear-away label bracelet

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) Actively carry out lean management, implement budget and cost control, and encourage all departments to proactively propose improvement plans, in order to reach the lean goals which the Company sets.
 - (5) Actively implement the development of new products, use innovative R&D technology to develop new materials, new functions and cross-industry products to enhance the value of the products.
2. Take action for global distribution – foothold in Taiwan and aim to the world
 - (1) Continuously integrate, use and share group resources in order to enhance business synergy.
 - (2) Build strategic alliances with global and domestic giants. Apply experiences from Taiwan to China, Southeast Asia and Africa. Integrate resources and expand markets.

1.2.2.2 Projected sales volume and its reference

1. The projected sales volume for 2019 is outlined as follows:

Unit: Thousand Pcs/Kg/Bottle/Box

Major Products	Sales Volume
Plastic Closures	26,665,258
PET Bottles	6,127,003
Labels	3,309,435
Aluminum Closures	795,403
Tobacco & Liquor Packaging	15,678
Beverage Filling OEM	2,107,336
TR Filling OEM	64,921
Metal Lug Caps	287,129
Others	379
Totals	39,372,542

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, develop flexible competitive strategies, promptly capture industrial trends, innovate and launch new products that adapt to the constant changing market demands and future challenges.

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 NTD\$ 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 th 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 of “Golden Dragon Award in National 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 Pull ring cap, Long-neck aluminum cap, Plastic cap, Printing equipment and purchased a set of equipment to produce security bottom metal lug cap.
1993	➤ Started to produce Aluminum cap specifically for deluxe wine by importing automatic long-neck wine cap production equipment from Europe.
1994	➤ Imported the manufacturing technology and equipment of multi-layer hot shrinkable film from Europe; concurrently, imported aboard the advanced technology and production facility of plastic cap. ➤ Invested in Pull ring cap equipment, for the use of 100% Juice and functional drinks.
1995	➤ Won a series of awards including “Outstanding Management”, “Product Development”, “Exportation” and “Industry Automation” from R.O.C Packaging Association. ➤ The quality of plastic cap was certified and recognized by International Pepsi Cola company, and THC was delegated to produce and supply its bottle plants.

1996	<ul style="list-style-type: none"> ➤ The quality of plastic cap was certified and recognized by International Coca Cola company, and THC became the unique supplier in Taiwan which won this award. ➤ Received a certificate of ISO 9002 International Quality Assurance System.
1998	<ul style="list-style-type: none"> ➤ Set up an electronic component packaging plant, to produce battery casing and accurate electronic parts.
1999	<ul style="list-style-type: none"> ➤ Renamed as “Taiwan Hon Chuan Enterprise Co., Ltd.” to strive for international business.
2000	<ul style="list-style-type: none"> ➤ Expanded the plants, and invested in producing heat-tolerance crystallized PET bottle to combine with the Company’s caps and labels, and offer the customers a one-stop packaging shopping service. ➤ The Company’s IPO was approved by Taiwan Stock Exchange and Ministry of Finance, R.O.C.
2001	<ul style="list-style-type: none"> ➤ Shares were public listed on Taiwan Stock Exchange on March 2. ➤ Set up an Anti-static film equipment to produce Anti-static film, which was certified by a domestic company TFT-LCD. ➤ Awarded of “Outstanding Industry” by National Industry Award.
2002	<ul style="list-style-type: none"> ➤ Acquired the shares of Suzhou Hon Chuan to develop Great China market. ➤ Received a certificate of SGS ISO 9001:2000 International Quality Assurance System.
2003	<ul style="list-style-type: none"> ➤ Established “Hon Chuan (China) Holdings Co., Ltd.” under which subsidiaries in Suzhou, Changsha, Taiyuan and Jinan were set up to tap into Great China market.
2004	<ul style="list-style-type: none"> ➤ Set up In-House Bottling Lines at Uni-President, Yang Mei Plant and Uni-President, Rui Fang Plant. ➤ 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. ➤ Established headquarters in Taiwan, China and South-east Asia.
2005	<ul style="list-style-type: none"> ➤ Set up Ningbo Hon Chuan to manufacture battery casing and accurate electronic parts.
2006	<ul style="list-style-type: none"> ➤ Set up 4 mineral water production lines in Suzhou Hongxing, Changsha Hon Chuan, Jinan Hon Chuan and Taiyuan Hon Chuan. ➤ Established Taichung 1st Aseptic Filling Plant at Chungkang Export Processing Zone for aseptic co-packing business.
2007	<ul style="list-style-type: none"> ➤ Established “Hon Chuan (Vietnam) Ltd.” through “Hon Chuan (Asia) Holdings Co., Ltd.,” to produce beverage packaging.
2008	<ul style="list-style-type: none"> ➤ 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"> ➤ Set up Qingxin Hon Chuan at Guangdong, China to provide caps, preforms and beverage OEM service. ➤ Built Tainan plant to provide beverage OEM service for Coke Cola.

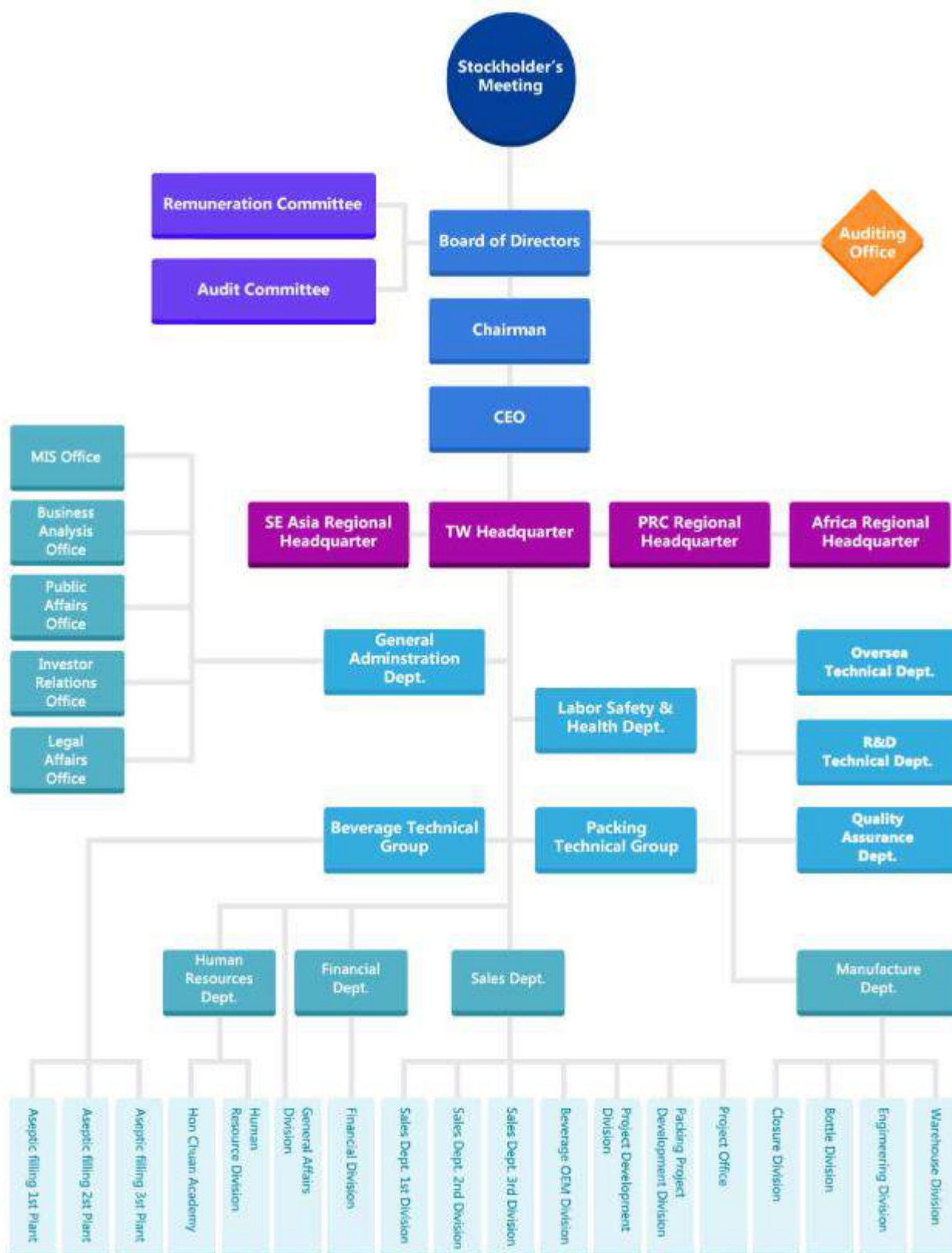
2010	<ul style="list-style-type: none"> ➤ Established HeySong Chungli (In-house) Plant and Kuang Chuan Jiayi (In-house) Plant. ➤ Established Hon Chuan Indonesia Futami (In house) Plant. ➤ Established Xian Coca Cola (In house) plant to provide preforms and water OEM service. ➤ Established Kunming (In house) plant and Lanzhou (In house) plant for Pepsi China. ➤ Won the 20th National Quality Award as recognition for Hon Chuan's high product quality and excellent operational management.
2011	<ul style="list-style-type: none"> ➤ Set up In-house plastic cap production line at Jing Mai Liang Company in China. ➤ Built Malaysia plant to produce plastic cap and preform for supplying local market; also, established In-house blowing bottle plant to cooperate with Cocoland Company in Malaysia. ➤ Received a certificate of international OHSAS 18001 & TOSHMS and Occupational safety and health management by Council of Labor Affairs in Taiwan. ➤ Set up the 2nd aseptic beverage filling plant in Taichung Export Processing Zone, to offer filling OEM service. ➤ The president, Mr. Tsao, Hsih-Chung, received an Award of "Entrepreneurship Model and Excellent Achievement". ➤ Received an Award of "Excellent Social Responsibility Award" for Outstanding Coca-Cola Supplier among Greater China.
2012	<ul style="list-style-type: none"> ➤ Built aseptic filling beverage plant in Zhangzhou, China.
2013	<ul style="list-style-type: none"> ➤ Received recognition from the Industrial Development Bureau. ➤ Awarded SGS ISO-9001 certificate for International Quality of Assurance System and Quality of Sustainability Award. ➤ Set up the 3rd aseptic filling beverage plant in Taichung. ➤ Set up Chuzhou (In House) plant in Anhui, China. ➤ Set up Hon Chuan Myanmar plant.
2014	<ul style="list-style-type: none"> ➤ Set up aseptic filling beverage (In House) plant in Xiantao, Hubei, China. ➤ Set up Aseptic filling plant in Surabaya in Indonesia. ➤ Started a joint venture, Honly plant, with the local beverage producer in Cambodia. ➤ Awarded of "Occupational safety Investment" in Traditional Industries by Ministry of Labor, R.O.C.
2015	<ul style="list-style-type: none"> ➤ Built up automated warehouse at Taichung headquarters and Taichung 2nd Aseptic beverage filling Plant. ➤ Established In-house blowing bottle plant to cooperate with Foodstar Company in Thailand.
2016	<ul style="list-style-type: none"> ➤ Established In-house blowing bottle plant to cooperate with KH Company in Myanmar. ➤ Invested Hon Shi (Samoa) Holding to manufacture and sell beverage packaging material in Mozambique and develop Africa market.

2017	<ul style="list-style-type: none"> ➤ Established In-house blowing bottle plant to cooperate with Tensai Company in Thailand. ➤ Established Honhua Holdings Co., Ltd. in Myanmar to invest bottle water production line. ➤ Established Hon Chuan Enterprise Packing (Luohe) Co., Ltd. in Henan, China to invest bottle water production line.
2018	<ul style="list-style-type: none"> ➤ Awarded for “Innovative Packaging Design – Gold and Bronze Medal Award”, respectively, in annual innovative products assessment from Taiwan Association for Food Science and Technology. ➤ The president, Mr. Tsao, Hsih-Chung, received an Award of Special Contribution in Food Industry from Taiwan Association for Food Science and Technology.

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 Office	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.

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 21, 2019

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%	3,572,019	1.22%	577,352	0.20%	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	Dai, Hung-I	Brother
																	Vice President of Finance Dept.	Cheng, Ya-Wen	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	Executive 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%	2,663,234	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%	5,797,111	1.98%	983,364	0.33%	0	0	(1) Master Degree in urban design, University of Sydney, Australia (2) A Chartered Architect in ROC	(1) Dai Hongyi Architects (2) Chairman of Ren Sun Construction Co., Ltd., Hong-I investment Co., Ltd., Hong-Shan investment Co., Ltd. (3) A member of Urban design advisory committee, Taichung City (4) Assistant professor, Department of Landscape design, National Chin-Yi University of Technology (5) An arbitrator of Chinese Arbitration Association, Taipei	Chairman Group 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 (4) Chief Auditor 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.	—	—	—

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 related 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 21, 2019

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
General Manager (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 th 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	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	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	R.O.C.	Cheng, Ya-Wen	F	2018.01.01	577,352	0.20%	3,572,019	1.22%	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	R.O.C.	Chuang, Kuei-Ching	F	2018.01.01	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 Electronic engineering 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.	-	-	-	-
Beverage Technical Group Vice President	R.O.C.	Lu, Ching-Chou	M	2018.01.01	0	0	0	0	0	0	(1) Graduated from Mechanical Engineering Dept., National United University (2) EMBA of National Chung Hsing University	-	-	-	-

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
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 st 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.	-	-	-	-
Beverage Technical Group 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.	-	-	-	-
Manufacture Dept. Assistant Vice President	R.O.C.	Hung, Min-Hsiung	M	2013.10.08	33,344	0.01%	103,072	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	0	0	0	0	Graduated from Business Administration Dept., Feng Chia University	-	-	-	-
R&D Technical Dept. Assistant Vice President	R.O.C.	Tsao, Chien-Hsia	M	2013.10.08	9,372	0	0	0	0	0	Graduated from Chia Nan University of Pharmacy & Science	-	-	-	-
Beverage Technical Group 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	-	-	-	-
Manufacture Dept. Assistant Vice President (Note 2)	R.O.C.	Tsai, Yung-Fu	M	2019.02.01	0	0	0	0	0	0	Master degree of Business Administration Dept., Asia University	-	-	-	-
Sales Dept. Assistant Vice President (Note 2)	R.O.C.	Liu, Li-Yuan	M	2019.02.01	0	0	0	0	0	0	Graduated from Chemical Engineering Dept., Yeong-Jing Industrial Vocational High School	-	-	-	-
Sales Dept. Assistant Vice President (Note 2)	R.O.C.	Pai, Hsien-Wei	M	2019.02.01	0	0	0	0	0	0	Graduated from Accounting and Satisics Dept., Ling Tung University	-	-	-	-

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 the 1st grade Manager to Assistant Vice President on February 1, 2019.

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

3.3.1 Remuneration of Directors

December 31, 2018
Unit: NTD\$ Thousand

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	Stock			
Chairmen	Dai, Hung-Chuan	0	0	0	0	9,833	9,833	0	0	0.9%	0.9%	8,573	18,728	114	114	2,388	0	2,388	0	1.91%	2.84%	-
Director and General Manager	Tsao, Hsih-Chung																					
Director	Lin, Chuan-Nui																					
Director	Dai, Hung-I																					
Director	Chang, Chun-Shu																					
Director	Liu, Yun-Chang																					
Independent Director	Hung, Chao-Nan																					
Independent Director	Huang, Hsiang-Ying																					
Independent Director	Kung, Yi-Lu																					

Note 1: Pension was recorded as expenses and appropriated in 2018.

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	Dai, Hung-Chuan Tsao, Hsih-Chung Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu Liu, Yun-Chang Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu	Dai, Hung-Chuan Tsao, Hsih-Chung Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu Liu, Yun-Chang Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu	Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu	Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu
NT\$ 2,000,000 ~ NT\$ 4,999,999	0	0	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	9	9	9	9

3.3.2 Compensation of General Manager and Senior Vice President

December 31, 2018
Unit: NTD\$ Thousand

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	21,486	28,665	364	364	0	0	11,178	0	11,178	0	3.02%	3.68%	—
Executive Vice President	Liu, Yun-Chang													
Group Vice President	Pai, Wen-Pin													
Group Vice President	Tseng, Wen-Hua													
Financial Dept. Group Vice President	Cheng, Ya-Wen													
Vice President	Lee, Chin-Hsiung													
Vice President	Lai, Shen-Yuan													
Vice President	Chuang, Kuei-Ching													
Vice President	Lu, Ching-Chou													

Note: The Company has accrued pension expenses for 2018 and made pension contributions totaling NTD\$ 364 thousand (including NTD\$ 170 thousand under the new system and NTD\$ 194 thousand under the old system).

Compensation Brackets

Range of Compensation	Names of President and Vice President	
	From HON CHUAN	From All Consolidated Entities
NT\$ 0 ~ NT\$ 2,000,000	0	0
NT\$ 2,000,000 ~ NT\$ 4,999,999	Liu, Yun-Chang Lee, Chin-Hsiung Lai, Shen-Yuan Chuang, Kuei-Ching Lu, Ching-Chou	Liu, Yun-Chang Lee, Chin-Hsiung Lai, Shen-Yuan Chuang, Kuei-Ching Lu, Ching-Chou
NT\$ 5,000,000 ~ NT\$ 9,999,999	Tsao, Hsih-Chung Cheng, Ya-Wen Pai, Wen-Pin Tseng, Wen-Hua	Pai, Wen-Pin Cheng, Ya-Wen Tseng, Wen-Hua
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	9	9

3.3.3 Employees' Profit Sharing Bonus Paid to Management Team

December 31, 2018

Unit: NTD\$ Thousand

	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	General Manager	Tsao, Hsih-Chung	-	13,397	13,397	1.23%
	Executive Vice President	Liu, Yun-Chang				
	Group Vice President	Pai, Wen-Pin				
	Group Vice President	Tseng, Wen-Hua				
	Financial Dept. Group Vice President	Cheng, Ya-Wen				
	Packaging Technical Group Vice President	Lee, Chin-Hsiung				
	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				
	Beverage Technical Group Senior Assistant Vice President	Lee, Ching-Hsiang				
	Beverage Technical Group Vice President	Lu, Ching-Chou				
	Financial Dept. Vice President	Chuang, Kuei-Ching				
	General Administration Dept. Senior Assistant Vice President	Yen, Ching-Chuan				
	Manufacture Dept. Assistant Vice President	Hung, Min-Hsiung				
	Sales Dept. Assistant Vice President	Ting, Chih-Hao				
	R&D Technical Dept. Assistant Vice President	Tsao, Chien-Hsia				
	Beverage Technical Group Assistant Vice President	Cheng, Chih-Hung				

3.3.4 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 2018 Net Profit		Total Remuneration as % of 2017 Net Profit	
	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities
Directors	1.91%	2.84%	1.75%	2.57%
General Manager and Vice Presidents	3.02%	3.68%	2.35%	3.22%

2. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and correlation with business performance:
 - (1) According to 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 5 meetings (A) in 2018 with the attendance record of Board members as follows:

Title	Name	Actual Attendance (B)	Attendance by proxy	Attendance Rate (%) (B/A)	Remarks
Chairman	Dai, Hung-Chuan	5	0	100	-
Director	Tsao, Hsih-Chung	5	0	100	-
Director	Liu, Yun-Chang	5	0	100	-
Director	Chang, Chun-Shu	4	0	80	-
Director	Lin, Chuan-Nui	4	1	80	-
Director	Dai, Hung-I	5	0	100	-
Independent Director	Hung, Chao-Nan	5	0	100	-
Independent Director	Huang, Hsiang-Ying	4	1	80	-
Independent Director	Kung, Yi-Lu	5	0	100	-

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' opinion and the Company's response
2018.03.27	1. Approved the replacement of CPAs.	Approved by all independent directors
	2. Approved increase (decrease) of corporate guarantee for subsidiaries.	
2018.05.11	1. Approved separated corporate guarantee extended to the subsidiaries sharing joint bank facility.	
2018.06.15	1. Approved increase (decrease) of corporate guarantee for subsidiaries.	
2018.08.10	1. Approved increase (decrease) of corporate guarantee for subsidiaries.	
2018.11.09	1. Approved increase (decrease) of corporate guarantee for subsidiaries.	
2019.03.26	1. Approved the replacement of CPAs.	
	2. Approved increase (decrease) of corporate guarantee for subsidiaries.	
	3. Approved the amendment of Procedures for Acquisition or Disposal of Assets.	
	4. Approved the amendment of Procedures for Loaning of Company Funds to other Parties.	
	5. Approved the amendment of Procedures of Endorsements and Guarantees.	
	6. Approved the amendment of Procedures for Trading Derivatives.	

(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 of motions was in conflict of directors' interest.

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 Audit Committee and the participation of supervisors in the Board operation

The Company set up Audit Committee on June 15, 2017. Audit Committee held 4 meetings (A) in 2018 with the attendance record of members as follows:

Title	Name	Actual attendance (B)	Authorized attendance	Actual attendance Rate (%) (B/A)	Remarks
Chairman	Hung, Chao-Nan	4	0	100	-
Member	Huang, Hsiang-Ying	3	1	75	-
Member	Kung, Yi-Lu	4	0	100	-

Other required information:

1. If there is any circumstance below in the operation of Audit Committee, the dates, sessions, contents of motion, the resolutions of the Board of Directors and the Company's response should be specified:

(1) Article 14-5 of the Securities and Exchange Act.

Meeting Date of Audit Committee	Content of Motion	Members' opinion to resolutions and the Company's response
2018.03.27	1. Resolved the 2017 Financial reports.	Approved by all members of Audit Committee
	2. Resolved the replacement of CPAs.	
	3. Approved the Management's reports on internal control.	
	4. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2018.05.11	1. Resolved separated corporate guarantee extended to the subsidiaries sharing joint bank facility.	
2018.06.15	1. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2018.08.10	1. Resolved the 2018 2 nd quarter Financial reports.	
	2. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2018.11.09	1. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2019.03.26	1. Resolved the 2018 Financial reports.	
	2. Resolved the replacement of CPAs.	
	3. Approved the Management's reports on internal control.	
	4. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
	5. Resolved the amendment of Procedures for Acquisition or Disposal of Assets.	
	6. Resolved the amendment of Procedures for Loaning of Company Funds to other Parties.	
	7. Resolved the amendment of Procedures of Endorsements and Guarantees.	
	8. Resolved the amendment of Procedures for Trading Derivatives.	

(2) Besides above circumstance, any resolutions which are not resolved by Audit Committee but are approved by more than 2/3 of all directors: None.

2. 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: None.

3. 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 status between independent directors, Chief Audit Executive and CPAs:

Date	Communication between Chief Audit Executive and independent directors	Communication between with CPAs and independent directors
2018.03.27	1. Reviewed the Audit report and Defects follow-up report. 2. Reviewed the Company's 2017 Management's reports on internal control.	1. Discussed about the content, adjusting entries of 2017 Individual and Consolidated Financial Statements and auditors' report. 2. Report of regulatory changes. 3. Reviewed the qualification, performance and independency of CPAs.
2018.05.11	Reviewed the Audit report and Defects follow-up report.	-
2018.08.10	Reviewed the Audit report and Defects follow-up report.	-
2018.11.09	1. Reviewed the Audit report and Defects follow-up report. 2. Reviewed the Company's 2019 Annual audit plans.	-
2019.03.26	1. Reviewed the Audit report and Defects follow-up report. 2. Reviewed the Company's 2018 Management's reports on internal control.	1. Discussed about the content, adjusting entries of 2018 Individual and Consolidated Financial Statements and auditors' report. 2. Report of regulatory changes. 3. Reviewed the qualification, performance and independency of CPAs.

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 (www.honchuan.com.tw) 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.	None
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.	None
(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.	None
(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.	None
(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	None

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.	
<p>3. Composition and Responsibilities of the Board of Directors:</p> <p>(1) Has the Board of Directors developed and implemented diverse corporate policies regarding the composition of members?</p>	v		<p>(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. For more details, please refer to Note 1.</p> <p>There are nine seats in the Board of Directors, and all of them possess various professional background and work domain:</p> <ol style="list-style-type: none"> 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. 	None
<p>(2) Besides existing Remuneration Committee and Audit Committee, is the company voluntarily setting up other functional committees?</p>		v	<p>(2) Besides existing Remuneration Committee and Audit Committee, the Company is evaluating to set up other functional committee.</p>	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 will conduct the Board performance evaluation every year regularly. The 2018 Board performance evaluation of the Company has been completed and resolved by the Board of Directors on March 26, 2019. For related evaluation indexes, standards and results, please refer to Note 2. The score of this evaluation is 82, which is fairly great. The advices and improvements to the Board of Directors include assisting all directors to attain the required hour of continuing education in accordance of regulations, actively inviting CPAs to attend the Board's meeting for discussion and so on. The Company will devote to improve and enhance the functions of the Board of Directors.	None
(4) Does the Company evaluate certified public accountants' level of independence regularly?	V		(4) In order to strengthen the Company's corporate governance, according to Article 29 of "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", a TWSE/TPEX listed company shall evaluate the independence and suitability of the CPA engaged by the company regularly. The 2018 CPAs independence evaluation of the Company has been completed and resolved by the Board of Directors on March 26, 2019, in order to implement corporate governance and enhance the functions of the Board of Directors. For CPAs independence evaluation results, please refer to Note 3.	None
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	V		The Company's general manager assigns Investor Relations Office and the supervisor of Finance Department to deal with corporate governance and related matters, to protect shareholders' rights and enhance the responsibilities of the Board of Directors. The main responsibilities are as below: 1. Set up sound corporate governance of the Company, assist the directors to fulfill their responsibility, enhance the functions of the Board of Directors, develop appropriate corporate mechanisms and organizational	None

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
shareholders' meeting)?			<p>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.</p> <p>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. Remind the directors to avoid attendance If they have conflict of interest in any agenda .</p> <p>3. Each year, register the date of shareholders' meeting, prepare meeting notice, meeting agenda and meeting minutes, revise articles of incorporation and conduct the registration upon amendment before due date in accordance with laws.</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.	None
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 Investor Relations Office to deal with related matters.	None
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.	None
(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 Investor Relations Office which is responsible for collecting related information about the Company, disclosing and reporting material information, uploading information, pictures and	None

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			PowerPoints of investor conference in Investors' section on the Company's website.	
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. In 2018, the Company received an Award of Labor Model-Group from Workforce Development Agency, MOL. Please refer to page 93 to 94 "labor relations" in this annual report.</p> <p>2. Employee care: The Company takes 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 gives appropriate respond and improvement. In 2018, the Company received an Award for Corporate Excellence and Employee Well-Being-1 star from Labor department of Taichung city government.</p> <p>3. Investor relation: The Company continues to maintain positive interaction with investors, including building up an investor zone(http://www.honchuan.com/tw/investor#1), disclosing prompt financial information, holding investor conference more than once a season, attending investment forum irregularly, setting up investment service team and implementing fully spokesperson system to form diverse communication channels with investors.</p> <p>4. Supplier relation & Rights of stakeholders: The Company's General administration department is taking responsibility of overall stakeholders and issue identification. Also, based on internal operating mechanism, it sets up the consultation</p>	None

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			<p>and communication channels with stakeholders, assigns a personnel to receive, record, reply the diverse messages from stakeholders and corresponding response. The Company publicly discloses the communication information with stakeholders via its website. It also keeps a great conversation and communication with suppliers and stakeholders via diverse communication channels and information disclosure.</p> <p>5. Directors' and supervisors' continuing training status: 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 status of risk management policy and risk measurement standard:</p> <p>A. The Company sets up internal written specifications for all natural disasters and accidents, and Labor safety & health department holds employee training and disaster prevention drill in daily life.</p> <p>B. Hon Chuan and its subsidiaries purchases all kinds of insurances in order to reduce risks.</p> <p>C. Any significant issues in regards to operating policy, investment, endorsement, loan and 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. Please refer to page 185 to 190 "analysis and assessment of risk items" in this annual report.</p> <p>7. Implementation of customer policy: The Company devotes to quality improvement and vertical integration and provides complementary services in every aspect, thus its customers may focus on brand management, channel expansion and</p>	

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			enhancement of market competition advantages. Please refer to page 80 to 88 “overview of market, production and sales” in this annual report. 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. The major contents of liability insurance, which expired and then renewed in January 2019, such as the insured period, insured amount, coverage, premium rate and so on have been resolved by the Board of Directors on March 26, 2019.	
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	
2.11	Does the company disclose fully the discussion items and resolution results of Remuneration Committee in its annual report? And the following treatment?		The Company discloses fully the meeting contents, resolution results and the following treatments of Remuneration Committee in its annual report.	
2.15	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 discloses the communication status between independent directors, Chief Audit Executive and CPAs in its annual report and on the investor zone of its website.	
2.22	Has the Regulations Governing the Board Performance Evaluation, which has set up by the company, been resolved by the Board of Directors? And carry out a self-evaluation more than once a year, and disclose the evaluation result on its website or in its annual report?		The 2018 Board performance evaluation of the Company has been completed and resolved by the Board of Directors on March 26, 2019, and will be disclosed in its annual report.	

Item			Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
			Yes	No	Description	
	2.25	Do the independent directors of the company attend continuing courses and achieve compulsory hours in accordance with “Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies”?			The Company will assist all independent directors to complete the compulsory hours of continuing courses in accordance with the regulations.	
	3.14	Does the company disclose the connection between Board performance evaluation and salary and compensation in its annual report?			The Company will evaluate to disclose the connecting standards between Board performance evaluation and salary and compensation.	
	4.6	Does the company set up human rights protection policy and specific management plan, which based on International Bill of Human Rights, and disclose them on its website or annual report?			The Company has taken into action to assess and stipulate related regulations and specific practices, which will be disclose on its website after confirmation.	
	4.14	Does the Company disclose the identified status, concerned issues, communication channels and responses of stakeholders on its website or annual report?			The Company discloses the status, concerned issues, communication channels and responses of stakeholders on its website.	
	4.15	Does the Company disclose its ethical corporate management policy, which clearly stipulates specific practices to prevent unethical behaviors on its website or annual report?			The Company discloses its ethical corporate management policy and specific practices in its annual report. Please refer to page 47 to 50.	

Note 1: Implementation status of diversity policy of the Board of Directors

Name of Directors \ Diversity Items	Gender	Operational judgment	Management administration	Leadership and policy decision	Accounting and financial	Industry experience	Crisis management	International market perspective
Dai, Hung-Chuan	M	✓	✓	✓		✓	✓	✓
Tsao, Hsih-Chung	M	✓	✓	✓		✓	✓	✓
Chang, Chun-Shu	F	✓			✓	✓	✓	✓
Dai, Hung-I	M	✓	✓	✓			✓	✓

Lin, Chuan-Nui	M	✓	✓	✓		✓	✓	✓
Liu, Yun-Chang	M	✓	✓	✓		✓	✓	✓
Hung, Chao-Nan	M	✓	✓	✓			✓	✓
Huang, Hsiang-Ying	M	✓	✓	✓	✓		✓	✓
Kung, Yi-Lu	M	✓	✓	✓	✓		✓	✓

Note 2: The 2018 Board performance evaluation

Evaluation index	Specific indicator and proportion	Evaluation standard	Score
Comply with related laws and regulations	1. Comply with the regulation, in which the motion shall be submitted to the Board of Directors for discussion (10%)	Has the related motion been submitted to the Board of Directors for discussion in accordance with related regulation? It shall get 10 points if all related motions of the year have been submitted for resolution by the Board of Directors in accordance with the law. For any defect, it deducts 2 points. For any significant defect, and being corrected by the competent authority, it remains 0 point.	10
	2. Whether holding more than six times of the Board of Directors' meetings every year (10%)	Does it hold more than six times of the Board of Directors' meetings every year? Reviewed in the whole year, it shall get 10 points for holding more than six times. It gets 8 points for five times, 6 points for four times, 4 points for under than three times.	8
	3. Comply with directors' interest avoidance (10%)	When the related motion is in conflict of directors' interest, does the director recuse himself or herself from the discussion or the voting? Or, does the chairman diligently request that director to recuse himself or herself from the discussion or the voting? Reviewed in the whole year, it shall get 10 points if the director diligently excutes self-avoidance when there is any motion in conflict of interest. For any defect, it deducts 2 points. For any significant defect, and being corrected by the competent authority, it remains 0 point.	10
	4. Complete the compulsory hours for continuing courses of directors every year (10%)	Do all directors complete the compulsory hours for continuing courses in accordance with the regulation which has stipulated by the competent authority? Reviewed in the whole year, it shall get 10 points if all directors meet the requirement. If any director does not complete the compulsory hours for continuing courses in accordance with the regulation, it deducts 2 points respectively.	0
	5. Attendance rate of the Board of Directors' meeting (10%)	Does the attendance rate of the Board of Directors' meeting reach two-third every time? It shall get 10 points if all the attendance rate of Board meetings reaches two-third every time. If any meeting fails in the requirement, it deducts 2 points.	10
	6. Attendance rate of shareholders' meeting (10%)	Are there more than a half of directors attending the shareholders' meeting? It shall get 10 points if more than a half of directors attend the shareholders' meeting. It gets 8 points when there are three seats of directors, and 6 points for two seats of directors.	10
Participation in the company's operation	1. Audit the company's accounting system, financial position and financial reports, audit reports and their follow-up (10%)	Do directors take actions to understand and supervise the company's accounting system, financial position and financial reports, audit reports and their follow-up? It shall get 10 points if executing diligently. For any defect, it deducts 2 points. For any significant defect, and being corrected by the competent authority, it remains 0 point.	10

	2. Engage in communication and exchange with the company's CPAs (10%)	Do directors engage in communication and exchange with CPAs? When new accounting standards are published or there are major adjustments to financial statements, directors should meet CPAs to discuss. CPAs shall be present at two or more Board meetings in a year to provide opinions on audit issues of annual and semi-annual financial statements to be fully aware of the company's financial position. It shall get 10 points if executing diligently. For any defect, it deducts 2 points. For any significant defect, and being corrected by the competent authority, it remains 0 point.	8
	3. Assess and keep track of existing or potential risks to the company (10%)	Do directors diligently keep track of existing or potential risks to the company? Does the Board of Directors supervise and give opinions based on the Company's internal control policy and significant risks of all departments? It shall get 10 points if the Board of Directors discuss of the implementation and follow-up status of internal control policy every year. For any defect, it deducts 2 points. For any significant defect, and being corrected by the competent authority, it remains 0 point.	8
	4. Engage in communication and interaction with the company's management team (10%)	Do directors keep a positive communication channel with the company's management team? It shall get 10 points if more than a half of directors attend the management team assembly. It gets 8 points when there are three seats of directors, and 6 points for two seats of directors.	8
In total			82

Note 3: The criteria to examine the independency of the CPAs

No	Evaluation Item	Result	Independency
1	Whether the appointed CPA has a direct or significant indirect financial interest relationship with the Company.	No	Yes
2	Whether the appointed CPA has any inappropriate relationship with the Company.	No	Yes
3	Whether there is any financing or guarantee relationship between the appointed CPA and the Company or the supervisors of the Company.	No	Yes
4	Whether the appointed CPA receives any commissions related to the business.	No	Yes
5	During the audit period, whether the appointed CPA 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 CPA 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 CPA accepts any highly valuable gifts from the Company's supervisors or managers.	No	Yes
8	Whether the appointed CPA propagates or intermediates shares or other securities issued by the Company.	No	Yes
9	Whether the appointed CPA holds a part-time work at the Company and receives fixed salary from the Company.	No	Yes
10	Whether or not the appointed CPA is jointly investing or sharing the interests of the Company.	No	Yes
11	Whether the appointed CPA is involved in the management competency of the Company.	No	Yes
12	Whether the title of appointed CPA has been used by others.	No	Yes

3.4.4 Composition, Responsibilities and Operations of Remuneration Committee

3.4.4.1 Information 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 Operation status of Remuneration Committee

- (1) There are 3 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 2018.

The qualification and attendance record of the Remuneration Committee members were as follows:

Title	Name	Actual attendance (B)	Attendance by proxy	Actual attendance rate (%) (B/A)	Remarks
Chairman	Hung, Chao-Nan	2	0	100%	-
Member	Huang, Hsiang-Ying	2	0	100%	-
Member	Kung, Yi-Lu	2	0	100%	-

Other required information:

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

- (3) The meeting contents, resolution results and the Company's handling of the opinions of members of the Remuneration Committee:

Meeting Date of Remuneration Committee	Content of Motion	Resolution and opinion of Remuneration Committee	The Company's response to opinion of Remuneration Committee
2018.03.27	1. Resolved the Company's 2017 Directors compensation, Year-end bonus and Management dividend.	Approved by all members of Remuneration Committee.	Been submitted to the Board of Directors, and resolved by all present directors.
	2. Resolved the Company's 2018 promotion of executives.		
2018.12.28	1. Resolved the Company's 2019 promotion and raise of employees (including management team).		

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 nd 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.	None
(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.	None
(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.	None
(4) Has the company established reasonable remuneration policy, combined employee performance evaluation system with corporate	V		(4) According to respective contribution of work, the Company sets Salary Grading Table to give reasonable salary. Also, assessing personal	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
social responsibility policy, and set up effective employee performance evaluation system?			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.	
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) The Company carries out the environmental protection policy from three aspects, which are Reduce, Reuse and Recycle. Actively innovate light-weight of plastic cap and PET bottle to reduce the consumption of raw material and carbon emission. Moreover, Hon Chuan continuously researches and develops the application of Biodegradable materials, Biomass materials and Recyclable materials. In recent years, we have already used the vegetal PET resin to produce the bottles. It's estimated to reduce 63,720 liters of oil consumption and 480 tons of carbon emission every year. Hope to make contribution on the natural sustainability and corporate social responsibility.	None
(2) Does the company develop proper environmental management policy suitable for its industry characteristics?	V		(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	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
(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>work place. Also, it sets up “Labor Safety & 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 & Health Department and divisions of air pollution, water pollution and waste are responsible for carrying out related prevention control management affairs.</p> <p>(3) In 2016, the Company participated “Energy Conservation and Carbon Reduction Technical service team” held by Ministry of Economic Affairs. Detailed strategies are as below:</p> <ol style="list-style-type: none"> 1. Energy conservation measures and targets <ol style="list-style-type: none"> 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. 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. C. Energy management: Improve capacity on power load; Manage air pressure and air conditioning system; Regulate air conditioning and lighting system. D. Green energy: Install solar energy panel and apply green 	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			energy. 2. Energy conservation goals A. Energy conservation volume: 930.9 KLOE. (Power saving: 4,047,000 kwh) B. CO2 reduction: 2,108 tons. C. Reduce 5.11% of energy the entire corporate. D. Energy conservation benefit: NTD\$ 12.54 million.	
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.	None
(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.	None
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		(3) The Company sets up not only Labor Safety & Health Department but also "Occupational Safety and Health Committee", to devote to offer employees a safe and healthy working environment . All measures, such as establishing medical office, arranging attendant medical care, 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 detailed policy and been fully implemented.	None
(4) Does the company develop employee	V		(4) The Company holds all employees' monthly meeting regularly, in which senior managers report operating	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
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?			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. Also, it releases human resource digital magazine every month.	
(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. Please refer to page 93 to 94 "labor relations" in this annual report.	None
(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) 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.	None
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	V			
(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 suppliers and avoid doing business with those conflict with social responsibility policy.	None
(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	V		(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	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies								
	Yes	No	Description									
cause appreciable impact on the environment and society?			at any time.									
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.	None								
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">• 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.• The Company is the only Greater China group supplier awarded "Excellent Effort in Corporate Social Responsibility" from Coca-Cola.• Health promotion activities: The Company held twice blood donation activities in 2018, respectively on July 19 and November 30. Also, holding a tobacco control propaganda on November 6 and health management propaganda on November 15.• 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.• After its aseptic filling plants and packaging museum had been completed, it provides publics to visit and fulfill the educational function of the society.• Providing a safe and friendly work environment and taking care of the employees' physical and mental health: except the following awards, it achieved "OHSAS 18001 International Occupational Safety and Health Management System" and "TOSHMS Taiwan Occupational Safety and Health Management System" as well. Some plants' certificates have expired and gradually transferred to ISO 45001 Occupational Safety and Health Management System.												
<table><tr><th>Category</th><th>Year</th><th>Content of Award</th></tr><tr><td rowspan="2">Labor Safety</td><td>2008</td><td>Awarded of "Healthy Workplace Certificate – Health Creativity Award" from Health bureau of Taichung city government.</td></tr><tr><td>2014</td><td>Awarded of "National Occupational Safety and Health Award - safety and health special investment in traditional industry." Attained a certificate "Zero accident" from Occupational safety and health administration, MOL. Attained a certificate "Enthusiastic about Occupational Safety" from Occupational safety and health administration, MOL.</td></tr></table>					Category	Year	Content of Award	Labor Safety	2008	Awarded of "Healthy Workplace Certificate – Health Creativity Award" from Health bureau of Taichung city government.	2014	Awarded of "National Occupational Safety and Health Award - safety and health special investment in traditional industry." Attained a certificate "Zero accident" from Occupational safety and health administration, MOL. Attained a certificate "Enthusiastic about Occupational Safety" from Occupational safety and health administration, MOL.
Category	Year	Content of Award										
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Item				Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies	
				Yes	No	Description		
		2015	Awarded of “Excellent Performance of Healthy Workplace – Health Navigation” from Health promotion administration, MOHW.					
		2017	Awarded of “Corporation Addictive Substance Internal Publication Competition Outstanding.”					
	Human Resource	1992	Awarded of “Outstanding Corporation in Labor Relations.”					
		2008	Awarded of “Friendly Workplace Award" from Ministry of Labor.					
		2010	Awarded of “Outstanding Achievement for Hiring Physically and Mentally Handicapped” from Taichung city government. Awarded of “Outstanding Corporation in Labor Relations" from Export processing zone administration, MOEA.					
		2014	Awarded of “Outstanding Corporation in Labor Relations" from Export processing zone administration, MOEA.					
		2015	Awarded of “Corporate Excellence and Employee Well-Being – 2 Stars” from Labor affairs bureau, Taichung city government.					
		2016	Awarded of “Corporate Excellence and Employee Well-Being – 1 Star” from Labor affairs bureau, Taichung city government.					
		2018	Awarded of “Labor Model – Group” from Ministry of Labor. Awarded of “Corporate Excellence and Employee Well-Being – 1 Star” from Labor affairs bureau, Taichung city government.					
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.	None
(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.	None
(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.	None
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.	None

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.	None
(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.	None
(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.	None
(5) Does the company hold internal and external ethical corporate management training courses regularly?	V		(5) The Company holds ethical corporate management courses to every new employees, and holds related Educational trainings and propagandas irregularly for directors, managers and employees. In 2018, the Company held in total 2,161 attendants and 1,566.5 hours of courses related to ethical corporate management laws, food safety and hygiene management, environmental safety, labor safety, internal control and law compliance.	None
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) In order to implement ethical corporate management policy and actively prevent from unethical behavior, the Company sets up its " Whistle-blowing Procedures for Violations of Ethical Corporate Management", in which building up the policy of the Company's internal and external whistle-blowing	None

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
(2) Does the company develop standardized investigation process and related confidential policy when accepting whistle-blowing case?	V		channels and procedures. Whistler may report the whistle-blowing case through the following ways: Email: ethics@mail.houchuan.com.tw , and Paper document shall be delivered to No.6, 2nd. Road, Industrial Park, Xitun Dist., Taichung Taiwan, R.O.C (To Audit Department). Moreover, the Company sets up a president's mailbox and a stakeholder zone on its website, for clients, suppliers, subcontractors and employees to report or appeal.	None
(3) Does the company have protection mechanism for whistleblower?	V		(2) The Company has incorporated into internal control system with related regulations, clearly describing the punishment, appeal policy, whistle-blowing reward and confidentiality mechanism when any violation of ethical corporate management occurs. (3) The Company sets up a protection policy for whistler in its "Whistle-blowing Procedures for Violations of Ethical Corporate Management". The whistler's identity and statement would be totally secured and investigated by the designated person. If whistler's identity is exposed, the receiving unit of whistle-blowing shall investigate the process of exposure and deal with it strictly in accordance with the Company's related regulations.	None
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.	None

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
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 directors of the Company have industrial professional background and management practical skills, and their continuing education status were as follows:

Title	Name	Date of Election	Date of Course	Organizer	The course name	Duration
Independent Director	Huang, Hsiang-Ying	2017.06.15	2018.07.13	R.O.C. CPAs Association	Evaluation practice of dealing with anti-money laundering	3 hours
			2018.09.17	R.O.C. CPAs Association	How to deal with Money Laundering Control Act	3 hours
			2018.11.19	R.O.C. CPAs Association	Family wealth plan and law	3 hours
			2018.11.27	R.O.C. CPAs Association	Overseas funds and equity arrangement	4 hours
			2018.12.10	R.O.C. CPAs Association	Statements on Auditing Standards (SASs) No. 67	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 26, 2019

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 2018:

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, immediacy and transparency of report, and compliance with applicable regulations and laws.
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, 2018, 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, immediacy and transparency of report, and compliance with applicable regulations and laws.
6. This Statement will be an integral part of Hon Chuan's Annual Report for the year 2015 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 26, 2019, 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, 2018	1. Approval of 2017 Financial Statements. 2. Approval of 2017 Profit Distribution Proposal.	1. Related statements have been submitted to competent authority and publicly reported in accordance with The Company Act and related regulations. 2. Set up July 10, 2018 as the ex-dividend date, and the distribution has been completed.

3.4.11.2 Significant resolutions reached in the Board meeting

Date	Major Proposals
March 27, 2018	1. Resolution of 2017 Employees' Compensation and Directors' Remuneration. 2. Approval of 2017 Financial Statements. 3. Approval of 2017 Consolidated Financial Statements. 4. Resolution of 2017 Profit Distribution. 5. Resolved to convene 2018 Annual Shareholders' Meeting on June 15, 2018. 6. Approved that the Company increased cash capital to subsidiary Hon Chuan Holding Limited. 7. Approved the investment of Hon Chuan (Algeria) SPA in Algeria and establishment of Hon Chuan (Algeria) SPA. 8. Resolved to issue the Company's 1st Domestic unsecured corporate bonds in 2018.
May 11, 2018	1. Approval of the 1th quarter of 2018 Consolidated Financial Statements. 2. Approved the cash capital investment in plastic cap equipment for Indonesia Hon Chuan.
June 15, 2018	1. Approved that the Company increased capital to Honhua (Samoa) Holdings Co., Ltd.
August 10, 2018	1. Approval of the 2nd quarter of 2018 Consolidated Financial Statements. 2. Approved that the Company increased cash capital to subsidiary Hon Chuan Holding Limited.
November 09, 2018	1. Approval of the 3rd quarter of 2018 Consolidated Financial Statements.

Date	Major Proposals
March 26, 2019	1. Resolution of 2018 Employees' Compensation and Directors' Remuneration. 2. Approval of 2018 Financial Statements. 3. Approval of 2018 Consolidated Financial Statements. 4. Resolution of 2018 Profit Distribution. 5. Resolved to convene 2019 Annual Shareholders' Meeting on June 19, 2019. 6. Resolution of amendments to "Articles of Incorporation." 7. Approved the cash capital investment in aseptic beverage production line for Indonesia Hon Chuan. 8. Resolution of amendments to "Procedures for Acquisition or Disposal of Assets." 9. Resolution of amendments to "Procedures for Loaning of Company Funds to other Parties." 10. Resolution of amendments to "Procedures of Endorsements and Guarantees." 11. Resolution of amendments to "Procedures for Trading Derivatives."
May 10, 2019	1. Approval of the 1th quarter of 2019 Consolidated Financial Statements. 2. Approved the establishment of Cambodia Hon Chuan company in order to cooperate with C company for 1881 soda preform.

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: NTD\$ Thousand

CPA Firm	Name of CPAs	Audit Fee	Non-Audit Fee					Audit Period	Note
Deloitte & Touche	Tseng, Done-Yuin	8,150	Policy Design	Business Registration	Human Resource	Other (Note 1)	Subtotal	Jan 01, 2018 ~ Dec 31, 2018	-
	Wu, Li-Dong		0	15	0	263	278		

Note 1: Services relate to transfer pricing report.

Unit: NTD\$ Thousand

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	March 26, 2019		
Reason of change	Internal adjustments within the certifying accounting firm		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties	CPA	The Company
	Status		
	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	Yen, Hsiao-Fang and Wu, Li-Dong (Note)
Date of appointment	March 26, 2019
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

Note: The change of financial statement auditor was the result of an internal job rotation that took place within Deloitte accounting firm from Tseng, Done-Yuin and Wu, Li-Dong to Yen, Hsiao-Fang and Wu, Li-Dong on March 26, 2019.

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	2018		As of April 21, 2019	
		Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged	Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged
Chairman	Dai, Hung-Chuan	0	0	(93,000) (Note 1)	0
Director and General Manager	Tsao, Hsih-Chung	0	0	0	0
Director	Lin, Chuan-Nui	0	0	0	0
Director and Executive Vice President	Liu, Yun-Chang	0	0	0	0
Director	Dai, Hung-I	0	0	(93,000) (Note 1)	0
Director	Chang, Chun-Shu	1,000	0	1,000	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	0	0	0	0
Chief Audit Executive / Senior Assistant Vice President	Hsieh, Hung-Lung	0	0	0	0
Group Vice President	Tseng, Wen-Hua	0	0	0	0
Group Vice President	Cheng, Ya-Wen	0	0	(93,000) (Note 1)	0
Vice President	Lee, Chin-Hsiung	0	0	0	0
Vice President	Lai, Shen-Yuan	0	0	0	0
Vice President	Chuang, Kuei-Ching	0	0	0	0
Vice President	Lu, Ching-Chou	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
Assistant Vice President	Tsai, Yung-Fu (Note 2)	0	0	0	0
Assistant Vice President	Liu, Li-Yuan (Note 2)	0	0	0	0
Assistant Vice President	Pai, Hsien-Wei (Note 2)	0	0	0	0

Note 1: The decrease of holding shares was due to bestowal transference.

Note 2: Promoted from the 1st grade manager to Assistant Vice President on February 01, 2019.

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 21, 2019

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		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Chunghwa Post Co., Ltd. Representative: Wei, Chien-Hung	11,216,964	3.83%	0	0	0	0	None	None	
Norges Bank	6,921,857	2.36%	0	0	0	0	None	None	
Tsao, Hung-Yu	6,529,134	2.23%	0	0	0	0	Tsao, Hsih-Chung	Father and son	
Dai, Hung-I	5,797,111	1.98%	983,364	0.33%	0	0	Hon Yi Investment Co., Ltd.	Chairman	
Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds	5,038,000	1.72%	0	0	0	0	None	None	
Robeco Capital Growth Funds	4,650,000	1.59%	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	
TransGlobe Life Insurance Inc. Representative: Peng, Teng-Te	4,080,936	1.39%	0	0	0	0	None	None	
ISHARES Core MSCI Emerging Markets ETF	3,990,674	1.36%	0	0	0	0	None	None	

3.10 Ownership of Shares in Affiliated Enterprises

December 31, 2018

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	395,643,793	100%	—	—	395,643,793	100%
Hon Chuan (China) Holding Co., Ltd.	—	—	118,721,805	100%	118,721,805	100%
Kai Gang Industries Limited	—	—	1,201,561,003	100%	1,201,561,003	100%
Hon Hsing (Samoa) Holding Limited	—	—	126,006,000	100%	126,006,000	100%
Honly Holding Co., Ltd.	—	—	13,819,780	95.94%	13,819,780	95.94%
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%
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%
Hon Chuan Food Packing (Anyang) Co., Ltd.	—	—	(Note 2)	100%	(Note 2)	100%
HC (Asia) Holdings Co., Ltd.	—	—	205,863,480	100%	205,863,480	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	—	—	91,630,198	100%	91,630,198	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.	—	—	1,002	49%	1,002	49%
Honly Food & Beverage Co., Ltd.	—	—	9,050,000	95.94%	9,050,000	95.94%
Honhua (Samoa) Holdings Co., Ltd.	—	—	5,800,000	60%	5,800,000	60%
Uni Tun Co., Ltd.	—	—	6,000	60%	6,000	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 21, 2019
Unit: Share / NTD\$

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 NTD\$ 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 NTD\$ 169,690,000	None	Order No. Economic-Authorization-Business-10501031560 in February 22, 2016

4.1.1.2 Type of Stock

April 21, 2019
Unit: Share

Type	Shares	Authorized Capital			Remark
		Issued Shares	Un-issued Shares	Total	
Registered 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 21, 2019
Unit: Person / Share

Structure of Shareholder QTY	Government institutions	Financial institutions	Other juristic person	Natural person	Foreign institution & foreigners	Total
Number of persons	1	8	122	26,696	157	26,984
Shareholding	20	10,391,000	46,229,061	187,178,425	49,080,373	292,878,879
Shareholding ratio	-	3.55%	15.78%	63.91%	16.76%	100%

4.1.3 Status of Ownership Dispersion

4.1.3.1 Dispersion status of Common shares

April 21, 2019
Unit: Person / Share

Shareholding bracket	Number of shareholders	Shareholding	Shareholding ratio (%)
1 ~ 999	6,268	1,079,897	0.37%
1,000 ~ 5,000	15,381	31,860,901	10.88%
5,001 ~ 10,000	2,744	21,024,652	7.18%
10,001 ~ 15,000	897	11,175,051	3.82%
15,001 ~ 20,000	491	8,959,611	3.06%
20,001 ~ 30,000	453	11,243,314	3.84%
30,001 ~ 40,000	194	6,887,421	2.35%
40,001 ~ 50,000	127	5,811,581	1.98%
50,001 ~ 100,000	197	13,811,707	4.72%
100,001 ~ 200,000	97	13,726,205	4.69%
200,001 ~ 400,000	58	17,365,120	5.93%
400,001 ~ 600,000	24	11,521,530	3.93%
600,001 ~ 800,000	5	3,491,329	1.19%
800,001 ~ 1,000,000	5	4,371,359	1.49%
Over 1,000,001	43	130,549,201	44.57%
Total	26,984	292,878,879	100%

4.1.3.2 Dispersion status of Preferred shares: None.

4.1.4 List of major shareholders

April 21, 2019

Name of major shareholders	Shares	Shareholding	Shareholding ratio (%)
Chunghwa Post Co., Ltd. Representative: Wei, Chien-Hung		11,216,964	3.83%
Norges Bank		6,921,857	2.36%
Tsao, Hung-Yu		6,529,134	2.23%
Dai, Hung-I		5,797,111	1.98%
Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds		5,038,000	1.72%
Robeco Capital Growth Funds		4,650,000	1.59%
Tsao, Hsih-Chung		4,372,243	1.49%
Hon Yi Investment Co., Ltd. Representative: Dai, Hung-I		4,103,453	1.40%
TransGlobe Life Insurance Inc. Representative: Peng, Teng-Te		4,080,936	1.39%
ISHARES Core MSCI Emerging Markets ETF		3,990,674	1.36%

4.1.5 Market price, net worth, earnings, and dividends of per share in the most recent two years

Unit: NTD\$ / Share

Item \ Year		2017	2018	As of March 31, 2019
Market price per share	Maximum	64.30	58.70	51.30
	Minimum	52.40	45.75	46.85
	Average	58.05	52.78	49.70
Net worth per share (Note 1)	Before distribution	42.61	42.50	44.83
	After distribution	42.44	(Note 2)	-
Earnings per share	Weighted average shares	Before adjustment	292,878,879	292,878,879
		After adjustment	292,878,879	Not distributed yet
	Earnings per share	Before adjustment	4.20	3.73
		After adjustment	4.20	-
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)		13.63	13.96
	Profit Ratio (Note 4)		22.90	-
	Cash Dividend Yield (Note 5)		4.37%	-

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

Note 2: 2018 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

- (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 Dividend Distribution by this Shareholders' meeting
(Resolved by the Board of Directors' meeting on March 26, 2019, and will
be proposed to Shareholders' meeting which held on June 19, 2019 for
ratification)**

Unit: NTD\$	
Items	Amount
Unappropriated retained earnings of previous years	1,889,684,487
Effect of the initial application and restatement of applying IFRS 9	5,644,125
Remeasurement of defined benefit obligation	<u>(1,328,457)</u>
Unappropriated retained earnings after adjustment	1,894,000,155
Net Income of 2018	1,092,530,218
10% for legal capital reserve	(109,253,022)
Special reserve	<u>(377,095,897)</u>
Retained Earnings Available for Distribution as of 2018	2,500,181,454
Shareholders' Dividend (NTD\$ 2.3 per share)	<u>(673,621,422)</u>
Unappropriated Retained Earnings	<u>1,826,560,032</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' Remuneration

4.1.8.1 The policy of employees' compensation and directors' 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' 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 2019.

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 26, 2019.

Employees' compensation: 1.77% as of NTD\$ 23,694,500 in Cash.

Directors' remuneration: 0.74% as of NTD\$ 9,832,772 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 2019 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 26, 2019 the Board of Directors' meeting; so it is not applicable.

4.1.8.4 Actual distribution of employees' compensation and directors' and supervisors' remuneration in previous year

Units: NTD\$

Items	2017			
	Recorded amount	Actually paid	Difference (Note)	Remark
Employees' compensation	24,048,000	24,030,000	18,000	Recorded as Other revenue
Directors' and supervisors' remuneration	11,077,747	11,077,747	None	-

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		NTD\$ 1 million / 1,000 shares
Listing		N/A
Offering Price		Par
Total Amount		NTD\$ 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		NTD\$ 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 and case number of approval by governing agency:

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

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

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

4.8.1.4 Items of plans and estimated schedule of fund application

Unit: NTD\$ Thousand

Items of Plans	Expected Completion Date	Total Fund Required	Estimated Schedule of Fund Application			
			2018			
			Q1	Q2	Q3	Q4
Loan Repayment	2 nd Quarter, 2018	3,000,000	-	3,000,000	-	-

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

4.8.1.5 Expected benefits

Unit: NTD\$ Thousand

Unit: NT\$ Thousand

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 status

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

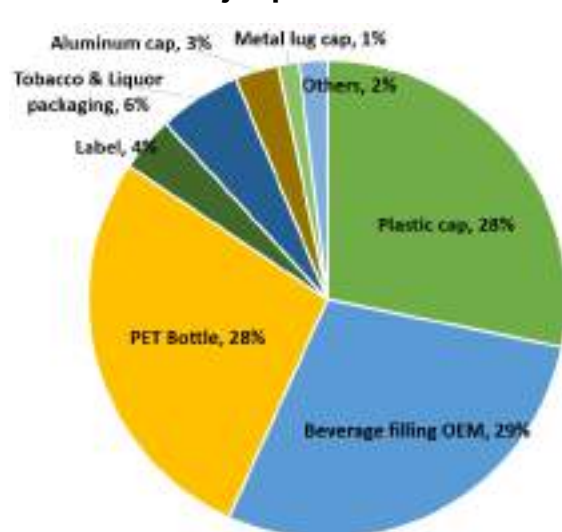
5.1.1 Business Scope

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 Proportion

2018 Major products and Revenue Proportion



Unit: NTD\$ Thousand

2018	Net Sales	Percentage
Plastic cap	5,613,595	28.17%
Beverage filling OEM	5,700,995	28.60%
PET Bottle	5,511,958	27.66%
Label	742,596	3.73%
Tobacco & Liquor packaging	1,109,949	5.57%
Aluminum cap	594,770	2.98%
Metal lug cap	275,555	1.38%
Others	380,299	1.91%
Total	19,929,717	100.00%

5.1.1.3 Current Product Items

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, iron cap for medicine use, 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, Soy sauce 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, cork, oak barrel, wet silicone rubber, cigarette paper, coated paper, casein glue, propylene glycol, chroming tinplate
Other Product		LDPE shrinkable film for multipack

5.1.1.4 New Products Development

Item	Estimated Amount
1. 1.8g 1881 Aseptic cap (A1881CAF18)	NTD\$ 67.18 million
2. 2.0g 1881 Soda cap (AB1881CSD16)	
3. 42mm Long protruded cap	
4. Bi-color cap	
5. 2622 Clamshell cap	
6. Soy sauce cap (clamshell cap)	
7. Non-return valve bottle cap	
8. 1881 Connected cap	
9. Development of Bi-layer bottle	
10. Development of light-barrier, oxygen-barrier PET bottle	
11. Development of 50ml small capacity of hot-fill PET bottle	
12. Development of decomposable thin film	
13. Development of multi-layer barrier film	
14. Development of 40.5mm and 32.5mm spiral iron cap	
15. Development of tooled in gold-like shrinkable label	
16. Development of all kinds of environmental friendly ink for shrinkable label	
17. Development of tear-away curly mold-cut label	

5.1.2 Market and Sales Conditions

5.1.2.1 Current Status and Development of the Industry

In the report of 2018 Food Industry Year Book, the gross production value of Taiwan's Food and Beverage Manufacturing Industry in 2017 was NTD\$ 602.2 billion, up by 1.01% from the previous year. Dividing the industry into two segments, the production value of Food manufacturing was NTD\$ 507 billion, and the aforesaid amount of Beverage manufacturing (including Alcoholic beverage) was NTD\$ 95.2 billion. Moreover, the 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 order to intensify the growth energy in beverage market, Taiwan's beverage companies launched the new products, diversified the product containers and continuously brought new tastes forth through the old ones, and these have become one of the main sources of product differentiation.

According to the statistics indicated by Ministry of Economic Affairs, the sales volume of non-alcoholic beverage in 2017 reached NTD\$ 52.38 billion, with a nearly equal amount of NTD\$ 52.4 billion from previous year. In terms of product types, Tea was the leading product which reached NTD\$ 20.21 billion (+0.47%). Vegetable juice followed, stood at NTD\$ 5.99 billion (+0.1%). Coffee took the third place, stood at NTD\$ 5.58 billion (-2.62%), and was followed by Carbonated drinks with NTD\$5.12 billion (-3.41%) and Energy drinks with NTD\$ 2.5 billion (-6.62%).

The amount of initially launched products in food and beverage market dropped by 5.5% in 2017, and the majority types of these development were promoting brand-new products, which accounted for nearly 45% (lower than 56% of last year). The extended products of new products series followed and had a proportion of 36% (higher than 29% of last year). Then, the new products with new packaging accounted for 13% (higher than 10% of last year). Overall, the market may maintain certain growth energy due to some factors, such as stable growth of macroeconomics, constant hot weather and continuously stable sales led by new products.

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

(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.

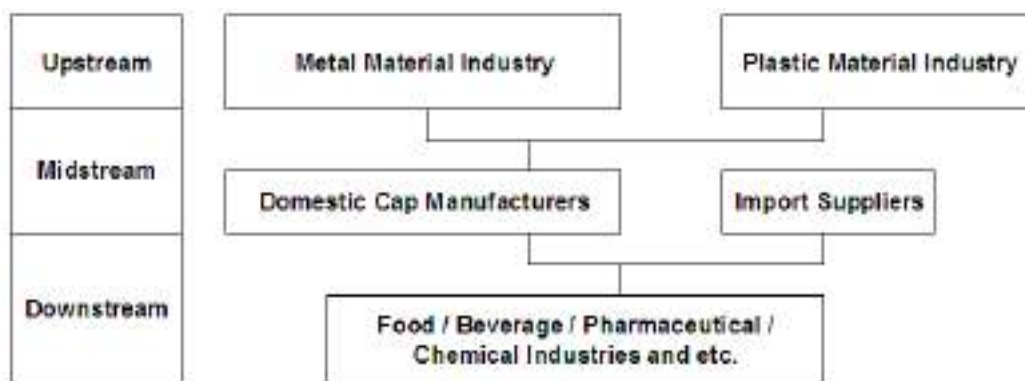
② The Manufacturers and the Import Suppliers

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.

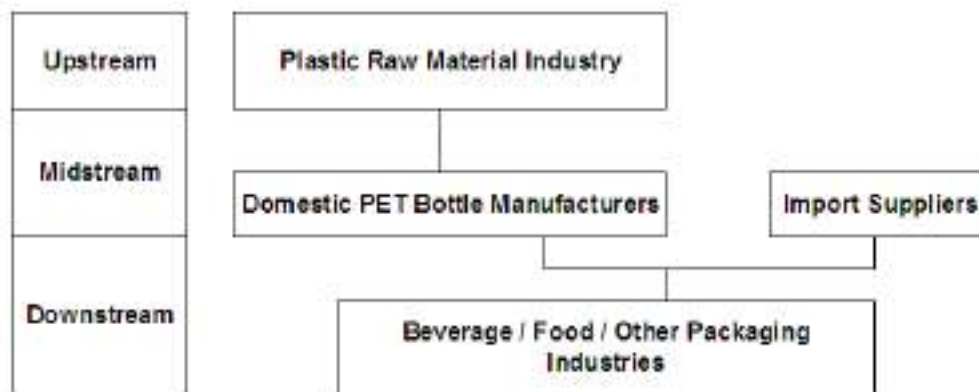
② The Manufacturers and the Import Suppliers

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, sports drinks and soy sauce bottle.

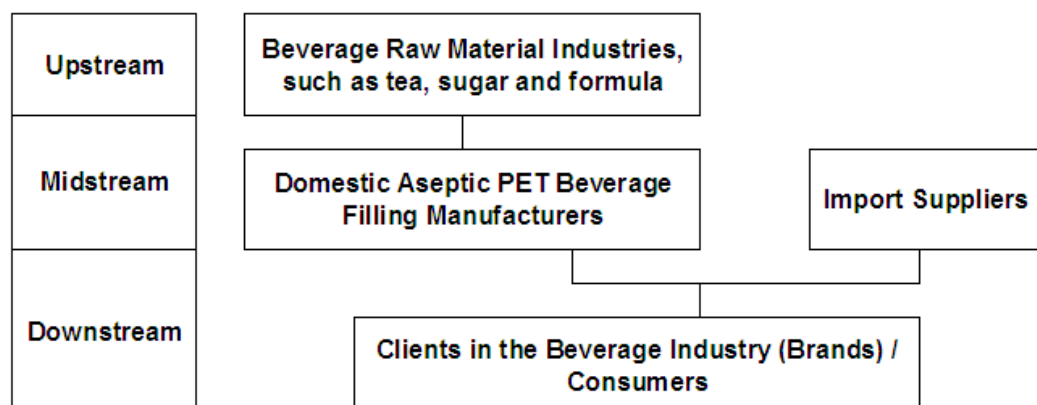
The relationships among the PET bottles manufacturers and sellers are as follows:



(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.

At present, approximately 90% of the market used PET labels, and the rest of 10% used other materials.

③ PET Bottle

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. 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 focus on developing aseptic PET bottles and the OEM of aseptic filling beverage at higher technical levels and wider applied areas. 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: NTD\$ Thousand

Year	R&D Fee	R&D Achievements
2018	64,568	1. 48MM plastic cap lightening (reduced from 7.6g to 6g) 2. Eco-friendly convenient cap
As of March 31, 2019	16,868	3. 1810 Aseptic cap lightening (reduced from 2.53g to 2.2g) 4. 38MMBHA (changed from 16 mold cavities to 36 mold cavities) 5. 3.4g 38MM aseptic cap 6. Mass production of 1881 bottle neck 585ml hot-fill bottle 7. Mass production of 1810 bottle neck 1000ml hot-fill bottle 8. Mass production of 1810 bottle neck 510ml cola bottle 9. Mass production of 1810 bottle neck 600ml, 620ml cold-fill bottle 10. Mass production of 38mm bottle neck 400ml, 950ml cold-fill bottle 11. Mass production of 1881 bottle neck 450ml, 580ml, 1000ml aseptic bottle

		12. Optimization and mass production of high-frequency formation inner pad 13. Complete development and mass production of 12.8 x 8.0mm aluminum cap 14. Development and mass production of 12g aluminum combination 15. Development and mass production of 35g, 75g spiral iron cap 16. Development of low temperature PET shrinkable film 17. Development of environmental friendly white printing ink for shrinkable label 18. Development of creative tear-away label bracelet
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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 2018 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, Sri Lanka, Palau, Vanuatu and so on.

5.2.1.2 Domestic Market Share of Major Products

Item		Sales of Domestic Market (NT\$ Thousands)	THC Market share (%)
Closure Products	Aluminum Cap	650,000	83%
	Plastic Cap	1,100,000	53%
	Metal Lug cap	280,000	74%
PET Bottle		2,252,000	59%
Label		1,050,000	35%

5.2.1.3 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, cosmetic 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, safety and health.
- 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"> 1. The products have eco-friendly appeals and are easy to be accepted by the consumers, so the future prospects look good. 2. Actively develop the international market and expand export business. 3. With the bundling and integration of packaging materials, the clients are provided with even more convenient services. 	There is labor shortage, so the wage costs are increasing.	<ol style="list-style-type: none"> 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. 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.
2. The sales status of the major products	<ol style="list-style-type: none"> 1. The packaging products we produced spread around an extensive range, so by the same token, we can satisfy our clients' need for all kinds of packaging materials; as the extensive range of products can be applied to the use of various types of packaging containers, the business risks can be diversified. 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. 	Our company's products belong in the packaging industry. Even though our products do not change as rapidly as the electronic products, the packaging products do change rapidly as the consumption habits change quickly; we need to constantly develop new products to satisfy the clients' demand for diversification.	<ol style="list-style-type: none"> 1. To establish the R&D department, actively recruit talents, and apply foreign technology in order to improve professional qualities and product standards. 2. Constantly pay attention to the market trends, and participate in exhibitions overseas to collect relevant information.

Items	Favorable Factors	Unfavorable Factors	Countermeasures
	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.		
3. Position in the industry	1. Our products are the leading brands domestically, received certification from international well-known beverage plants, and have vast marketing channels. 2. We have leading R&D technology, high degree of facility automation, and good process capabilities, so we are in the leading position of the industry.	There are quite a few small plants and which could easily result in pricing competition of products.	1. Develop products with high added value and high quality. 2. Actively develop the international markets, constantly develop new products and become the leader in the integrated packaging industry.
4. The supply status of the major raw materials	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.	The increase of raw material prices causes the increase of costs.	Sign long-term purchase contracts with both domestic and foreign well-known manufacturers to ensure price stability. Actively develop alternative materials and formula to reduce the costs.
5. Financial condition	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.	Our company constantly invests in new products and needs to purchase new equipment, so we need a considerable amount of capital.	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.

5.2.2 Important Applications and Production Processes of Major Products

5.2.2.1 Important Applications of 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, iron cap for medicine use, 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 BUV 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, soy sauce bottle, 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 Production Processes of 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
 c. Iron sheet → coating & printing → wax spraying → automatic slitting → automatic cap pressing → rolling → automatic knurling → gluing → 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 Supply Status of the Major Raw Materials

Major Product	Major Raw Material	Major Supplier	Supply Situation
Aluminum Cap	Aluminum sheet	CSAC, Italy aluminum industry, Shen Fa	Good
Plastic Cap	PP chip, PE chip, Liner, Slip agent	Hanwha total, USI, Min Yen, GCM, Kuan Yeh, Nantex, LCY, Hyosung, Basell, Formosa plastics, Wewill	Good
Metal Lug Cap	Iron sheet	Sumitomo, Uni-president, Thyssenkurpp	Good
Label	PET film, PVC film, OPP film, Pearlized film, Ink	SKC, Far Eastern, Poly, Topglow, General Ink, YC, Champoin Ink & Paint, Sungbo, Chi-Hsiang	Good
PET Bottle	PET resin	Nan Ya, Shinkong, Far Eastern, Wankay	Good
Beverage Filling OEM	Tea, Fructose, Sugar, Condensed milk, Milk powder, Carton and etc.	Li Yu, Tairoun, Taisugar, MitaCharm, Foodarts, Mauritius, TetraPak and etc.	Good

5.2.4 List of Major Suppliers/ Customers in the most recent two years

5.2.4.1 List of Major Suppliers

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

Unit: NTD\$ Thousand

Item	2017				2018				As of March 31, 2019			
	Name	Amount	Percentage of the annual net purchases (%)	Relationship with the issuer	Name	Amount	Percentage of the annual net purchases (%)	Relationship with the issuer	Name	Amount	Percentage of net purchases up to the last quarter of the year (%)	Relationship with the issuer
1	X	938,494	10%	None	X	1,185,800	11%	None	X	484,743	15%	None
2	Y	769,990	8%	None	Y	881,966	8%	None	Y	377,964	12%	None
3	Others	8,083,164	82%	None	Others	9,007,120	81%	None	Others	2,334,498	73%	None
	Net Purchases	9,791,648	100%		Net Purchases	11,074,886	100%		Net Purchases	3,197,205	100%	

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: NTD\$ Thousand

Item	2017				2018				As of March 31, 2019			
	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 net sales up to the last quarter of the year (%)	Relationship with the issuer
1	X	2,575,465	15%	None	X	2,017,100	10%	None	X	473,140	10%	None
2	Y	1,938,241	11%	None	Y	1,974,578	10%	None	Y	463,341	9%	None
3	Others	13,005,752	74%	None	Others	15,938,039	80%	None	Others	4,030,025	81%	None
	Net Sales	17,519,458	100%		Net Sales	19,929,717	100%		Net Sales	4,966,506	100%	

5.2.5 Production volume over the Last Two Years

Unit: NTD\$ Thousand/ 1,000 Pcs/ 1,000 Boxes

Year Category	Unit	2017			Unit	2018		
		Capacity	Quantity	Value		Capacity	Quantity	Value
PET Bottle	pcs	11,903,977	5,222,573	5,099,258	pcs	12,079,509	7,159,304	5,468,184
Beverage filling	pcs	2,568,653	1,355,399	3,850,570	pcs	3,931,934	1,831,316	4,450,067
Plastic Cap	pcs	40,832,132	26,830,940	4,915,018	pcs	40,688,989	24,918,276	4,712,948
Label	pcs	7,613,449	2,589,201	917,632	pcs	7,445,826	2,315,981	1,700,114
Tobacco & Liquor Packaging		-	1,592	739,671		-	1,339	1,073,667
Aluminum Cap	pcs	819,060	583,243	342,350	pcs	1,629,072	744,556	408,840
Metal lug Cap	pcs	268,056	234,371	170,410	pcs	279,158	242,795	173,508
TR Filling	box	100,000	61,616	350,135	box	100,000	66,748	363,103
Other		-	445	200,280		-	615	56,637
Total				16,585,324				18,407,068

5.2.6 Sales volume over the Last Two Years

Unit: NTD\$ Thousand/ 1,000 Pcs/ 1,000 Boxes

Category \ Year	Unit	2017				Unit	2018			
		Domestic		Overseas			Domestic		Overseas	
		Quantity	Value	Quantity	Value		Quantity	Value	Quantity	Value
PET Bottle	pcs	3,997,019	4,399,235	326,166	514,118	pcs	10,406,491	4,871,113	375,636	660,374
Beverage filling	pcs	1,286,505	4,398,593	2,663	17,388	pcs	1,289,874	5,180,865	2,816	27,278
Plastic Cap	pcs	20,432,558	4,863,777	1,191,767	282,797	pcs	30,538,626	5,282,856	1,311,588	311,364
Label	pcs	2,255,290	678,252	122,767	52,386	pcs	2,013,698	687,148	119,968	55,334
Tobacco&Liquor Packaging		1,759	322,383	37	470,211		1,095	532,068	45	577,880
Aluminum Cap	pcs	538,409	499,923	35,179	26,674	pcs	660,464	553,356	63,660	39,522
Metal lug Cap	pcs	191,277	211,524	43,715	51,207	pcs	207,692	228,649	38,459	46,906
TR Filling	box	61,600	453,354	-	-	box	66,774	492,852	-	-
Other		406	267,918	38	9,718		2,051	378,110	-	4,042
Total			16,094,959		1,424,499			18,207,017		1,722,700

5.3 Human Resource

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

As of March 31, 2019

Year		2017		2018		As of March 31, 2019	
Number of Employees	Direct	2,572		2,700		2,725	
	Indirect	1,716		1,838		1,859	
	Total	4,288		4,538		4,584	
Average Age		33.22		33.43		33.70	
Average Years of Service		5.25		4.95		5.03	
Education	Ph.D.	0	0.00%	0	0.00%	0	0.00%
	Masters	80	1.87%	90	1.98%	91	1.99%
	Bachelor's Degree	1,747	40.74%	1,869	41.19%	1,887	41.16%
	Senior High School	1,671	38.97%	1,759	38.76%	1,778	38.79%
	Below Senior High School	790	18.42%	820	18.07%	828	18.06%

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 The total amount of loss (including compensation) and fine which caused by polluting environment

On September 11 and 20, 2018, the Environmental protection bureau of Taichung city government came to the Company for examining and auditing air pollution control issues in company with Taiwan Taichung District Prosecutors Office. Because the air pollution control equipment in the Label plant of the Company didn't reach the regulatory standards, emission amounts exceeded the contents of the license, and internal executive units didn't follow up the latest regulations update, which caused air pollution control fees under-reported for the past periods, the Environmental protection bureau of Taichung city government fined the Company with NTD\$ 20.2 million (has been recognized in the financial report of 2018) in accordance with Article 24-4 of new Air Pollution Control Act which executed on August 3, 2018 officially, on November 2, 2018 and May 3, 2019, respectively. Additionally, the authority had recalculated the fee for not completely following Article 75 of the forementioned law backward from the 3rd quarter of 2013 to the 2nd quarter of 2018, and requested the Company to pay at double the fee rates for pollution source emissions, which was in total NTD\$ 125,869,455 (will be recognized in the 2nd quarter financial report of 2019). Regarding these two cases, the Company had filed a petition in accordance with the law.

5.4.2 Countermeasure (including improvement) and possible Expenditure in the future

1. Since 2018 September, the Company had remedy all the deficiency and related procedures, which were reviewed and confirmed by the Environmental protection bureau of Taichung city government.
2. In order to strengthen the internal propaganda and training courses of environmental protection regulation in every plants, promptly update related laws, assist to fully implement procedures related to environmental protection law, occupational safety, environmental sanitation, the Company has recruited several Environmental safety Specialists, hired external consultants with professional and practical experience, and outsourcing consultant company of Environmental protection bureau.
3. Purchased related control equipment. In 2019, the Company has planned to invest NTD\$ 56.44 million in changing VOC system and NTD\$ 35.8 million in purchasing new air pollution control equipment, which are still progressing. In future, we will persistently carry out environmental protection policy in fully compliance with the laws.
4. Comply with toxic and chemical substances regulations. Assess in advance and register to local Environmental protection bureau before implementing, keep records and report regularly during the implementation, also, conduct issues related to personnel training, hazard evaluation and prevention to prevent from destroying natural ecosystems and damaging property due to the operation of chemical substances.

5.4.3 Policy of Environmental Protection and Employee Safety and Health

1. Strengthen environmental protection awareness, reduce the total amount of waste and increase the total amount of recycling.
2. 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, the 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. Once a year of perennial training by Members of Civilian Vigilance to carry out the assembly of Members of Civilian Vigilance, instill the civilian vigilance knowledge and enhance service operation.

3. Apply the improvement of working environment, and effectively enhance the working environment safety and health promotion; the Company awarded of "Excellent Performance of Healthy Workplace – Health Navigation" and "Excellent Workplace Health Initiation Certificate" from Health promotion administration, MOHW in 2015; awarded again of "Corporate Excellence and Employee Well-Being – 1 Star" from Taichung city government in 2017 and 2018, respectively; awarded of "Corporation Addictive Substance Internal Publication Competition Outstanding" in 2017; awarded of "Labor Model – Group" from Ministry of Labor in 2018.

- (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.

4. Specific achievements including promoting self-protection system, responsible care system, contractor 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) Responsible 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.

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

(1) Persistently promote the establishment of OHSAS18001&

CNS15506(TOSHMS) Occupational Safety and Health Management System, so the Company's employees would comply with the management items of the occupational safety and health management system in the working environment, and adopt 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 23 people.
- ▲ Specific chemical substance operation supervisor, 1 person.
- ▲ Forklift operation certificate, total 147 people.
- ▲ Fixed forklift (over 3 tons) certificate, 23 people.
- ▲ Small boiler operator, 1 people.

6. Establish the Labor Safety and Health Department according to Occupational Safety and Health Act: Has established the Labor Safety and Health Department on March 6, 2012.

5.5 Labor Relations

5.5.1 The employee welfare measure, continuing education, training, retirement system and the implementation status, the agreement between employee and employer, and the status of the employee's right and interest maintenance measure

(1) Employee's benefit policies:

1. Offer health insurance and labor insurance to all employees, and group insurance to specific personnel in accordance with regulations.
2. To maintain employees' good health, THC provides free Health Examination every year.
3. THC provides a safe work environment, 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 and carries out training of fire prevention on a casual basis to reinforce employees' abilities to respond to emergency.
4. Set up Coffee bookstore, in which offering books, newspapers and magazines for employees to read and borrow.
5. Offer a Nursery room.
6. Provide dormitory for non-local employees to lower their financial burden and reduce risk in commuting.
7. Offer parking lots and buffet-style meals in canteen for employees.

(2) Benefit policies and implementation status which Employees' Welfare Committee organizes:

1. Offer Birthday Bonus, Marriage Subsidy, Childbirth Subsidy, Death Subsidy and Holiday bonus for three Chinese festivals.
2. Organize incentive tours for excellent employees, year-end banquet and raffle.
3. Other various employees' subsidies and activities.

(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 6% 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 continuous 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 the Company's 2018 education training courses, and the titles and implementation status are as follows:

Name of courses	Number of courses	Total participants	Total hours
Professional Skill	113	2,032	6,125
Management	60	3,022	14,285
Environmental Safety	137	5,921	8,398
Total	310	10,975	28,808

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, 2019

Agreement	Counterparty	Period	Major Content	Restriction
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: NTD\$ Thousand

Year Item		Financial Data Within The Last 5 Years (Note 1)					As of March 31, 2019 (Note 1)
		2014	2015	2016	2017	2018	
Current Assets		7,951,069	8,067,666	7,757,428	8,866,914	10,441,913	11,078,420
Property, Plant and Equipment		19,139,083	18,796,260	17,991,011	17,501,552	16,793,643	16,857,441
Intangible Assets		77,698	76,484	388,673	356,763	370,713	378,247
Other Assets		2,029,116	2,177,210	1,254,194	1,559,298	1,809,665	2,454,825
Total Assets		29,196,966	29,117,620	27,391,306	28,284,527	29,415,934	30,768,933
Current Liabilities	Before Distribution	11,309,968	10,448,772	9,649,899	7,030,797	7,229,766	6,375,385
	After Distribution	11,991,633	11,034,530	10,382,096	7,762,994	Note 2	—
Non-current Liabilities		6,217,608	5,665,851	5,065,234	8,090,967	9,107,003	10,598,349
Total Liabilities	Before Distribution	17,527,576	16,114,623	14,715,133	15,121,764	16,336,769	16,973,734
	After Distribution	18,209,241	16,700,381	15,447,330	15,853,961	Note 2	—
Shareholders' Equity (Before Distribution)		10,623,481	11,945,505	11,755,680	12,480,831	12,446,743	13,130,556
Capital Stock		2,598,479	3,098,479	2,928,789	2,928,789	2,928,789	2,928,789
Additional Paid-in Capital		3,283,868	5,412,868	5,127,397	5,507,513	5,485,872	5,485,872
Retained Earnings	Before Distribution	4,446,978	4,713,939	4,920,100	5,412,733	5,777,383	6,096,937
	After Distribution	3,765,313	4,128,181	4,187,903	4,680,536	Note 2	—
Other Equity		294,156	(444,446)	(1,220,606)	(1,368,204)	(1,745,301)	(1,381,042)
Treasury Stock		—	(835,335)	—	—	—	—
Non-controlling Equity		1,045,909	1,057,492	920,493	681,932	632,422	664,643
Total Equity	Before Distribution	11,669,390	13,002,997	12,676,173	13,162,763	13,079,165	13,795,199
	After Distribution	10,987,725	12,417,239	11,943,976	12,430,566	Note 2	—

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2019 was reviewed by CPA, others were all audited by CPA.

Note 2: Proposal for Distribution of 2018 Profits has not yet to be resolved in the shareholders' meeting.

6.1.1.2 Condensed Consolidated Balance Sheet – ROC GAAP

2014-2018 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: NTD\$ Thousand

Item \ Year	Financial Data Within The Last 5 Years					As of March 31, 2019 (Note 1)
	2014	2015	2016	2017	2018	
Operating Income	17,226,474	16,578,377	16,510,678	17,519,458	19,929,717	4,966,506
Gross Profit	2,800,934	3,065,672	3,402,415	3,320,581	3,522,881	890,301
Operating Profit or Loss	1,149,533	1,264,115	1,671,197	1,510,380	1,576,410	452,232
Non-Operating Income and Expense	(8,349)	(233,032)	(173,374)	36,614	(94,457)	(21,522)
Net Income Before Tax	1,141,184	1,031,083	1,497,823	1,546,994	1,481,953	430,710
Net Income from Continuing Operations	935,284	886,141	1,190,294	1,261,983	1,102,204	334,065
Income (or Loss) from Discontinued Operations	—	—	—	—	—	—
Net Income (Loss)	935,284	886,141	1,190,294	1,261,983	1,102,204	334,065
Other Comprehensive Income (Loss) (After-tax)	415,743	(869,561)	(969,372)	(89,321)	(408,017)	381,969
Total Comprehensive Income (Loss)	1,351,027	16,580	220,922	1,172,662	694,187	716,034
Net Income Attributable to the Parent	966,212	948,965	1,178,224	1,230,861	1,092,531	319,554
Net Income Attributable to Non-Controlling Interests	(30,928)	(62,824)	12,070	31,122	9,673	14,511
Total Comprehensive Income Attributable to the Parent	1,328,095	210,024	395,933	1,077,232	722,687	683,813
Total Comprehensive Income Attributable to Non-Controlling Interests	22,932	(193,444)	(175,011)	95,430	(28,500)	32,221
Earnings Per Share (NTD\$)	3.72	3.26	4.02	4.20	3.73	1.09

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2019 was reviewed by CPA, others were all audited by CPA.

6.1.1.4 Condensed Consolidated Comprehensive Income Statement – ROC GAAP

2014-2018 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: NTD\$ Thousand

Year Item		Financial Data Within The Last 5 Years (Note 1)				
		2014	2015	2016	2017	2018
Current Assets		2,109,244	2,741,611	2,383,278	2,514,309	2,807,277
Property, Plant and Equipment		4,927,412	4,750,140	4,609,382	4,924,787	5,092,779
Intangible Assets		8,802	5,654	1,992	1,340	533
Other Assets		9,861,732	10,084,786	10,415,111	12,401,509	14,001,765
Total Assets		16,907,190	17,582,191	17,409,763	19,841,945	21,902,354
Current Liabilities	Before Distribution	2,704,531	2,488,911	3,193,278	2,411,190	2,628,740
	After Distribution	3,386,196	3,074,669	3,925,475	3,143,387	Note 2
Non-current Liabilities		3,579,178	3,147,775	2,460,805	4,949,924	6,826,871
Total Liabilities	Before Distribution	6,283,709	5,636,686	5,654,083	7,361,114	9,455,611
	After Distribution	6,965,374	6,222,444	6,386,280	8,093,311	Note 2
Shareholders' Equity(Before Distribution)		10,623,481	11,945,505	11,755,680	12,480,831	12,446,743
Capital Stock		2,598,479	3,098,479	2,928,789	2,928,789	2,928,789
Additional Paid-in Capital		3,283,868	5,412,868	5,127,397	5,507,513	5,485,872
Retained Earnings	Before Distribution	4,446,978	4,713,939	4,920,100	5,412,733	5,777,383
	After Distribution	3,765,313	4,128,181	4,187,903	4,680,536	Note 2
Other Equity		294,156	(444,446)	(1,220,606)	(1,368,204)	(1,745,301)
Treasury Stock		—	(835,335)	—	—	—
Non-controlling Equity		—	—	—	—	—
Total Equity	Before Distribution	10,623,481	11,945,505	11,755,680	12,480,831	12,446,743
	After Distribution	9,941,816	11,359,747	11,023,483	11,748,634	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 2018 Profits has not yet to be resolved in the shareholders' meeting.

6.1.2.2 Condensed Non-Consolidated Balance Sheet – ROC GAAP

2014-2018 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: NTD\$ Thousand

Item \ Year	Financial Data Within The Last 5 Years				
	2014	2015	2016	2017	2018
Operating Income	7,851,416	7,167,803	7,133,662	7,456,868	8,474,763
Gross Profit	1,726,960	1,670,918	1,782,171	1,887,073	1,882,926
Operating Profit or Loss	931,447	842,112	952,558	986,457	975,546
Non-Operating Income and Expense	204,789	254,487	378,001	382,603	328,581
Net Income Before Tax	1,136,236	1,096,599	1,330,559	1,369,060	1,304,127
Net Income from Continuing Operations	966,212	948,965	1,178,224	1,230,861	1,092,531
Income (or Loss) from Discontinued Operations	—	—	—	—	—
Net Income (Loss)	966,212	948,965	1,178,224	1,230,861	1,092,531
Other Comprehensive Income (Loss) (After-tax)	361,883	(738,941)	(782,291)	(153,629)	(369,844)
Total Comprehensive Income (Loss)	1,328,095	210,024	395,933	1,077,232	722,687
Net Income Attributable to the Parent	966,212	948,965	1,178,224	1,230,861	1,092,531
Net Income Attributable to Non-Controlling Interests	—	—	—	—	—
Total Comprehensive Income Attributable to the Parent	1,328,095	210,024	395,933	1,077,232	722,687
Total Comprehensive Income Attributable to Non-Controlling Interests	—	—	—	—	—
Earnings Per Share (NTD\$)	3.72	3.26	4.02	4.20	3.73

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

2014-2018 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
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
2018	Deloitte & Touche Tseng, Done-Yuin, Wu, Li-Dong	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, 2019 (Note 1)
		2014	2015	2016	2017	2018	
Finance Structure	Debt to Asset Ratio (%)	60.03	55.34	53.72	53.46	55.54	55.17
	Long-term Capital to Property, Plant and Equipment Ratio (%)	93.00	98.75	98.13	120.92	131.32	141.47
Solvency	Current Ratio (%)	70.3	77.21	80.39	126.12	144.43	173.77
	Quick Ratio (%)	43.02	51.22	52.97	78.22	90.11	109.56
	Interest Coverage	5.65	5.34	7.46	7.86	6.96	7.21
Operating Ability	Accounts Receivable Turnover (Times)	7.67	6.72	6.55	6.62	6.48	5.36
	Average Collection Days	48	54	56	55	56	68
	Inventory Turnover (Times)	7.07	7.22	7.5	6.95	6.76	5.87
	Accounts Payable Turnover (Times)	18.44	18.92	17.69	16.35	16.56	13.93
	Average Inventory Turnover Days	52	51	49	53	54	62
	Fixed Asset, Machinery and Facility Turnover (Times)	0.9	0.88	0.92	1	1.19	1.18
	Total Asset Turnover (Times)	0.59	0.57	0.6	0.62	0.68	0.65
Profitability	Return on Asset (%)	4.33	3.85	5.03	5.34	4.68	1.34
	Return on Equity (%)	8.27	7.18	9.27	9.77	8.4	2.49
	Pre-tax Profit to Paid-in Capital Ratio (%)	43.92	33.28	51.14	52.82	50.6	14.71
	Net Margin (%)	5.43	5.35	7.21	7.2	5.53	6.73
	Earnings Per Share (NTD\$)	3.72	3.26	4.02	4.2	3.73	1.09
Cash Flow	Cash Flow Ratio (%)	22.05	30.3	44.79	31.73	40.55	3.18
	Cash Flow Adequacy Ratio (%)	50.67	61.49	76.64	73.11	89.22	97.77
	Cash Flow Re-investment Ratio (%)	6.05	7.57	11.45	3.91	5.57	0.49
Leverage	Operating Leverage	2.64	2.6	2.29	2.42	2.40	2.27
	Financial Leverage	1.27	1.23	1.16	1.18	1.19	1.18

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

1. The decrease of Net Margin: Due to the reduction of investment revenue of recognized subsidiaries in 2018.
2. The increase of Cash Flow Ratio: Due to the rise of net cash provided by operating activities in 2018.
3. The increase of Cash Flow Adequacy Ratio: Due to the rise of net cash provided by operating activities, the increase of capital expenditure and stock, which led the amount decreased in 2018.
4. The increase of Cash Flow Re-investment Ratio: Due to the rise of net cash provided by operating activities in 2018.

Note 1: The Company has adopted IFRS since 2012. For above data, except Annual Financial Statements of March 31, 2019 was reviewed by CPA, others were all audited by CPA.

6.2.2 Non-consolidated Financial Analysis – IFRS

Analysis Item \ Year		Financial Data Within The Last 5 Years (Note 1)				
		2014	2015	2016	2017	2018
Finance Structure	Debt to Asset Ratio (%)	37.17	32.06	32.48	37.1	43.17
	Long-term Capital to Fixed Asset Ratio (%)	286.8	316.38	307.11	352.72	377.34
Solvency	Current Ratio (%)	77.99	110.15	74.63	104.28	106.79
	Quick Ratio (%)	40.49	72.89	45.93	55.63	58
	Interest Coverage	15.28	18.39	25.35	26.94	20.43
Operating Ability	Accounts Receivable Turnover (Times)	9.23	7.79	7.63	7.67	7.75
	Average Collection Days	40	47	48	48	47
	Inventory Turnover (Times)	7.76	7.55	7.87	7.1	7.47
	Accounts Payable Turnover (Times)	13.17	11.38	9.93	9.25	10.05
	Average Inventory Turnover Days	47	48	46	51	49
	Property, Plant and Equipment Turnover (Times)	1.59	1.51	1.55	1.51	1.66
	Total Asset Turnover (Times)	0.46	0.41	0.41	0.38	0.39
Profitability	Return on Asset (%)	6.31	5.81	6.99	6.84	5.49
	Return on Equity (%)	9.4	8.41	9.94	10.16	8.77
	Pre-tax Profit to Paid-in Capital Ratio (%)	43.73	35.39	45.43	46.74	44.53
	Net Margin (%)	12.31	13.24	16.52	16.51	12.89
	Earnings Per Share (NTD\$)	3.72	3.26	4.02	4.2	3.73
Cash Flow	Cash Flow Ratio (%)	49.63	54.12	46.01	45.08	44.63
	Cash Flow Adequacy Ratio (%)	45.57	47.21	51.9	49.6	54.30
	Cash Flow Re-investment Ratio (%)	3.81	3.4	4.6	1.55	1.75
Leverage	Operating Leverage	4.34	4.3	3.82	3.85	4.63
	Financial Leverage	1.09	1.08	1.06	1.06	1.07

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

1. The decrease of Interest Coverage: Mainly due to the reduction of recognized investment revenue, which led to the decrease of income before tax in 2018.
2. The decrease of Net Margin: Mainly due to the reduction of recognized investment revenue, which led to the decrease of income before tax in 2018.
3. The increase of Operating Leverage: Mainly because the amount of sales revenue grew significantly, however, the amount of variable costs and expenses grew relatively less in 2018.

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

6.2.3 Consolidated Financial Analysis – ROC GAAP

2014-2018 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

2014-2018 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 2018 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

2019 Annual Shareholders' Meeting of Taiwan Hon Chuan Enterprise Co., Ltd.

Taiwan Hon Chuan Enterprise Co., Ltd.

Audit Committee Chairman: Hung, Chao-Nan

Commissioner: Kung, Yi-Lu

Commissioner: Huang, Hsiang-Ying

March 26, 2019

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, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained 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, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2018 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 and we sampled and inspected the original purchase orders and delivery order to verify the reasonableness of the accrual of the sale revenue.
2. 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, 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 of 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 13 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, 2018 and 2017. The total assets of these consolidated subsidiaries were 16.03% (NT\$4,715,348 thousand) and 15.60% (NT\$4,412,758 thousand) of the consolidated assets as of December 31, 2018 and 2017, respectively. The net sales of these subsidiaries were 11.23% (NT\$2,238,171 thousand) and 10.42% (NT\$1,825,164 thousand) of the consolidated net sales in 2018 and 2017, 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, 2018 and 2017 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, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be

communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Done-Yuin Tseng and Li-Dong Wu.

Deloitte & Touche
Taichung, Taiwan
Republic of China
March 26, 2019

Notice to Readers

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

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

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

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

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,979,711	10	\$ 2,211,899	8
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	98,782	-	31,935	-
Debt investments with no active market - current (Notes 4 and 11)	-	-	352,063	1
Notes receivable from unrelated parties (Note 4)	148,293	1	189,106	1
Trade receivables from unrelated parties (Notes 4 and 12)	3,116,198	11	2,576,145	9
Trade receivables from related parties (Notes 4 and 30)	530	-	1,828	-
Inventories (Notes 4, 5 and 13)	2,516,054	9	2,337,063	8
Other current assets (Notes 17, 30 and 31)	<u>1,582,345</u>	<u>5</u>	<u>1,166,875</u>	<u>4</u>
Total current assets	<u>10,441,913</u>	<u>36</u>	<u>8,866,914</u>	<u>31</u>
NONCURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	41,617	-	-	-
Available for sale financial assets - noncurrent (Notes 4 and 9)	-	-	8,350	-
Financial assets measured at cost - noncurrent (Notes 4 and 10)	-	-	39,092	-
Long-term investments at equity-method (Notes 4 and 15)	20,135	-	22,814	-
Property, plant and equipment (Notes 4, 16, 31 and 32)	16,793,643	57	17,501,552	62
Computer software (Note 4)	6,121	-	3,507	-
Goodwill (Note 4)	364,592	1	353,256	1
Deferred tax assets (Notes 4 and 25)	198,056	1	182,237	1
Prepayments for equipment	877,133	3	974,236	4
Other noncurrent assets (Note 17)	<u>672,724</u>	<u>2</u>	<u>332,569</u>	<u>1</u>
Total noncurrent assets	<u>18,974,021</u>	<u>64</u>	<u>19,417,613</u>	<u>69</u>
TOTAL	<u>\$ 29,415,934</u>	<u>100</u>	<u>\$ 28,284,527</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 18)	\$ 5,037,154	17	\$ 5,156,313	18
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	62	-	15,955	-
Notes payable to unrelated parties	3,037	-	3,736	-
Trade payables to unrelated parties	1,063,603	4	910,731	3
Current tax liabilities (Notes 4 and 25)	159,058	1	80,427	1
Other current liabilities (Notes 21 and 30)	<u>966,852</u>	<u>3</u>	<u>863,635</u>	<u>3</u>
Total current liabilities	<u>7,229,766</u>	<u>25</u>	<u>7,030,797</u>	<u>25</u>
NONCURRENT LIABILITIES				
Bonds payable (Note 19)	2,995,224	10	-	-
Long-term borrowings (Notes 4 and 18)	5,978,897	21	7,999,920	28
Deferred tax liabilities (Notes 4 and 25)	55,628	-	44,129	-
Net defined benefit liabilities - noncurrent (Notes 4 and 22)	28,588	-	35,641	-
Other noncurrent liabilities (Note 21)	<u>48,666</u>	<u>-</u>	<u>11,277</u>	<u>-</u>
Total noncurrent liabilities	<u>9,107,003</u>	<u>31</u>	<u>8,090,967</u>	<u>28</u>
Total liabilities	<u>16,336,769</u>	<u>56</u>	<u>15,121,764</u>	<u>53</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT				
Common stock	2,928,789	10	2,928,789	10
Capital surplus	5,485,872	19	5,507,513	20
Retained earnings				
Legal reserve	1,422,646	5	1,299,560	5
Special reserve	1,368,204	4	1,220,606	4
Unappropriated earnings	2,986,533	10	2,892,567	10
Other equity	<u>(1,745,301)</u>	<u>(6)</u>	<u>(1,368,204)</u>	<u>(5)</u>
Total equity attributable to owners of the parent	12,446,743	42	12,480,831	44
NON-CONTROLLING INTERESTS	<u>632,422</u>	<u>2</u>	<u>681,932</u>	<u>3</u>
Total equity	<u>13,079,165</u>	<u>44</u>	<u>13,162,763</u>	<u>47</u>
TOTAL	<u>\$ 29,415,934</u>	<u>100</u>	<u>\$ 28,284,527</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 26, 2019)

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4 and 30)	\$ 19,929,717	100	\$ 17,519,458	100
COST OF GOODS SOLD (Notes 4, 13, 24 and 30)	<u>16,406,836</u>	<u>82</u>	<u>14,198,877</u>	<u>81</u>
GROSS PROFIT	<u>3,522,881</u>	<u>18</u>	<u>3,320,581</u>	<u>19</u>
OPERATING EXPENSES (Notes 24 and 30)				
Selling and marketing expenses	925,697	5	902,855	5
General and administrative expenses	952,804	5	838,303	5
Research and development expenses	<u>67,970</u>	<u>-</u>	<u>69,043</u>	<u>-</u>
Total operating expenses	<u>1,946,471</u>	<u>10</u>	<u>1,810,201</u>	<u>10</u>
PROFIT FROM OPERATIONS	<u>1,576,410</u>	<u>8</u>	<u>1,510,380</u>	<u>9</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Notes 4, 20 and 24)	(248,581)	(2)	(225,642)	(1)
Other gains and losses (Notes 4 and 24)	185,081	1	240,427	1
Net foreign exchange gain (loss) (Note 4)	<u>(30,957)</u>	<u>-</u>	<u>21,829</u>	<u>-</u>
Total non-operating income and expenses	<u>(94,457)</u>	<u>(1)</u>	<u>36,614</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,481,953	7	1,546,994	9
INCOME TAX EXPENSE (Notes 4 and 25)	<u>379,749</u>	<u>2</u>	<u>285,011</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,102,204</u>	<u>5</u>	<u>1,261,983</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 22)	(2,391)	-	(7,266)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(3,213)	-	-	-
Income tax expense related to items that may be reclassified subsequently (Note 25)	1,063	-	1,235	-

(Continued)

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (403,476)	(2)	\$ (82,281)	-
Unrealized gain on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>(1,009)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(408,017)</u>	<u>(2)</u>	<u>(89,321)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 694,187</u>	<u>3</u>	<u>\$ 1,172,662</u>	<u>7</u>
NET INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,092,531	6	\$ 1,230,861	7
Non-controlling interests	<u>9,673</u>	<u>-</u>	<u>31,122</u>	<u>-</u>
	<u>\$ 1,102,204</u>	<u>6</u>	<u>\$ 1,261,983</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 722,687	3	\$ 1,077,232	6
Non-controlling interests	<u>(28,500)</u>	<u>-</u>	<u>95,430</u>	<u>1</u>
	<u>\$ 694,187</u>	<u>3</u>	<u>\$ 1,172,662</u>	<u>7</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 3.73</u>		<u>\$ 4.20</u>	
Diluted	<u>\$ 3.72</u>		<u>\$ 4.20</u>	

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

(With Deloitte & Touche auditors' report dated March 26, 2019)

(Concluded)

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent					Other Equity (Note 4)			Total	Non-controlling Interests (Note 14)	Total Equity
	Share Capital (Note 23)	Capital Surplus (Notes 4 and 23)	Retained Earnings (Notes 4, 22 and 23)			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Investments in Equity Instruments at Fair Value Through Other Comprehensive Income			
			Legal Reserve	Special Reserve	Unappropriated Earnings						
BALANCE AT JANUARY 1, 2017	\$ 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
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	64,300	64,300
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)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(18,175)	(18,175)
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)	-
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
Effect of retrospective application and retrospective restatement	-	-	-	-	5,644	-	3,183	(11,764)	(2,937)	-	(2,937)
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,928,789	5,507,513	1,299,560	1,220,606	2,898,211	(1,365,021)	-	(11,764)	12,477,894	681,932	13,159,826
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	51,154	51,154
Appropriation of 2017 earnings											
Legal reserve	-	-	123,086	-	(123,086)	-	-	-	-	-	-
Special reserve	-	-	-	147,598	(147,598)	-	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(732,197)	-	-	-	(732,197)	-	(732,197)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(12,761)	(12,761)
Net profit for the year ended December 31, 2018	-	-	-	-	1,092,531	-	-	-	1,092,531	9,673	1,102,204
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,328)	(365,303)	-	(3,213)	(369,844)	(38,173)	(408,017)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	1,091,203	(365,303)	-	(3,213)	722,687	(28,500)	694,187
The difference between consideration received or paid and the carrying amount of the subsidiaries’ net assets during disposal or acquisition	-	(21,641)	-	-	-	-	-	-	(21,641)	(59,403)	(81,044)
BALANCE AT DECEMBER 31, 2018	\$ 2,928,789	\$ 5,485,872	\$ 1,422,646	\$ 1,368,204	\$ 2,986,533	\$ (1,730,324)	\$ -	\$ (14,977)	\$ 12,446,743	\$ 632,422	\$ 13,079,165

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

(With Deloitte & Touche auditors’ report dated March 26, 2019)

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	For the Year Ended December	
	31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,481,953	\$ 1,546,994
Adjustments for:		
Depreciation and amortization expenses	2,208,094	2,142,368
Expected credit loss recognized on trade receivables	23,666	-
Impairment loss recognized on trade receivables	-	3,461
Net loss (gain) on fair value change of financial assets and liabilities designated as at fair value through profit or loss	(6,547)	16,090
Finance costs	248,581	225,642
Interest income	(31,709)	(20,854)
Loss recognized on associates under equity method	3,349	3,695
Loss on disposal of property, plant and equipment	4,733	9,071
Impairment loss recognized (reversed) on non-financial assets	16,218	15,339
Unrealized net loss (gain) on foreign currency exchange	44,814	(33,192)
Others	(3,232)	(2,069)
Net changes in operating assets and liabilities		
Financial assets held for trading	280,954	48,601
Notes receivable	41,189	(30,682)
Trade receivables	(527,493)	(387,604)
Inventories	(179,418)	(678,965)
Other current assets	(415,603)	(158,275)
Notes payable	(790)	(196,141)
Trade payables	130,700	320,837
Other current liabilities	88,955	(29,253)
Net defined benefit liabilities	(9,444)	(8,147)
Cash generated from operations	3,398,970	2,786,916
Interest received	31,675	21,073
Interest paid	(222,579)	(209,050)
Income tax paid	(276,573)	(367,936)
Net cash generated from operating activities	<u>2,931,493</u>	<u>2,231,003</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of debt investments with no active market	-	(328,383)
Return of capital from financial assets measured at cost	-	913
Payments for property, plant and equipment	(735,002)	(1,037,842)
Proceeds from disposal of property, plant and equipment	75,056	13,440
Increase in refundable deposits	(11,264)	(5,788)
Purchase of intangible assets	(4,612)	(1,463)
Increase in other assets	(19,737)	(19,923)

(Continued)

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2018	2017
Increase in prepayments for equipment	\$(1,128,701)	\$(1,379,067)
Increase in other prepayments	<u>(128,042)</u>	<u>(3,495)</u>
Net cash used in investing activities	<u>(1,952,302)</u>	<u>(2,761,608)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	(263,293)	(1,153,314)
Repayments of short-term bills payable	-	(300,000)
Proceeds from corporate bonds	2,994,500	-
Proceeds from long-term borrowings	1,162,517	9,816,994
Repayments of long-term borrowings	(3,260,851)	(6,824,866)
Payments for preferred stock liabilities	-	(557,211)
Dividends paid to owners of the Corporation	(732,197)	(732,197)
Dividends paid to non-controlling interests	(12,761)	(18,175)
Changes in non-controlling interests	<u>(29,890)</u>	<u>64,300</u>
Net cash generated from (used in) financing activities	<u>(141,975)</u>	<u>295,531</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(69,404)</u>	<u>32,065</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	767,812	(203,009)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,211,899</u>	<u>2,414,908</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,979,711</u>	<u>\$ 2,211,899</u>

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

(With Deloitte & Touche auditors' report dated March 26, 2019)

(Concluded)

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Taiwan Hon Chuan Enterprise Co., Ltd. (the “Corporation”) was incorporated in 1969. It manufactures and sells various packaging materials for the food and beverage industries (such as aluminum closures, plastic caps, metal caps, labels, polyethylene terephthalate (PET) bottles, and beverage filling original equipment manufacturer (OEM)) and automatic sealer machines.

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 listed 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 26, 2019.

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

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

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

1) IFRS 9 “Financial Instruments” and related amendments

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

Classification, measurement and impairment of financial assets

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

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

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 2,211,899	\$ 2,211,899	-
Notes receivables and trade receivables	Loans and receivables	Amortized cost	2,767,079	2,767,079	(c)
Debt securities	Investments in debt securities with no active market	Fair value through profit or loss (i.e. FVTPL)	352,063	352,063	(b)
Equity securities	Available for sale financial assets	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	8,350	8,350	(a)
	Financial assets measured at cost	FVTOCI - equity instruments	39,092	39,092	(a)
Financial Assets	IAS 39		IFRS 9		Remark
	Carrying Amount as of January 1, 2018	Reclassification	Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018
<u>FVTPL</u>	\$ 31,935	\$ -	\$ 31,935	\$ -	\$ -
Add: Reclassification from investments in debt securities with no active market (IAS 39)					
Required reclassification					
Fair value option elected at January 1, 2018	-	352,063	-	-	-
	<u>31,935</u>	<u>352,063</u>	<u>383,998</u>	<u>-</u>	<u>-</u>
<u>FVTOCI</u>					
Equity instruments					
Add: Reclassification from available-for-sale (IAS 39)	-	8,350	-	-	-
Add: Reclassification from measured at cost (IAS 39)	-	39,092	(2,937)	5,644	(8,581)
	-	47,442	(2,937)	5,644	(8,581)
<u>Amortized cost</u>					
Add: Reclassification from loans and receivables (IAS 39)	-	4,978,978	-	-	-
	<u>\$ 31,935</u>	<u>\$5,378,483</u>	<u>\$ (2,937)</u>	<u>\$ 5,644</u>	<u>\$ (8,581)</u>

- a) The Group elected to designate all its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTOCI under IFRS 9, because these investments are not held for trading. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$3,183 thousand was reclassified to other equity - unrealized gain (loss) on financial assets at FVTOCI.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, a decrease of \$2,937 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$5,644 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$5,644 thousand in retained earnings on January 1, 2018.

- b) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9, because on January 1, 2018, the contractual cash flows were not solely payments of principal and interest on the principal outstanding.
- c) Notes receivable and trade receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

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

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

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

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

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

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

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

IFRS 16 “Leases”

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

Definition of a lease

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

The Group as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases under IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

1. The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
2. The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3. The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
4. The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined based on the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases	\$ 617,178	\$ (617,178)	\$ -
Right-of-use assets	<u>-</u>	<u>1,102,956</u>	<u>1,102,956</u>
Total effect on assets	<u>\$ 617,178</u>	<u>\$ 485,778</u>	<u>\$ 1,102,956</u>

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Lease liabilities - current	\$ -	\$ 43,455	\$ 43,455
Lease liabilities - non-current	<u>-</u>	<u>442,323</u>	<u>442,323</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 485,778</u>	<u>\$ 485,778</u>

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

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

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments 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, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are

observable for 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 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 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 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the 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 had the Group directly disposed of the related assets or liabilities.

Before 2018, the fair value of any investment retained in a former subsidiary at the date when control is lost is regarded as the fair value on initial recognition, the cost on initial recognition of an investment in an associate or a joint venture. Starting from 2018, 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 of financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss.

See Note 14, Table 7 and Table 8 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 Corporation 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. Investments 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, the investment in an 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 had the investee 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 the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as 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 had that associate 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 measured at cost less accumulated depreciation and accumulated impairment loss.

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects 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 measured 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.

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

1) Financial assets

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

a) Measurement categories

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 29.

ii. Financial assets at amortized cost

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

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

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

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

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

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

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is a contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets and loans and receivables.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial assets at FVTPL 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 such a financial asset.

Fair value is determined in the manner described in Note 29.

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, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts 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 presented as 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 of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including, cash and cash equivalents, debt investments with no active market, note receivables and trade receivables) 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 equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

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

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

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

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

2017

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

Financial assets at amortized cost, such as trade receivables, 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 with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

For a financial asset 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 on which the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it is becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

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 is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income.

For a financial asset 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 its 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 trade receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

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

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through 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 financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or designated as at FVTPL.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividends paid on such 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) 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 on which 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 a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) 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 host contracts are not measured at FVTPL.

n. Revenue recognition

2018

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied. For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

Revenue from the sale of goods is recognized when the goods are delivered to the customer's designated destination, once the goods are shipped, or once the goods at delivery. In either case, the group has transferred to the customer the significant risks and rewards of ownership of the goods.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2017

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

Defined benefit costs (including service cost, net interest and remeasurement) under 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 plans. 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. 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 on unappropriated earnings is provided in the year the shareholders approve to retain the earnings.

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss 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 to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the 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 taxes for the year

Current and deferred taxes 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 taxes are also recognized in other comprehensive income or directly in

equity respectively. Where current taxes 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, estimations 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 inventories

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 is 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 the net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand and petty cash	\$ 10,710	\$ 6,706
Checking accounts and demand deposits	2,830,783	1,564,768
Cash equivalent (investments with original maturities of less than 3 months)		
Time deposits	<u>138,218</u>	<u>640,425</u>
	<u>\$ 2,979,711</u>	<u>\$ 2,211,899</u>

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

	December 31	
	2018	2017
Bank balance	0%-13%	0%-13%
Time deposit	2.20%	4.20%

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

	December 31	
	2018	2017
<u>Financial assets held for trading</u>		
Non derivative financial assets		
Domestic convertible bonds	\$ 85,507	\$ 31,935
Domestic stock of publicly quoted entity	<u>13,275</u>	<u>-</u>
	<u>\$ 98,782</u>	<u>\$ 31,935</u>

	December 31	
	2018	2017
<u>Financial liabilities held for trading</u>		
Derivative financial liabilities		
Foreign exchange forward contracts	<u>\$ 62</u>	<u>\$ 15,955</u>

Refer to Note 11 information relating to comparative information for 2017.

Outstanding foreign exchange forward contracts were as follows:

	Currency	Maturity Date	Notional Amount
<u>December 31, 2018</u>			
Buy	USD/NTD	108.01.16-108.04.16	USD4,291/NTD131,112
<u>December 31, 2017</u>			
Buy	USD/EUR	2018.4.20	USD712/EUR600
	USD/NTD	2018.1.8-2018.3.26	USD19,395/NTD587,163
	EUR/NTD	2018.1.15-2018.2.26	EUR1,757/NTD63,622
	CNY/USD	2018.1.19-2018.9.13	CNY76,991/USD11,500

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, therefore, were not accounted for using

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME -
NON-CURRENT 2018**

**December 31,
2018**

Domestic investments

Unlisted share

CDIB CME Fund Ltd.

\$ 30,002

Globaltec Technology Partner Venture Capital Corp.

129

30,131

Foreign investments

Listed share and emerging market share

Inchitan Group Public Company Limited (Ichitan Company)

2,841

Unlisted share

Lightel Technologies Inc. (Lightel Inc.)

8,645

11,486

\$ 41,617

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3, Note 9 and Note 10 for information relating to their reclassification and comparative information for 2017.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT - 2017

**December 31,
2017**

Overseas stock of publicly quoted entity

\$ 8,350

10. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT - 2017

**December 31,
2017**

Domestic unlisted common shares

\$ 30,447

Overseas unlisted preferred shares

8,645

\$ 39,092

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.

11. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT - 2017

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

- 1) The corporate bonds rate of 0% and effective interest rate of 3.57%.
- 2) The market interest rates of the financial product investment were 3.30%-4.15% per annum, as of December 31, 2017.

12. TRADE RECEIVABLES - NET

	December 31	
	2018	2017
Trade receivables from unrelated parties	\$ 3,186,132	\$ 2,620,847
Less: Allowance for impairment loss	<u>(69,934)</u>	<u>(44,702)</u>
	<u>\$ 3,116,198</u>	<u>\$ 2,576,145</u>

In 2018

The average credit period of sales of goods was 30 to 90 days. No interest was charged on trade receivables. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

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

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not

further distinguished according to the Group's different customer base.

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

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

December 31, 2018

		Less than 30				121 to 150		181 to 360	1 to 2		
	Not Past Due	Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	Days	151 to 180 Days	Days	Years	Over 2 Years	Total
Expected credit loss rate	0.001%	0.5%	1%	2%	3%	4%	5%	10%	50%	100%	
Gross carrying amount	\$ 2,682,281	\$ 281,850	\$ 82,004	\$ 40,456	\$ 2,086	\$ 17,523	\$ 5,178	\$ 22,668	\$ 10,163	\$ 41,923	\$ 3,186,132
Loss allowance (Lifetime ECL)	(9,234)	(1,822)	(1,029)	(854)	(47)	(707)	(518)	(6,756)	(7,044)	(41,923)	(69,934)
Amortized cost	<u>\$ 2,673,047</u>	<u>\$ 280,028</u>	<u>\$ 80,975</u>	<u>\$ 39,602</u>	<u>\$ 2,039</u>	<u>\$ 16,816</u>	<u>\$ 4,660</u>	<u>\$ 15,912</u>	<u>\$ 3,119</u>	<u>\$ -</u>	<u>\$ 3,116,198</u>

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

	For the Year Ended December 31, 2018
Balance at January 1, 2018 per IAS 39	\$ 44,702
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	44,702
Add: Impairment loss	23,666
Foreign exchange gains and losses	1,566
Balance at December 31, 2018	<u>\$ 69,934</u>

In 2017

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

The aging of receivables was as follows:

	December 31, 2017
Up to 90 days	\$ 2,387,788
91-180 days	145,079
More than 181 days	<u>87,980</u>
	<u>\$ 2,620,847</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, 2018 and 2017.

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

	For the Year Ended December 31, 2017
Balance at January 1	\$ 40,792
Add: Impairment losses recognized on trade receivables	3,461
Foreign exchange translation gains and losses	<u>449</u>
Balance at December 31	<u>\$ 44,702</u>

13. INVENTORIES

	December 31	
	2018	2017
Finished goods	\$ 939,028	\$ 812,256
Work in progress	57,099	250,292
Raw materials and supplies	1,485,866	1,256,376
Inventories in transit	<u>34,061</u>	<u>18,139</u>
	<u>\$ 2,516,054</u>	<u>\$ 2,337,063</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$16,406,836 thousand and \$14,198,877 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of \$16,218 thousand and \$15,339 thousand, respectively.

14. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Main Businesses	% of Ownership	
			December 31	
			2018	2017
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	94.17
	HC (Asia) Holding Co., Ltd. ("Hon Chuan Asia")	Overseas reinvested holding company and international trade	100	100
	Hon Chuan (Africa) Holding Co., Ltd. ("Hon Chuan Africa")	Overseas reinvested holding company and international trade	100	100
Hon Chuan China	Kai Gang Industries Limited ("Kai Gang")	Overseas reinvested holding company	100	100
	Hon Hsing (Samoa) Holding Limited ("Samoa Hon Hsing")	Overseas reinvested holding company	100	100
Hon Chuan Asia	Hon Chuan (Thailand) Co., Ltd. ("Hon Chuan Thailand")	Manufacture and sale of plastic caps and PET bottles	100	100
	PT Hon Chuan Indonesia ("Hon Chuan Indonesia")	Manufacture and sale of plastic caps and PET bottles	100	100
	Hon Chuan (Myanmar) Co., Ltd. ("Hon Chuan Myanmar")	Manufacture and sale of plastic caps and PET bottles	70	70
	Hon Chuan Vietnam Co., Ltd. ("Hon Chuan Vietnam")	Manufacture and sale of plastic caps and PET bottles	100	100
	Hon Chuan Malaysia Sdn. Bhd. ("Hon Chuan Malaysia")	Manufacture and sale of plastic caps and PET bottles	100	100
	Honly Holding Co., Ltd. ("Samoa Honly")	Overseas reinvested holding company and international trade	95.94	60
	Honly International Co., Ltd. ("Honly")	Overseas reinvested holding company and international trade	49	49
	Honhua Holdings Co., Ltd. ("Honhua")	Overseas reinvested holding company and international trade	60	60

(Continued)

Investor	Investee	Main Businesses	% of Ownership	
			December 31	
			2018	2017
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	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
	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	100

(Concluded)

Samoa Hon Chuan increased the capital of Hon Chuan China with cash in November 2018 to hold 94.17% equity of Hon Chuan China.

Quanhe Investment has been liquidated in January, 2018.

Hon Chuan Asia purchased 35.94% capital of Samoa Honly from other shareholder in July 2018 to hold 95.94% equity of Samoa Honly.

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	
	2018	2017
Hon Chuan China	5.83%	5.83%

See Table 7 and Table 8 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	
	2018	2017	2018	2017
Hon Chuan China	\$ 2,445	\$ 43,198	\$ 260,227	\$ 278,638

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	
	2018	2017
Current assets	\$ 4,275,997	\$ 3,621,264
Non-current assets	7,723,060	8,163,254
Current liabilities	(5,648,002)	(5,506,015)
Non-current liabilities	(1,887,477)	(1,498,741)
Equity	<u>\$ 4,463,578</u>	<u>\$ 4,779,762</u>
Equity attributable to:		
Owners of Hon Chuan China	\$ 4,203,351	\$ 4,501,111
Non-controlling interests of Hon Chuan China	<u>260,227</u>	<u>278,651</u>
	<u>\$ 4,463,578</u>	<u>\$ 4,779,762</u>

	For the Year Ended December 31	
	2018	2017
Revenue	<u>\$ 6,752,723</u>	<u>\$ 5,936,380</u>
Gain for the year	\$ 41,930	\$ 201,328
Other comprehensive income for the year	<u>(502,843)</u>	<u>575,662</u>
Total comprehensive income for the year	<u>\$ (460,913)</u>	<u>\$ 776,990</u>
Gain attributable to:		
Owners of Hon Chuan China	\$ 39,485	\$ 158,130
Non-controlling interests of Hon Chuan China	<u>2,445</u>	<u>43,198</u>
	<u>\$ 41,930</u>	<u>\$ 201,328</u>
Total comprehensive income (loss) attributable to:		
Owners of Hon Chuan China	\$ (434,041)	\$ 660,094
Non-controlling interests of Hon Chuan China	<u>(26,872)</u>	<u>116,896</u>
	<u>\$ (460,913)</u>	<u>\$ 776,990</u>
Net cash flow from:		
Operating activities	\$ 1,171,909	\$ 502,763
Investing activities	(173,504)	(1,003,479)
Financing activities	<u>165,205</u>	<u>234,219</u>
Net cash inflow (outflow)	<u>\$ 1,163,610</u>	<u>\$ (266,497)</u>

15. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
<u>Associates</u>		
Unlisted company		
Paeon International Co., Ltd (“Paeon Company”)	<u>\$ 20,135</u>	<u>\$ 22,814</u>

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

	December 31	
	2018	2017
<u>Name of Associates</u>		
Paeon Company	23.08%	23.08%

Aggregate information of associates

For the Year Ended December 31
2018 2017

The Group's share of:

Loss from continuing operations \$ (3,349) \$ (3,695)

Refer to Table 7 for the nature of activities, principal place of business and countries of incorporation of the associates.

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.

16. PROPERTY, PLANT AND EQUIPMENT

	Beginning Balance	Additions	Disposals	Reclassified Amount	Effects of foreign currency exchange differences	Ending Balance
<u>For the Year Ended</u> <u>December 31, 2018</u>						
Cost						
Freehold Land	\$ 995,575	\$ -	\$ -	\$ (223,313)	\$ 295	\$ 772,557
Buildings	5,720,863	5,315	(13,411)	327,196	(53,068)	5,986,895
Equipment	19,539,981	173,682	(287,404)	834,555	(189,863)	20,070,951
Other Equipment	6,676,106	184,507	(77,063)	458,755	(59,863)	7,182,442
Property in Construction	<u>749,396</u>	<u>403,649</u>	<u>-</u>	<u>(422,684)</u>	<u>(1,744)</u>	<u>728,617</u>
	<u>33,681,921</u>	<u>\$ 767,153</u>	<u>\$ (377,878)</u>	<u>\$ 974,509</u>	<u>\$ (304,243)</u>	<u>34,741,462</u>
Accumulated depreciation						
Buildings	1,599,318	\$ 227,414	\$ (4,926)	\$ -	\$ (13,025)	1,808,781
Equipment	10,688,519	1,361,607	(221,971)	-	(76,152)	11,752,003
Other Equipment	<u>3,892,532</u>	<u>587,782</u>	<u>(71,192)</u>	<u>-</u>	<u>(22,087)</u>	<u>4,387,035</u>
	<u>16,180,369</u>	<u>\$ 2,176,803</u>	<u>\$ (298,089)</u>	<u>\$ -</u>	<u>\$ (111,264)</u>	<u>17,947,819</u>
	<u>\$17,501,552</u>					<u>\$16,793,643</u>
<u>For the Year Ended</u> <u>December 31, 2017</u>						
Cost						
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>
Accumulated depreciation						
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>

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.

17. OTHER ASSETS

	December 31	
	2018	2017
Prepayments for lease	\$ 622,373	\$ 290,450
Office supplies	536,497	479,885
Prepaid expenses and prepayment for purchases	556,001	335,933
Other receivables	76,981	45,344
Refundable deposits	53,879	42,576
Tax refund receivable	47,944	29,232
Restricted assets (Note 31)	9,090	25,642
Others	<u>352,304</u>	<u>250,382</u>
	<u>\$ 2,255,069</u>	<u>\$ 1,499,444</u>
Current	\$ 1,582,345	\$ 1,166,875
Non-current	<u>672,724</u>	<u>332,569</u>
	<u>\$ 2,255,069</u>	<u>\$ 1,499,444</u>

As of December 31, 2018 and 2017, prepaid lease payments mainly include legitimate land use rights of subsidiaries in mainland China, Hon Chuan Indonesia, Hon Chuan Vietnam, Hon Chuan Myanmar and Uni Tun. which are located in China, Indonesia, Vietnam and Myanmar.

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

18. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
<u>Unsecured borrowings</u>		
Bank loans for working capital	\$ 5,037,154	\$ 5,143,126
Loans for purchasing raw materials	<u>-</u>	<u>13,187</u>
	<u>\$ 5,037,154</u>	<u>\$ 5,156,313</u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.69-4.40	0.69-4.70
Loans for purchasing raw materials	-	1.13-2.43

b. Long-term borrowings

	December 31	
	2018	2017
Bank loans for working capital-March, 2020 to November 2022	<u>\$ 5,978,897</u>	<u>\$ 7,999,920</u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	1.01-4.00	0.95-3.20

The Corporation provided endorsement and guarantee to Samoa Hon Chuan, which facilitate a secured loan agreement with a syndicate of banks led by Land Bank of Taiwan Co., Ltd. The purpose of the loan is for repayment of short-term bank loans, procuring fund for future investment and increasing 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 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. Until December 31, 2018, the loan facilities have not yet been drawn down.

19. BONDS PAYABLE

	December 31, 2017
Unsecured domestic bonds	\$ 3,000,000
Less: Bonds discount	<u>(4,776)</u>
	<u>\$ 2,995,224</u>

As of April 27, 2018 the Corporation issued 3,000,000 thousand of five-year unsecured domestic bonds whose coupon rate is 1.07% and effective interest rate is 1.1079%. The principal will be repayable by cash upon maturity (April 27, 2023).

20. LIABILITY COMPONENT OF PREFERRED STOCKS

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 for the year ended December 31, 2017 (Note 24).

21. OTHER LIABILITIES

	December 31	
	2018	2017
Payable for salaries	\$ 232,431	\$ 227,621
Payable for purchase of equipment	110,661	94,300
Advance receipts	78,188	32,203
Payable for bonus to employees	23,695	24,048
Payable for annual leave	22,059	21,347
Payable for remuneration of directors	9,833	11,078
Deferred revenue	7,793	10,741
Others	<u>530,858</u>	<u>453,574</u>
	<u>\$ 1,015,518</u>	<u>\$ 874,912</u>
Current	\$ 966,852	\$ 863,635
Non-current	<u>48,666</u>	<u>11,277</u>
	<u>\$ 1,015,518</u>	<u>\$ 874,912</u>

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

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

b. Defined benefit plans

The defined benefit 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:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 137,732	\$ 155,211
Fair value of plan assets	<u>(109,144)</u>	<u>(119,570)</u>
Net defined benefit liability	<u>\$ 28,588</u>	<u>\$ 35,641</u>

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2017	<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 loss - changes in demographic assumptions	297	-	297
Actuarial loss - changes in financial assumptions	1,483	-	1,483
Actuarial 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>
Service cost			
Current service cost	948	-	948
Net interest expense (income)	<u>1,940</u>	<u>(1,555)</u>	<u>385</u>
Recognized in profit or loss	<u>2,888</u>	<u>(1,555)</u>	<u>1,333</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,224)	(3,224)
Actuarial loss - changes in demographic assumptions	259	-	259
Actuarial loss - changes in financial assumptions	1,296	-	1,296
Actuarial loss - experience adjustments	<u>4,060</u>	<u>-</u>	<u>4,060</u>
Recognized in other comprehensive income	<u>5,615</u>	<u>(3,224)</u>	<u>2,391</u>
Contributions from the employer	-	(10,777)	(10,777)
Benefits paid	<u>(25,982)</u>	<u>25,982</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 137,732</u>	<u>\$ (109,144)</u>	<u>\$ 28,588</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:

	December 31	
	2018	2017
Discount rate	1.125%	1.250%
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:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	\$ (2,644)	\$ (3,026)
0.25% decrease	\$ 2,729	\$ 3,123
Expected rate(s) of salary increase		
0.25% increase	\$ 2,623	\$ 3,005
0.25% decrease	\$ (2,554)	\$ (2,926)

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.

	December 31	
	2018	2017
Expected contributions to the plans for the next year	\$ 10,777	\$ 9,710
Average duration of the defined benefit obligation	10 years	10 years

23. EQUITY

a. Share capital

	December 31	
	2018	2017
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

	December 31	
	2018	2017
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)	358,475	380,116
Other (2)	<u>200,270</u>	<u>200,270</u>
	<u>\$ 5,485,872</u>	<u>\$ 5,507,513</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) Such capital surplus may be used to offset a deficit.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the 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 of 10% 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 before and after the amendment, please refer to d. Employee benefits expense, depreciation and amortization expenses in Note 24-4.

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 in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 15, 2018, and June 15, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended December		For the Year Ended	
	31		December 31	
	2017	2016	2017	2016
Legal reserve	\$ 123,086	\$ 117,822		
Special reserve	147,598	776,160		
Cash dividends	732,197	732,197	\$2.5	\$2.5

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on March 26, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 109,253	
Special reserve	377,097	
Cash dividends	673,621	\$ 2.3

The appropriation of earnings for 2018 are subject to the resolution of the shareholders' meeting to be held on June 19, 2019.

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.

Additional special reserve should be appropriated for the amount equal to the difference between net debit balance reserves and the special reserve appropriated on the first-time adoption of IFRSs. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and, thereafter, distributed.

24. NET PROFIT FROM CONTINUING OPERATIONS

a. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Gain (loss) on valuation of financial assets	\$ 33,986	\$ (43,908)
Interest income	31,709	20,854
Loss on disposal of property, plant and equipment	(4,733)	(9,071)
Loss recognized on associates under equity method	(3,349)	(3,695)
Default fine income	-	220,365
Miscellaneous income	158,105	75,730
Miscellaneous expense	<u>(30,637)</u>	<u>(19,848)</u>
	<u>\$ 185,081</u>	<u>\$ 240,427</u>

b. Finance costs

	For the Year Ended December 31	
	2018	2017
Interest on bank	\$ 226,100	\$ 201,718
Interest on convertible preferred stock (Note 20)	-	23,924
Interest on convertible bonds	<u>22,481</u>	<u>-</u>
	<u>\$ 248,581</u>	<u>\$ 225,642</u>

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2018	2017
Capitalized interest	\$ 8,116	\$ -
Capitalization rate	0.96%	-

c. Employee benefits expense, depreciation and amortization expenses

	For the Year Ended December 31					
	2018			2017		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefits expense						
Payroll expense	\$ 1,220,295	\$ 488,118	\$ 1,708,413	\$ 1,137,193	\$ 446,605	\$ 1,583,798
Labor and health insurance expense	49,150	19,859	69,009	46,502	19,350	65,852
Pension expense	21,012	60,849	81,861	23,403	58,888	82,291
Other employee benefits expense	35,672	50,295	85,967	27,503	73,864	101,367
Depreciation expenses	2,008,081	168,722	2,176,803	1,975,411	142,588	2,117,999
Amortization expenses	17,490	13,801	31,291	9,262	15,107	24,369

d. Employees' compensation and remuneration of directors

The Corporation accrued employees' compensation and remuneration to directors 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. The employees' compensation and remuneration to directors for the years ended December 31, 2018 and 2017 which have been approved by the Corporation's board of directors on March 26, 2019 and March 27, 2018, respectively, were as follows:

	For the Year Ended December 31			
	2018		2017	
	%	Cash	%	Cash
Employees' compensation	1.77%	\$ 23,695	1.71%	\$ 24,048
Remuneration to directors	0.74%	9,833	0.79%	11,078

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 paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2017 and 2016.

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

25. TAXES

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

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 350,414	\$ 302,038
Income tax expense of unappropriated earnings	22,195	-
In respect of prior periods	10,397	(9,754)
Deferred tax		
In respect of the current year	(2,153)	(7,273)
Adjustments to deferred tax attributable to changes in tax rates and laws	(1,104)	-
Income tax expense recognized in profit or loss	<u>\$ 379,749</u>	<u>\$ 285,011</u>

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

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	\$ 352,689	\$ 336,839
Nondeductible expenses in determining taxable income	2,554	13,312
Deductible items in determining taxable income	(618)	(479)
Tax-exempt income	(35,751)	(41,753)
Unrecognized loss carryforwards	25,478	5,206
Unrecognized deductible temporary differences	3,909	(18,360)
Additional income tax on unappropriated earnings	22,195	-
Effect of tax rate changes	(1,104)	-
Adjustments for prior year's tax	<u>10,397</u>	<u>(9,754)</u>
Income tax expense recognized in profit or loss	<u>\$ 379,749</u>	<u>\$ 285,011</u>

In 2017, the applicable corporate income tax rate used by the Group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the appropriation of earnings in 2019 is uncertain, the potential income tax consequences of the 2018 unappropriated earnings were not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Effect of change in tax rate	\$ 585	\$ -
In respect of current period		
- Remeasurement of defined benefit plans	<u>478</u>	<u>1,235</u>
Total income tax recognized in other comprehensive income	<u>\$ 1,063</u>	<u>\$ 1,235</u>

c. Deferred tax assets and liabilities

For the Year Ended December 31, 2018				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensi ve Income	Closing Balance
<u>Deferred Tax Assets</u>				
Temporary differences				
Tax losses	\$ 161,478	\$ 11,404	\$ -	\$ 172,882
Defined benefit obligation	6,059	(1,404)	1,063	5,718
Inventories	5,522	5,246	-	10,768
Other	<u>9,178</u>	<u>(490)</u>	<u>-</u>	<u>8,688</u>
	<u>\$ 182,237</u>	<u>\$ 14,756</u>	<u>\$ 1,063</u>	<u>\$ 198,056</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>19,846</u>	<u>11,499</u>	<u>-</u>	<u>31,345</u>
	<u>\$ 44,129</u>	<u>\$ 11,499</u>	<u>\$ -</u>	<u>\$ 55,628</u>
For the Year Ended December 31, 2017				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensi ve Income	Closing Balance
<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>

For the Year Ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensi ve Income	Closing Balance
<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>

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

As of December 31, 2018 and 2017, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$316,887 thousand and \$282,446 thousand, respectively.

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

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

Expansion Projects	Tax-exempt Period
Capitalization of earnings (stock dividend) in 2008 and cash funded expansion in 2009	December 2013 to December 2017
Investee	Unused Amount
Suzhou Honxin	\$ 531,825
Suzhou Hon Chuan	98,585
Luoch Hon Chuan	13,097
Chuzhou Hon Chuan	11,101
Xiantao Hon Chuan	<u>6,123</u>
	<u>\$ 660,731</u>
	Expiry Year
	108-112
	108-112
	111-112
	108-112
	109-112

As of December 31, 2018 under the local regulations of Suzhou Hon Chuan, Xiantao Hon Chuan, Chuzhou Hon Chuan, Suzhou Hongxin and Luoch Hong Chuan their loss carryforwards may be offset against future taxable income.

- f. Income tax assessments

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

26. EARNINGS PER SHARE

	Net Profit Attributable to Owners of the Corporation	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the year ended December 31, 2018</u>			
Basic	\$ 1,092,531	292,879	<u>\$ 3.73</u>
Dilutive effects - employees' compensation or bonus issue to employees	<u>-</u>	<u>601</u>	
Dilutive	<u>\$ 1,092,531</u>	<u>293,480</u>	<u>\$ 3.72</u>
<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>

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

27. 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:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Not later than 1 year	\$ 54,809	\$ 33,501
Later than 1 year and not later than 5 years	199,766	116,641
Later than 5 years	<u>108,530</u>	<u>56,931</u>
	<u>\$ 363,105</u>	<u>\$ 207,073</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	Level 3	Total
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss (FVTPL)				
Domestic convertible bonds	\$ 55,075	\$ -	\$ -	\$ 55,075
Stock of publicly quoted entity	13,275	-	-	13,275
Foreign corporate bonds	<u>30,432</u>	<u>-</u>	<u>-</u>	<u>30,432</u>
	<u>\$ 98,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,782</u>
Financial liabilities at fair value through profit or loss (FVTPL)				
foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ -</u>	<u>\$ 62</u>
Financial assets at fair value through other comprehensive income				
Equity investments				
Overseas stock of publicly quoted entity	\$ 2,841	\$ -	\$ -	\$ 2,841
Unlisted stock	<u>-</u>	<u>-</u>	<u>38,776</u>	<u>38,776</u>
	<u>\$ 2,841</u>	<u>\$ -</u>	<u>\$ 38,776</u>	<u>\$ 41,617</u>
<u>December 31, 2017</u>				
Financial assets at fair value through profit or loss (FVTPL)				
Domestic convertible bonds	<u>\$ 31,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,935</u>

Available-for-sale financial assets overseas stock of publicly quoted entity	\$ <u>8,350</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,350</u>
Financial liabilities at fair value through profit or loss (FVTPL) foreign exchange forward contracts	\$ <u>-</u>	\$ <u>15,955</u>	\$ <u>-</u>	\$ <u>15,955</u>

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

2) Valuation techniques and assumptions applied for fair value measurement

- a) The fair value of financial instruments with standard conditions and traded in active market, including listed stock, is decided based on the market price.
- b) The fair values of foreign exchange forward contracts are determined using the discounted cash flow method. 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.
- c) The unlisted equity investments at fair value through other comprehensive income were all measured at Level 3. The fair values of unlisted equity investments are determined using price-to-book ratio approach. In this approach, according to the financial information of the companies, both net book value per share calculated and share price estimated by comparing share price or P/E ratio with similar companies were used to capture the present value of the expected future economic benefits to be derived from the ownership of these investments.

3) Reconciliation of Level 3 fair value measurements of financial instrument

Financial assets at fair value through other comprehensive income - equity instrument

	For the Year Ended December 31, 2018
Balance at January 1, 2018	\$ -
Reclassification	36,155
Recognized in other comprehensive income (included in unrealized gain (loss) on financial assets at FVTOCI)	<u>2,621</u>
Balance at December 31, 2018	<u>\$ 38,776</u>

b. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
FVTPL	\$ 98,782	\$ 31,935
Available-for-sale financial assets	-	8,350
Loans and receivables		
Cash and cash equivalents	-	2,211,899
Financial assets measured at cost	-	39,092
Debt investments with no active market	-	352,063
Notes receivable and trade receivable	-	2,767,079
Financial assets at amortized cost		
Cash and cash equivalents	2,979,711	-
Notes receivable and trade receivable	3,265,021	-
Financial assets at fair value through other comprehensive income - equity investments	41,617	-

	December 31	
	2018	2017
<u>Financial liabilities</u>		
FVTPL	\$ 62	\$ 15,955
Amortized cost		
Short-term borrowings	5,037,154	5,156,313
Notes payable and trade payable	1,066,640	914,467
Bonds payable	2,995,224	-
Long-term borrowing	5,978,897	7,999,920

c. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, trade receivables, trade payables, borrowings and liability component of preferred stocks. The Group's Corporate Treasury function identifies and assesses the risks and takes actions to manage uncertainty of the market with the objective to reduce the potentially adverse effects the market fluctuations may have on its financial performance. These risks include market risk (including foreign 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 is 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 are managed and measured.

Foreign currency risk

The Group and several subsidiaries of the Corporation have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward 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 is 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, 2018 and 2017 would have changed by decreasing \$4,621 thousand and \$3,698 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, 2018 and 2017 would have changed by decreasing \$745 thousand and \$2,791 thousand, respectively.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow 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:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ -	\$ 352,063
Financial liabilities	2,995,224	-
Cash flow interest rate risk		
Financial liabilities	11,016,051	13,156,233

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 is 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 years ended December 31, 2018 and 2017 would decrease by \$13,770 thousand and \$15,875 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 of the counterparty to discharge its obligation and due to the 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 maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

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 allowance is made for irrecoverable amounts. In this regard, the management believes the Group's credit risk has been significantly reduced.

Trade receivables consist of a large number of customers, which 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 all 35% in total trade receivables as of December 31, 2018 and 2017, 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, 2018 and 2017, the Corporation had available unutilized short-term bank loan facilities

of \$10,606,521 thousand and \$8,094,023 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.

	Less Than 1 Year	1-5 Years	Total
<u>December 31, 2018</u>			
Non-derivative financial liabilities			
Borrowings	\$ 5,037,154	\$ 5,978,897	\$11,016,051
Non-interest bearing liabilities	1,066,640	-	1,066,640
Bonds payable	<u>-</u>	<u>2,995,224</u>	<u>2,995,224</u>
	<u>\$ 6,103,794</u>	<u>\$ 8,974,121</u>	<u>\$15,077,915</u>
<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>

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

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

b. Sales of goods

	For the Year Ended December 31	
	2018	2017
Net sales		
Others	<u>\$ 8,363</u>	<u>\$ 8,577</u>
Rental expenses (recorded under manufacturing or operation expenses)		
Others	<u>\$ 293</u>	<u>\$ 3,263</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.

	December 31	
	2018	2017
Accounts receivable		
Others	<u>\$ 530</u>	<u>\$ 1,828</u>
Other receivable (recorded under current assets)		
Others	<u>\$ 12,932</u>	<u>\$ 3,422</u>
Other payables (recorded under other current liabilities)		
Others	<u>\$ 7,152</u>	<u>\$ 32,574</u>

c. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term benefits	\$ 72,247	\$ 50,470
Post-employment benefits	<u>282</u>	<u>319</u>
	<u>\$ 72,529</u>	<u>\$ 50,789</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:

	December 31	
	2018	2017
Property, plant and equipment	\$ 492,186	\$ 534,823
Restricted assets (recorded under other current assets)	<u>9,090</u>	<u>25,642</u>
	<u>\$ 501,276</u>	<u>\$ 560,465</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, 2018 and 2017 were as follows:

- a. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$403,805 thousand and \$177,085 thousand, respectively.

- b. Unrecognized commitments are as follows:

	December 31	
	2018	2017
Acquisition of property, plant and equipment	<u>\$ 168,567</u>	<u>\$ 1,140,388</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					
		2018			2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars		Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets of monetary items</u>							
USD	\$	17,074	30.72	\$	14,834	29.76	\$ 441,460
EUR		1,695	35.20		3,093	35.57	110,018
<u>Financial liabilities of monetary items</u>							
USD		32,116	30.72		27,179	29.76	808,847
EUR		3,812	35.20		11,009	35.57	391,590

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			
	2018		2017	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1	\$ 13,043	1	\$ (15,952)
USD	30.15	5,319	30.43	2,926
RMB	4.55	(30,728)	4.50	30,359
MMK	0.0211	(16,620)	0.0224	(1,789)
MZM	0.4999	(2,469)	0.4783	10,333
IDR	0.0021	(6,909)	0.0023	(335)
THB	0.94	<u>3,982</u>	0.90	<u>(2,397)</u>
		<u>\$ (34,382)</u>		<u>\$ 23,145</u>

34. 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. (None)
- 6) Disposal of individual real estate at prices of at least NT \$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (None)
- 8) Receivables from related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (Table 5)
- 9) Trading in derivative instruments. (Note 7)
- 10) Intercompany relationships and significant intercompany transactions. (Table 6)

11) Information on investees. (Table 7)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 6)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 6)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (Table 6)
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (Table 2)
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (Table 6)

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, 2018</u>				
Revenue from external customers	\$ 8,378,985	\$ 11,550,732	\$ -	\$ 19,929,717
Inter-segment revenue	<u>95,778</u>	<u>38,225</u>	<u>(134,003)</u>	<u>-</u>
Segment revenue	<u>\$ 8,474,763</u>	<u>\$ 11,588,957</u>	<u>\$ (134,003)</u>	<u>\$ 19,929,717</u>
Segment income	<u>\$ 975,546</u>	<u>\$ 600,864</u>		\$ 1,576,410
Financial costs				(248,581)
Foreign exchange loss				(30,957)
Other gains and losses				<u>185,081</u>
Profit before tax				<u>\$ 1,481,953</u>

	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>		\$ 1,510,380
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>

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.

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Packaging materials	\$12,738,475	\$11,584,051
Beverages (included bottle filling and OEM)	5,700,995	4,869,552
Others	<u>1,490,247</u>	<u>1,065,855</u>
	<u>\$19,929,717</u>	<u>\$17,519,458</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.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
Taiwan	\$ 8,378,986	\$ 7,386,706	\$ 5,332,413	\$ 5,154,456
China	6,743,102	5,923,846	7,540,583	7,995,302
Southeast Asia	4,621,556	4,088,624	5,440,575	5,626,312
Others	<u>186,073</u>	<u>120,282</u>	<u>400,642</u>	<u>389,050</u>
	<u>\$ 19,929,717</u>	<u>\$ 17,519,458</u>	<u>\$ 18,714,213</u>	<u>\$ 19,165,120</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:

Names	For the Year Ended December 31	
	2018	2017
Customer A	\$ 2,017,100	\$ 2,575,465
Customer B	1,974,578	1,938,241

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

TABLE 1

FINANCING PROVIDED TO RELATED ENTITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(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		
0	The Corporation	Honhua Holdings	Account receivable-related parties	Yes	\$ 627 (US\$ 22)	\$ -	\$ -	-	Business transaction	\$ 677 (US\$ 22)	Operating Capital	\$ -	-	\$ -	\$ 677	\$ 4,925,747
1	Samoa Hon Chuan	Hon Chuan China	Receivable from related parties	Yes	2,253,560 (US\$ 73,370)	2,150,664 (US\$ 70,020)	2,150,664 (US\$ 70,020)	3.17%-4.39%	Short-term financing	-	Operating Capital	-	-	-	5,333,877	5,333,877
		Samoa Hon Hsing	Receivable from related parties	Yes	16,279 (US\$ 530)	-	-	3.17%-4.01%	Short-term financing	-	Operating Capital	-	-	-	5,333,877	5,333,877
		Xiantao Hon Chuan	Receivable from related parties	Yes	61,430 (US\$ 2,000)	-	-	3.67%-4.22%	Short-term financing	-	Operating Capital	-	-	-	5,333,877	5,333,877
2	Kai Gang	Hon Chuan China	Receivable from related parties	Yes	422,331 (US\$ 13,750)	132,382 (US\$ 4,310)	132,382 (US\$ 4,310)	3.17%-4.39%	Short-term financing	-	Operating Capital	-	-	-	2,283,519	2,283,519
		Samoa Hon Chuan	Receivable from related parties	Yes	92,145 (US\$ 3,000)	-	-	3.17%-4.03%	Short-term financing	-	Operating Capital	-	-	-	2,283,519	2,283,519
3	Samoa Hon Hsing	Hon Chuan China	Receivable from related parties	Yes	430,010 (US\$ 14,000)	-	-	3.17%-4.30%	Short-term financing	-	Operating Capital	-	-	-	2,011,384	2,011,384
		Samoa Hon Chuan	Receivable from related parties	Yes	122,860 (US\$ 4,000)	-	-	3.72%-4.30%	Short-term financing	-	Operating Capital	-	-	-	2,011,384	2,011,384
4	Hon Chuan Asia	Hon Chuan Indonesia	Receivable from related parties	Yes	122,860 (US\$ 4,000)	-	-	3.67%-4.60%	Short-term financing	-	Operating Capital	-	-	-	2,920,886	2,920,886
			Account receivable-related parties	Yes	48,444 (EUR\$ 1,376)	-	-	-	Business transaction	48,444 (EUR\$ 1,376)	-	-	-	-	48,444	2,920,886
		Honly	Receivable from related parties	Yes	28,333 (US\$ 922)	-	-	3.67%-4.51%	Short-term financing	-	Operating Capital	-	-	-	2,920,886	2,920,886
		Samoa Honly	Receivable from related parties	Yes	92,145 (US\$ 3,000)	92,145 (US\$ 3,000)	92,145 (US\$ 3,000)	3.67%-4.89%	Short-term financing	-	Operating Capital	-	-	-	2,920,886	2,920,886
		Hon Chuan Myanmar	Receivable from related parties	Yes	66,880 (US\$ 2,177)	-	-	3.97%-4.89%	Short-term financing	-	Operating Capital	-	-	-	2,920,886	2,920,886
			Account receivable-related parties	Yes	5,317 (EUR\$ 151)	-	-	-	Business transaction	5,317 (EUR\$ 151)	-	-	-	-	5,317	2,920,886
			Account receivable-related parties	Yes	64,962 (US\$ 2,115)	-	-	-	Business transaction	64,962 (US\$ 2,115)	-	-	-	-	64,962	2,920,886
		Hon Chuan Vietnam	Receivable from related parties	Yes	61,430 (US\$ 2,000)	61,430 (US\$ 2,000)	61,430 (US\$ 2,000)	4.60%-4.89%	Short-term financing	-	Operating Capital	-	-	-	2,920,886	2,920,886
			Account receivable-related parties	Yes	39,609 (EUR\$ 1,125)	-	-	-	Business transaction	-	-	-	-	-	-	2,920,886
		Cambodia Honly	Account receivable-related parties	Yes	4,233 (US\$ 138)	-	-	-	Business transaction	4,233 (US\$ 138)	-	-	-	-	4,233	2,920,886
5	Suzhou Hon Chuan	Chuzhou Hon Chuan	Receivable from related parties	Yes	51,446 (RMB 11,500)	42,516 (RMB 9,500)	42,516 (RMB 9,500)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	419,177	419,177
		Xiantao Hon Chuan	Receivable from related parties	Yes	22,377 (RMB 5,000)	8,951 (RMB 2,000)	8,951 (RMB 2,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	419,177	419,177
		Luoch Hon Chuan	Receivable from related parties	Yes	73,395 (RMB 16,400)	31,327 (RMB 7,000)	31,327 (RMB 7,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	419,177	419,177
		Suzhou Hongxin	Receivable from related parties	Yes	48,333 (RMB 10,800)	-	-	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	419,177	419,177

(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		
6	Changsha Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	\$ 11,188 (RMB 2,500)	\$ -	\$ -	3.90%-4.35%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 403,959	\$ 403,959
		Chuzhou Hon Chuan	Receivable from related parties	Yes	232,717 (RMB 52,000)	82,793 (RMB 18,500)	82,793 (RMB 18,500)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	403,959	403,959
		Xiantao Hon Chuan	Receivable from related parties	Yes	116,358 (RMB 26,000)	111,883 (RMB 25,000)	111,883 (RMB 25,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	403,959	403,959
		Suzhou Hongxin	Receivable from related parties	Yes	51,466 (RMB 11,500)	51,466 (RMB 11,500)	51,466 (RMB 11,500)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	403,959	403,959
7	Zhongzhou Hon Chung	Qingxin Hon Chuan	Receivable from related parties	Yes	79,661 (RMB 17,800)	-	-	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	474,732	474,732
		Xiantao Hon Chuan	Receivable from related parties	Yes	58,179 (RMB 13,000)	58,179 (RMB 13,000)	58,179 (RMB 13,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	474,732	474,732
		Suzhou Honxin	Receivable from related parties	Yes	67,130 (RMB 15,000)	67,130 (RMB 15,000)	67,130 (RMB 15,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	474,732	474,732
		Chuzhou Hon Chuan	Receivable from related parties	Yes	24,614 (RMB 5,500)	24,614 (RMB 5,500)	24,614 (RMB 5,500)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	474,732	474,732
		Luoch Hon Chuan	Receivable from related parties	Yes	67,130 (RMB 15,000)	67,130 (RMB 15,000)	67,130 (RMB 15,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	474,732	474,732
8	Jinan Hon Chuan	Xiantao Hon Chuan	Receivable from related parties	Yes	24,614 (RMB 5,500)	8,951 (RMB 2,000)	8,951 (RMB 2,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	546,055	546,055
		Chuzhou Hon Chuan	Receivable from related parties	Yes	26,852 (RMB 6,000)	26,852 (RMB 6,000)	26,852 (RMB 6,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	546,055	546,055
		Suzhou Hon Chung	Receivable from related parties	Yes	26,852 (RMB 6,000)	17,901 (RMB 4,000)	17,901 (RMB 4,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	546,055	546,055
		Luoch Hon Chuan	Receivable from related parties	Yes	35,803 (RMB 8,000)	35,803 (RMB 8,000)	35,803 (RMB 8,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	546,055	546,055
9	Taiyuan Hon Chuan	Xiantao Hon Chuan	Receivable from related parties	Yes	89,506 (RMB 20,000)	89,506 (RMB 20,000)	89,506 (RMB 20,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	613,483	613,483
		Chuzhou Hon Chuan	Receivable from related parties	Yes	49,228 (RMB 11,000)	49,228 (RMB 11,000)	49,228 (RMB 11,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	613,483	613,483
		Suzhou Hon Hsing	Receivable from related parties	Yes	44,755 (RMB 10,000)	44,755 (RMB 10,000)	44,755 (RMB 10,000)	3.90%-4.35%	Short-term financing	-	Operating Capital	-	-	-	613,483	613,483
		Luoch Hon Chuan	Receivable from related parties	Yes	26,852 (RMB 6,000)	26,852 (RMB 6,000)	26,852 (RMB 6,000)	3.90%	Short-term financing	-	Operating Capital	-	-	-	613,483	613,483
10	Samoa Honly	Cambodia Honly	Receivable from related parties	Yes	93,681 (US\$ 3,050)	-	-	-	Short-term financing	-	Operating Capital	-	-	-	107,975	107,975

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, 2018.

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, 2018
(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)	\$ 6,157,184	\$ 3,010,070 (US\$ 98,000)	\$ 2,119,335 (US\$ 69,000)	\$ 614,300 (US\$ 20,000)	\$ -	17	\$ 12,314,368	Y	-	-
		Hon Chuan China	(Note 4)	6,157,184	3,839,375 (US\$ 125,000)	3,839,375 (US\$ 125,000)	3,480,010 (US\$ 113,300)	-	31	12,314,368	Y	-	-
		Hon Chuan Asia	(Note 4)	6,157,184	1,228,600 (US\$ 40,000)	1,228,600 (US\$ 40,000)	214,907 (US\$ 6,997)	-	10	12,314,368	Y	-	-
		Luoch Hon Chuan	(Note 4)	6,157,184	368,580 (US\$ 12,000)	368,580 (US\$ 12,000)	307,150 (US\$ 10,000)	-	3	12,314,368	Y	-	Y
		Myanmar Hon Chuan	(Note 4)	6,157,184	92,145 (US\$ 3,000)	92,145 (US\$ 3,000)	57,302 (US\$ 1,866)	-	1	12,314,368	Y	-	-
		Samoa Hon Hsing	(Note 4)	6,157,184	583,585 (US\$ 19,000)	583,585 (US\$ 19,000)	552,870 (US\$ 18,000)	-	5	12,314,368	Y	-	-
		Qingxin Hon Chuan	(Note 4)	6,157,184	602,628 (US\$ 19,620)	598,328 (US\$ 19,480)	350,113 (US\$ 11,399)	-	5	12,314,368	Y	-	Y
		Suzhou Hongxin	(Note 4)	6,157,184	153,575 (US\$ 5,000)	153,575 (US\$ 5,000)	-	-	1	12,314,368	Y	-	Y
		Xiantao Hon Chuan	(Note 4)	6,157,184	137,910 (US\$ 4,490)	107,503 (US\$ 3,500)	-	-	1	12,314,368	Y	-	Y
		Chuzhou Hon Chuan	(Note 4)	6,157,184	93,988 (US\$ 3,060)	89,688 (US\$ 2,902)	26,852 (US\$ 874)	-	1	12,314,368	Y	-	Y
1	Hon Chuan Thailand	Hon Fu Thailand	(Note 4)	6,157,184	47,660 (THB 50,000)	47,660 (THB 50,000)	5,481 (THB 5,750)	-	-	12,314,368	-	-	-

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: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2018.

TABLE 3**TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2018****(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, 2018			
				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 at fair value through other comprehensive income - non-current	39,143	\$ 129	2	\$ 129
	Lightel Technologies Inc.	-	Financial assets at fair value through other comprehensive income - non-current	551,051	8,645	2	8,645
	CDIB CME Fund Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	3,000,000	30,002	2	30,002
	Bizlink holdings Inc.	-	Financial assets at fair value through profit or loss - non-current	40,000	8,960	-	8,960
	Hon Hai Precision Industry Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	40,000	2,832	-	2,832
	Ligitek electronics Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	31,900	1,483	-	1,483
	<u>Corporate Bonds</u>						
	Adimmune Corporation	-	Financial assets at fair value through profit or loss - current	300,000	32,355	-	32,355
	TCI CO., Ltd.	-	Financial assets at fair value through profit or loss - current	160,000	22,720	-	22,720
Samoa Hon Chuan	<u>Corporate Bonds</u>						
	Garden Fresh (HK) Fruit & Vegetable Co., Limited	-	Financial instruments at fair value through profit or loss - current	-	30,432 (US\$ 991)	-	30,432 (US\$ 991)
Hon Chuan Thailand	<u>Capital Stock</u>						
	Ichitan Company	-	Financial assets at fair value through other comprehensive income - non-current	1,000,000	2,841 (THB 2,980)	0.08	2,841 (THB 2,980)

Note 1: The information about fair value please see Note 29.

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

Note 3: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2018.

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, 2018
(In Thousands of Dollars, Unless Otherwise Specified)**

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Ending Balance	
					Number of Shares	Amount (Note 1)	Number of Shares	Amount	Number of Shares	Amount (Note 1)
The Corporation	Samoa Hon Chuan	Investments accounted for using equity method	-	Parent - subsidiary	340,472,818	\$ 12,124,517	55,170,975	\$ 1,668,571	395,643,793	\$ 13,716,075
Samoa Hon Chuan	Hon Chuan Asia	Investments accounted for using equity method	-	Parent - subsidiary	194,192,505	7,268,520 (US\$ 236,644)	11,670,975	358,474 (US\$ 11,671)	205,863,480	7,397,339 (US\$ 240,838)

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, 2018.

Note 3: Significant intercompany accounts and transactions have been eliminated.

TABLE 5**TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2018****(In Thousands of Dollars, Unless Otherwise Specified)**

Company Name	Related Party	Relationship	Ending Balance (Note 2)	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
Samoa Hon Chuan	Hon Chuan China	(Note 1)	\$ 2,150,664 (US\$ 70,020)	-	\$ -	Depend on the operation	\$ -	\$ -
Kai Gang	Hon Chuan China	(Note 1)	132,382 (US\$ 4,310)	-	-	Depend on the operation	-	-
Changsha Hon Chuang	Xiantao Hon Chuang	(Note 1)	111,883 (RMB 25,000)	-	-	Depend on the operation	-	-
Samoa Honly	Cambodia Honly	(Note 1)	175,091 (US\$ 5,700)	-	-	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 6

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands)**

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
1	Samoa Hon Chuan	Hon Chuan China	3	Receivable from related parties	\$ 2,150,664	Depend on working capital sufficiency	7
2	Samoa Honly	Cambodia Honly	3	Other receivables	175,091	Depend on working capital sufficiency	1

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.

TABLE 7

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES
INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 4)	Note
				December 31, 2018	December 31, 2017	Shares	%	Carrying Amount (Note 4)			
The Corporation	Samoa Hon Chuan	Samoa	Overseas reinvested holding company and international trade	\$ 12,131,642	\$ 10,463,071	395,643,793	100	\$ 13,716,075	\$ 315,765	\$ 315,765	Subsidiary
Samoa Hon Chuan	Hon Chuan China	Cayman Island	Overseas reinvested holding company	4,013,406 (US\$ 130,666)	4,013,406 (US\$ 130,666)	109,730,576	94.17	4,203,351 (US\$ 136,850)	41,930 (US\$ 1,391)	(Note 1)	Indirect subsidiary
	Hon Chuan Asia	Cayman Island	Overseas reinvested holding company and international trade	6,375,758 (US\$ 207,578)	6,017,284 (US\$ 195,907)	205,863,480	100	7,397,339 (US\$ 240,838)	232,660 (US\$ 7,717)	(Note 1)	Indirect subsidiary
	Hon Chuan Africa	Samoa	Overseas reinvested holding company and international trade	400,646 (US\$ 13,044)	400,646 (US\$ 13,044)	13,044,118	100	444,600 (US\$ 14,475)	6,603 (US\$ 219)	(Note 1)	Indirect subsidiary
	Paeon Company	Seychelles	Overseas reinvested holding company	28,811 (US\$ 938)	28,811 (US\$ 938)	-	23.08	20,135 (US\$ 656)	(14,502) (US\$ 481)	(Note 1)	Investments accounted for using equity method
Hon Chuan China	Kai Gang	Hong Kong	Overseas reinvested holding company	4,682,809 (US\$ 152,460)	4,682,809 (US\$ 152,460)	1,201,561,002	100	5,384,954 (US\$ 175,320)	51,796 (US\$ 1,718)	(Note 1)	Indirect subsidiary
	Samoa Hon Hsing	Samoa	Overseas reinvested holding company	3,870,274 (US\$ 126,006)	3,870,274 (US\$ 126,006)	126,006,000	100	4,493,297 (US\$ 146,290)	239,443 (US\$ 7,942)	(Note 1)	Indirect subsidiary
Hon Chuan Asia	Hon Chuan Thailand	Thailand	Manufacture and sale of plastic caps and PET bottles	1,274,611 (US\$ 41,498)	1,274,611 (US\$ 41,498)	137,000,000	100	2,093,780 (US\$ 68,168)	108,144 (US\$ 3,587)	(Note 1)	Indirect subsidiary
	Hon Chuan Indonesia	Indonesia	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	2,816,350 (US\$ 91,693)	2,663,666 (US\$ 86,722)	91,641,304	100	2,393,344 (US\$ 77,921)	65,393 (US\$ 2,169)	(Note 1)	Indirect subsidiary
	Hon Chuan Vietnam	Vietnam	Manufacture and sale of plastic caps and PET bottles	921,450 (US\$ 30,000)	921,450 (US\$ 30,000)	-	100	1,131,264 (US\$ 36,831)	84,447 (US\$ 2,801)	(Note 1)	Indirect subsidiary
	Hon Chuan Malaysia	Malaysia	Manufacture and sale of plastic caps and PET bottles	801,631 (US\$ 26,099)	801,631 (US\$ 26,099)	81,259,900	100	731,816 (US\$ 23,826)	27,436 (US\$ 910)	(Note 1)	Indirect subsidiary
	Hon Chuan Myanmar	Myanmar	Manufacture and sale of plastic caps and PET bottles	730,587 (US\$ 23,786)	730,587 (US\$ 23,786)	89,524,394	70	585,889 (US\$ 19,075)	17,517 (US\$ 581)	(Note 1)	Indirect subsidiary
	Samoa Honly	Samoa	Overseas reinvested holding company and international trade	273,978 (US\$ 8,920)	273,978 (US\$ 8,920)	13,819,780	95.94	156,493 (US\$ 5,095)	(104,858) (US\$ 3,478)	(Note 1)	Indirect subsidiary
	Honly	Cambodia	Overseas reinvested holding company and international trade	55,410 (US\$ 1,804)	27,091 (US\$ 882)	490	49	55,932 (US\$ 1,821)	60 (US\$ 2)	(Note 1)	Indirect subsidiary
	Hon Hua	Samoa	Overseas reinvested holding company and international trade	178,147 (US\$ 5,800)	110,574 (US\$ 3,600)	5,800,000	60	192,307 (US\$ 6,261)	26,923 (US\$ 893)	(Note 1)	Indirect subsidiary
Hon Chuan Thailand	Hon Fu Thailand	Thailand	Manufacture and sale of plastic caps, labels, pp bottles and PET bottles	120,735 (THB 126,662)	120,735 (THB 126,662)	12,666,225	65	188,584 (THB 197,843)	15,027 (THB 16,026)	(Note 1)	Indirect subsidiary
Samoa Honly	Cambodia Honly	Cambodia	Beverage filling service	277,971 (US\$ 9,050)	184,290 (US\$ 6,000)	9,050,000	100	(41,742) (US\$ 1,359)	(92,316) (US\$ 3,062)	(Note 1)	Indirect subsidiary
Hon Chuan Africa	Hon Shi Samoa	Samoa	Overseas reinvested holding company and international trade	400,646 (US\$ 13,044)	400,646 (US\$ 13,044)	3,138,790	60	441,067 (US\$ 14,360)	8,683 (US\$ 288)	(Note 1)	Indirect subsidiary
Hon Shi Samoa	Shimada	Africa	Manufacture and sales of plastic caps PET bottles and LDPE membrane	27,920 (US\$ 909)	27,920 (US\$ 909)	-	100	89,780 (US\$ 2,923)	11,215 (US\$ 372)	(Note 1)	Indirect subsidiary
	Hon Shi Mozambique	Africa	Manufacture and sales of plastic caps	74,392 (US\$ 2,422)	74,392 (US\$ 2,422)	1,600,000	100	80,504 (US\$ 2,621)	693 (US\$ 23)	(Note 1)	Indirect subsidiary
Hon Hua	Uni Tun	Myanmar	Bottled water filling	4,239 (US\$ 138)	3,225 (US\$ 105)	-	100	11,088 (US\$ 361)	27,375 (US\$ 908)	(Note 1)	Indirect subsidiary

Note 1: Not applicable.

Note 2: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2018.

Note 3: Information on investments in mainland China, please see Table 8.

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

TABLE 8

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES
INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee (Note 2)	% Ownership of Direct or Indirect Investment (Note 1)	Investment Gain (Loss) (Notes 2 and 5)	Carrying Amount as of December 31, 2018 (Notes 2 and 5)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Suzhou Hon Chuan	Manufacture and sale of various plastic caps, labels and aluminum closures	\$ 629,350 (US\$ 20,490)	(Note 1)	\$ 591,571 (US\$ 19,260)	\$ -	\$ -	\$ 591,571 (US\$ 19,260)	\$ (15,316)	94.17%	\$ (14,441)	\$ 972,667	\$ -
Qingxin Hon Chuan	Manufacture and sale of various plastic caps, labels, PET bottles and beverage filling OEM service	1,627,895 (US\$ 53,000)	(Note 1)	464,104 (US\$ 15,110)	-	-	464,104 (US\$ 15,110)	94,788	94.17%	89,241	1,889,770	-
Zhangzhou Hon Chuan	Manufacture and sale of PET bottles and beverage filling OEM service	1,228,600 (US\$ 40,000)	(Note 1)	196,637 (US\$ 6,402)	-	-	196,637 (US\$ 6,402)	(33,254)	94.17%	(31,325)	1,096,984	-
Suzhou Hongxin	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	1,412,890 (US\$ 46,000)	(Note 1)	817,510 (US\$ 26,616)	-	-	817,510 (US\$ 26,616)	(32,651)	94.17%	(30,752)	819,108	-
Jinan Hon Chuan	Manufacture and sale of plastic caps and PET bottles and beverage filling OEM service	890,735 (US\$ 29,000)	(Note 1)	227,967 (US\$ 7,422)	-	-	227,967 (US\$ 7,422)	157,619	94.17%	148,424	1,431,407	-
Changsha Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	568,228 (US\$ 18,500)	(Note 1)	301,898 (US\$ 9,829)	-	-	301,898 (US\$ 9,829)	66,448	94.17%	62,559	1,012,496	-
Taiyuan Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	1,013,595 (US\$ 33,000)	(Note 1)	388,790 (US\$ 12,658)	-	-	388,790 (US\$ 12,658)	43,656	94.17%	41,093	1,484,685	-
Chuzhou Hon Chuan	Manufacture and sale of various plastic caps and PET bottles	370,150 (US\$ 10,000)	(Note 1)	14,252 (US\$ 464)	-	-	14,252 (US\$ 464)	6,844	94.17%	6,452	247,043	-
Xiantao Hon Chuan	Manufacture and sale of various plastic caps and PET bottles and beverage filling OEM service	460,725 (US\$ 15,000)	(Note 1)	23,835 (US\$ 776)	-	-	23,835 (US\$ 776)	(9,527)	94.17%	(8,984)	370,029	-
Luoche Hon Chuan	Manufacture and sale of various plastic caps, PET bottles and beverage filling OEM service	368,580 (US\$ 12,000)	(Note 1)	-	-	-	-	(7,085)	94.17%	(6,693)	324,849	-
Anyang Hon Chuan	Manufacture and sales of plastic caps	35,803 (RMB 8,000)	(Note 1)	-	-	-	-	5,466	94.17%	5,147	42,817	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 3,078,534 (USD 100,229)	\$ 7,666,341 (USD 249,596)	(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, 2018.

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

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: NTD\$ Thousand

Item \ Year	2018	2017	Increase (Decrease) Amount	Change Ratio (%)	Change Analysis
Current Assets	10,441,913	8,866,914	1,574,999	17.76	
Property, Plant and Equipment	16,793,643	17,501,552	(707,909)	(4.04)	
Intangible Assets	370,713	356,763	13,950	3.91	
Other Assets	1,809,665	1,559,298	250,367	16.06	
Total Assets	29,415,934	28,284,527	1,131,407	4.00	
Current Liabilities	7,229,766	7,030,797	198,969	2.83	
Non-current Liabilities	9,107,003	8,090,967	1,016,036	12.56	
Total Liabilities	16,336,769	15,121,764	1,215,005	8.03	
Capital Stock	2,928,789	2,928,789	0	0.00	
Additional Paid-in Capital	5,485,872	5,507,513	(21,641)	(0.39)	
Retained Earning	5,777,383	5,412,733	364,650	6.74	
Non-controlling Equity	632,422	681,932	(49,510)	(7.26)	
Other Equity	(1,745,301)	(1,368,204)	(377,097)	27.56	1
Treasury Shares	0	0	0	0	
Total Equity	13,079,165	13,162,763	(83,598)	(0.64)	

Please explain the variation reason for which exceeding 20%:

1. The decrease of Other Equity: Mainly due to the decrease of Exchange differences on translating the financial statements of foreign operations.

7.2 Analysis of Financial Performance

7.2.1 Financial performance analysis

Unit: NTD\$ Thousand

Year Item	2018	2017	Increase (Decrease) Amount	Change Ratio (%)	Change Analysis
Net Sales	19,929,717	17,519,458	2,410,259	13.76	
Cost of Goods Sold	16,406,836	14,198,877	2,207,959	15.55	
Gross Profit	3,522,881	3,320,581	202,300	6.09	
Operating Expense	1,946,471	1,810,201	136,270	7.53	
Profit From Operation	1,576,410	1,510,380	66,030	4.37	
Non-operating Income and Expense	(94,457)	36,614	(131,071)	(357.98)	1
Profit Before Income Tax	1,481,953	1,546,994	(65,041)	(4.20)	
Income Tax Fee	379,749	285,011	94,738	33.24	2
Net Income	1,102,204	1,261,983	(159,779)	(12.66)	
Other Comprehensive Income	(408,017)	(89,321)	(318,696)	356.80	3
Total Comprehensive Income of This Year	694,187	1,172,662	(478,475)	(40.80)	
Please explain the variation reason for which exceeding 20%: 1. The decrease of Non-operating Income and Expense: Due to the increase of foreign exchange losses and the decrease of compensation revenue of this year. 2. The increase of Income Tax Fee: Due to Taiwan income tax ratio of 2017 was 17%, but it rose to 20% in 2018. Moreover, the five-year free tax preference in Taiwan (2012-2017) has expired in 2018, so as that the income tax fee increased. 3. The decrease 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 "2019 Projected sales volume and its reference".

7.3 Analysis of Cash Flow

7.3.1 Liquidity Analysis within the last 2 years

Item \ Year	2018	2017	Different (%)
Cash Flow Ratio (%)	40.55	31.73	27.80
Cash Flow Adequacy Ratio (%)	89.22	73.11	22.04
Cash Re-investment Ratio (%)	5.57	3.91	42.46
Please explain the variation reason for which exceeding 20%: 1. Cash Flow Ratio and Cash Flow Adequacy Ratio are increased than last period: Due to the rise of net cash provided by operating activities, the increase of capital expenditure and stock, which led the amount decreased in 2018. 2. Cash Re-investment Ratio: Due to the rise of net cash provided by operating activities in 2018.			

7.3.2 Cash Liquidity Analysis for next year

Unit: NTD\$ Thousand

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	
2,979,711	4,592,366	3,080,158	4,491,919	Investment Plan	Financial Plan
				-	-
1. Cash liquidity analysis for next year: (1) Operating activities: Mainly arising from expected profits of 2019 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: Plan to repay the banks’ loan, which causes the outflow 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: NTD\$ Thousand

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual Capital Expenditure	
				2018	2019
Hon Chuan	Equity fund & Bank loan	Finished before the 4th quarter of 2019	3,976,722	1,863,703	2,113,019

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, South-east Asia and Africa. We invested new filling production lines for beverage, and new packaging production lines for beverage and food. Also, we have signed up long-term cooperation contracts with several prestigious beverage companies. 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: NTD\$ Thousand

Explanation Item	Amount (Note)	Policy	Main Reason for Profit or Loss Resulted	Improvement Plan	Other Investment Plan in the Future
Hon Chuan Holding Limited	12,263,917	Expand great China, South-east Asia and Africa markets.	Cultivating in great China and South-east Asia markets becomes fruitful. Although individual companies have different performance, overall financial performance is profitable in 2018.	Overseas markets are still full of opportunities and are expected to grow in a steady pace.	It depends on the actual operational requirements.

Note: For the investments exceeding 5% of authorized capital up to March 31, 2019.

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

Since May 10, 2019, the USA government has started to impose tariff, which was risen from 10% to 25%, on the amount of USD\$ 200 billion products imported from China. Concurrently, on May 13, 2019, Ministry of Finance, PRC announced to impose tariff, which would be in a range of 5%~25% respectively, to the total amount of USD\$ 60 billion products imported from the USA after June 1, 2019. The deadlock of trade negotiation may continuously suppress the international investment confidence; meanwhile, the major central banks, such as Fed in the USA, ECB in Europe and central bank in China, keep a dovish attitude and maintain an easing monetary policy, so as the overall international interest rates might not go upwards. Additionally, due to some factors like the floating funds of Taiwan capital market were still unfavorable, Accounting and Statistics Office made a downward revision of its Economic growth rate and Inflation rate remained static, the risk of NTD interest rates going upwards was relatively low. The Company will take measures if necessary by following up on the change in interest 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, in which mainly target at domestic markets, so the export and outsourcing percentages are lower. Collections and payment are mainly trading with local currencies. 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, collect market information 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: NTD\$ Thousand

Item / Year	2018	2017
Net foreign exchange gain (loss)	(30,957)	21,829
Unrealized gain or loss on financial instrument in available-for sale	-	(1,009)
Net Sales	19,929,717	17,519,458
Profit from Operations	1,576,410	1,510,380
Profit before Income Tax	1,481,953	1,546,994
Interest revenue	31,709	20,854
Interest expense (Note 1)	248,581	225,642

Note 1: The interest expenses for 2018 include the interest expenses of NTD\$ 22,481 thousand which recognized from the 1st domestic unsecured corporate 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. The 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 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 the financial statements.

The net profits (losses) generated from engaging in the transaction of derivative products by the Company were as follows:

Unit: NTD\$ Thousand

Item	2018	2017
Gain (or Loss) on valuation of financial asset	33,986	(43,908)

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 2019, 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 69.

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 variable information of major domestic and foreign policies and laws, regularly update regulatory changes by cooperating with external law consultants and professional consultants, in order to provide to its management team as reference and take actions with countermeasure, 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:

The Company's significant litigations, non-litigations, and administrative litigations, which the judgments are already determined or still pending, of which the result could have material impacts on the shareholders' equities or the securities prices, the disputed facts, target amounts, the litigation starting dates, the main litigating parties, and the processing status up to the annual report printing date should be disclosed:

- (1) The Environmental protection bureau of Taichung city government came to the Company for examining and auditing air pollution control issues in company with Taiwan Taichung District Prosecutors Office in September, 2018. Because the air pollution control equipment in the Label plant of the Company didn't reach the regulatory standards and emission amounts exceeded the contents of the license, the Environmental protection bureau of Taichung city government fined the Company with NTD\$ 20.2 million in accordance with Air Pollution Control Act in November 2 of the same year. After this case happened, the Company had filed a petition, which, however, was overruled by Taichung city government. The Company has filed an administrative litigation to Taichung High Administrative Court on May 24, 2019.
- (2) The Environmental protection bureau of Taichung city government came to the Company for examining and auditing air pollution control issues in company with Taiwan Taichung District Prosecutors Office in September, 2018. Because the internal executive units of the Company didn't follow up the latest regulations update, which caused air pollution control fees under-reported for the past periods, the authority had recalculated the fee for not completely following Article 75 of the forementioned law backward from the 3rd quarter of 2013 to the 2nd quarter of 2018, and requested the Company to pay at double the fee rates for pollution source emissions, which was in total NTD\$ 125,869,455 (will be recognized in the 2nd

quarter financial report of 2019). To this case, the Company has filed a petition to Taichung city government on May 31, 2019.

7.6.13 Other important risks or countermeasures:

In order to reduce the related risk of environmental protection, the Company takes some countermeasures as follows:

- (1) Strengthen the internal propaganda and training courses of environmental protection regulation in every plants.
- (2) In order to promptly update the related laws and regulations, Legal affairs office shall take responsible of announcing and propagandizing, and Auditing office shall take responsible of supervising, checking and auditing.
- (3) The Company has recruited several Environmental safety Specialists, hired external consultants with professional and practical experience, and outsourcing consultant company of Environmental protection bureau, to assist itself to fully implement procedures related to occupational safety, environmental sanitation, and environmental protection law.
- (4) Purchase related control equipment, make sure to comply with environmental protection law and fully carry out environmental protection policy.

7.7 Other important Matters: None.

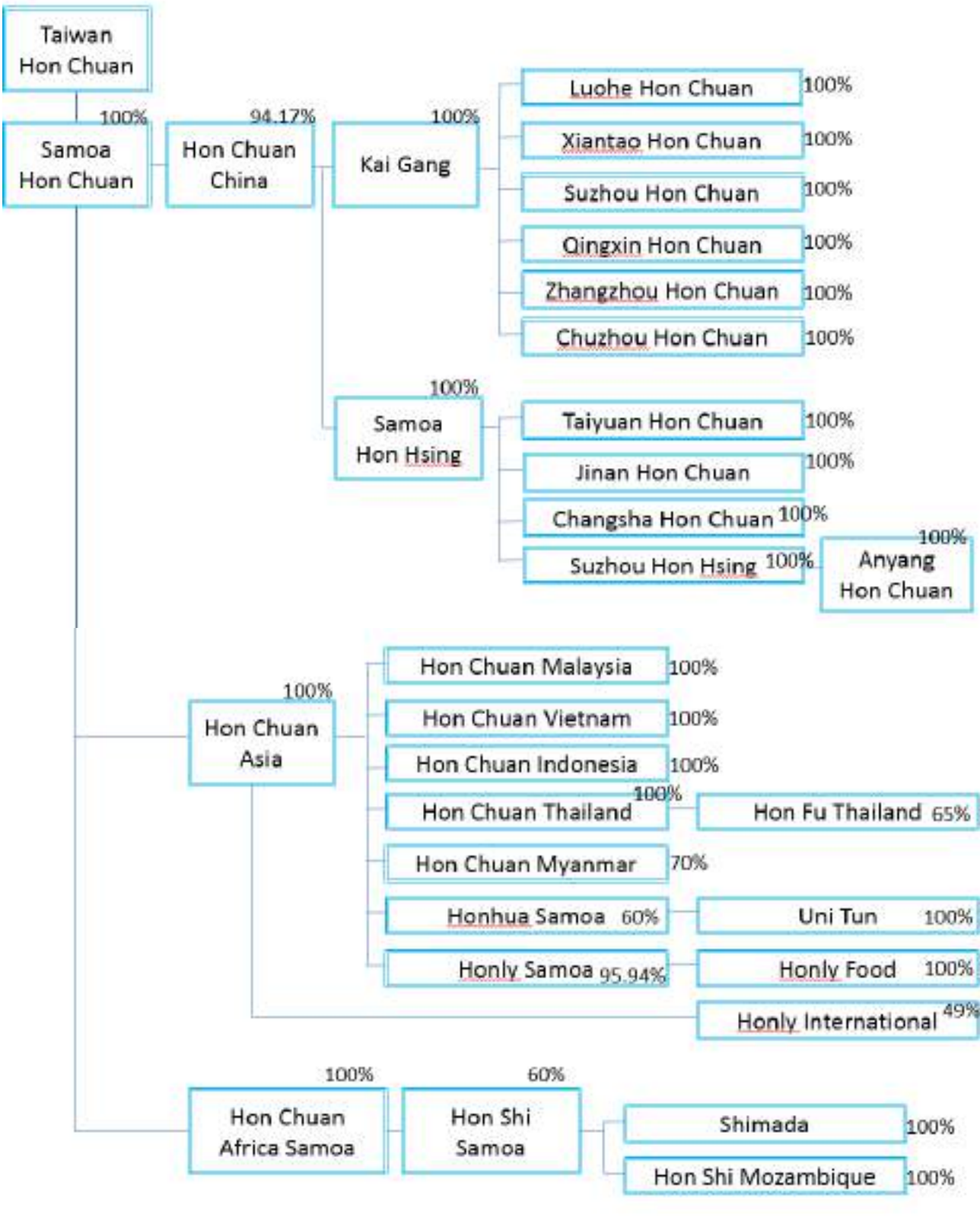
8. Special Disclosures

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, 2018



8.1.1.2 Summary of Affiliated Companies

Unit: NTD\$ 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\$ 395,643,793	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
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\$ 205,863,480	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\$ 1,094,103,339,494	Manufacture and sale of plastic caps, labels 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, PET bottles and LDPE film
Honhua Holdings Co., Ltd.	October 17, 2016	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 7,240,000	International Equity Investment and Trade Business
Uni Tun Co., Ltd.	November 08, 2016	No.525, Pyay Road, Hmawbi Township, Yangon, Myanmar	MMK\$ 186,938,598	Bottled water filling OEM
Honly Holding Co., Ltd.	January 30, 2014	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 1,440,478	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\$ 9,050,000	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: NTD\$ Thousand

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	12,152,199	14,328,311	612,235	13,716,076	29,140	(286)	315,765
Hon Chuan (China) Holding Co., Ltd.	364,654	9,896,502	5,432,924	4,463,578	(19,604)	(42,809)	41,930
Kai Gang Industries Limited	4,713,598	5,341,913	1,354	5,340,559	2,399	(219)	51,786
Hon Hsing (Samoa) Holding Limited	3,870,274	5,046,791	553,503	4,493,288	0	(30)	239,443
Hon Chuan (Africa) Holdings Co., Ltd.	428,294	444,601	0	444,601	1,454	1,377	6,603
Hon Shi (Samoa) Holding Limited	160,680	228,749	709	228,040	0	(3,246)	8,683
Hon Chuan Enterprise (Suzhou) Company Limited	629,348	1,140,504	107,612	1,032,892	586,631	(29,207)	(15,316)
Suzhou Hongxin Food Packing Co., Ltd.	1,412,886	1,145,310	275,495	869,815	821,130	(51,492)	(32,651)
Hon Chuan Enterprise (Changsha) Co., Ltd.	568,228	1,134,378	59,196	1,075,182	445,599	64,859	66,448
Hon Chuan Food Packing (Jinan) Co., Ltd.	890,734	1,575,204	55,192	1,520,012	1,178,934	201,246	157,619
Hon Chuan Food Packing (Taiyuan) Co., Ltd.	1,013,596	1,630,741	54,140	1,576,601	842,164	53,685	43,656
Hon Chuan Food Packing (Qingxin) Co., Ltd.	1,627,890	2,471,004	464,238	2,006,766	1,709,192	131,335	94,778
Hon Chuan Food Packing (Zhangzhou) Co., Ltd.	1,228,599	1,196,031	31,138	1,164,893	271,747	(54,331)	(33,254)
Hon Chuan Food Packing (Chuzhou) Co., Ltd.	307,149	563,720	301,392	262,328	536,474	21,348	6,844
Hon Chuan Food Packing (Xiantao) Co., Ltd.	460,724	690,214	297,265	392,949	206,091	15,877	(9,527)
Hon Chuan Food Packing (Luohe) Co., Ltd.	368,579	886,822	541,850	344,972	259,409	9,397	(7,085)

HC (Asia) Holdings Co.,Ltd.	6,323,097	7,669,808	288,425	7,381,383	125,665	(5,836)	232,660
Hon Chuan (Thailand) Co., Ltd.	1,305,896	2,245,854	143,473	2,102,381	1,552,260	90,475	108,144
Hon Chuan FD Packaging Co., Ltd.	185,747	333,708	42,849	290,859	252,753	14,142	15,027
PT Hon Chuan Indonesia	2,814,393	2,590,377	191,774	2,398,603	1,177,540	70,856	65,393
Hon Chuan Vietnam Co., Ltd.	750,395	1,348,037	199,532	1,148,505	730,649	92,669	84,447
Hon Chuan Malaysia Sdn. Bhd.	577,920	803,811	67,789	736,022	425,394	39,534	27,436
Hon Chuan (Myanmar) Co., Ltd.	640,497	827,310	151,635	675,675	472,472	34,567	17,517
Honhua Holdings Co., Ltd.	222,377	289,127	43,127	246,000	0	(14,667)	26,923
Uni Tun Co., Ltd.	3,703	16,347	5,253	11,094	64,801	27,514	27,375
Honly Holding Co., Ltd.	417,724	265,565	102,453	163,112	23,528	(10,477)	(104,858)
Honly International Co., Ltd.	113,062	121,985	7,823	114,162	0	(1,922)	60
Honly Food & Beverage Co., Ltd.	184,290	258,908	216,859	42,049	44,512	(92,044)	(92,316)
Shimada International Limitada	180	133,157	43,380	89,777	154,782	20,932	11,215
Hon Shi Mozambique Co., Ltd.	80,744	149,061	60,748	88,313	66,386	(3,468)	693

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

USD: 30.715, RMB: 4.475329, THB: 0.953209, RP: 0.002119, VND: 0.001198, MYR: 7.111997, MMK: 0.019811, MZN: 0.499702

(Note 2) Foreign exchange rates (average in 2017, to NTD) for income statement amounts are as follows:

USD: 30.149, RMB: 4.554640, THB: 0.937694, RP: 0.002141, VND: 0.001176, MYR: 7.197501, MMK: 0.021104, MZN: 0.49987

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.)	395,643,793	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	Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan (China) Holding Co., Ltd.)	1,201,561,003	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)	205,863,480	100%
Hon Chuan (Thailand) Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	137,000,000	100%
Hon Chuan FD Packaging Co., Ltd.	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of Hon Chuan (Thailand) Co., Ltd.) ● Kasem Deemaitree, Mrs.Chintana Assodrmitee (Representative of F&D) 	12,666,225 6,820,275	65% 35%
PT Hon Chuan Indonesia	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan, Li, Cho-Pin (Representative of HC (Asia) Holdings Co., Ltd.)	91,630,198	100%
Hon Chuan Vietnam Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	-	100%
Hon Chuan Malaysia Sdn. Bhd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung, Pai, Wen-Pin, Lai, Shen-Yuan, Ting, Chih-Hao (Representative of HC (Asia) Holdings Co., Ltd.)	81,259,900	100%
Hon Chuan (Myanmar) Co., Ltd.	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.) ● Daw Zin Mar Cho, Daw Aye Mya Aung (Representative of Pack Master Co., Ltd.) 	89,524,394 38,367,597	70% 30%
Honly Holding Co., Ltd.	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of HC (Asia) Holdings Co., Ltd.) ● Chiu, Hsien-Tsai 	13,819,780 585,000	95.94% 4.06%
Honly International Co., Ltd.	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Cheng, Ya-Wen, Dai, Hung-I, Tsao, Hung-Yu (Representative of HC (Asia) Holdings Co., Ltd.) ● Chuang, Savy 	1,002 1,043	49% 51%
Honly Food & Beverage Co., Ltd.	Director	<ul style="list-style-type: none"> ● Tsao, Hsih-Chung, Dai, Hung-Chuan, Yen, Ching-Chuan, Chang, Yu-Hung (Representative of HC (Asia) Holdings Co., Ltd.) ● Chuang, Savy 	8,682,570 367,430	95.94% 4.06%
Hon Chuan (Africa) Holdings Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsih-Chung (Representative of Hon Chuan Holding Limited)	13,044,118	100%

Hon Shi (Samoa) Holding Limited	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.) ● Roy Debabrata, Huang, Yu-Hwa 	3,138,790 2,092,526	60% 40%
Shimada International Limitada	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.) ● Roy Debabrata, Huang, Yu-Hwa 	- -	60% 40%
Hon Shi Mozambique Co., Ltd.	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.) ● Roy Debabrata, Huang, Yu-Hwa 	- -	60% 40%
Honhua Holdings Co., Ltd.	Director	<ul style="list-style-type: none"> ● Dai, Hung-Chuan, Tsao, Hsih-Chung, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.) ● Chia, Hsin-Hua, Yang, Cheng-Lin 	5,800,000 1,440,000	60% 40%
Uni Tun Co., Ltd.	Director	<ul style="list-style-type: none"> ● DAW MYA THAZIN KYAWE, DAW WIN WIN KHAING, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.) 	6,000 4,000	60% 40%

Note: Except for Hon Chuan Malaysia Sdn. Bhd., other limited companies do not issue shares.

8.1.2 Independent Auditor's HON CHUAN and Affiliated Enterprises Consolidated Financial Statements: Please refer to Page 104 to 180.

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, 2018, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial 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 26, 2019

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

www.honchuan.com / service@mail.honchuan.com.tw

No.6, 2nd. Rd., Taichung Industrial Park 407, Taiwan

 +886 4 2359 0088  +886 4 2359 0086

