

Stock Code **9939**

# Taiwan Hon Chuan Enterprise Co., Ltd.

# Annual Report 2019



# TWSE

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**Notice to readers**

***This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.***

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# 1. Letter to Shareholders

Looking back at 2019, a year marked by threats and opportunities, Taiwan Hon Chuan faced severe political and economic challenges, intensified competition abroad, and environmental penalties. Despite all, the Company strives to learn from each experience and grow. Externally, the Company looks for opportunities under changing environments; internally, the Company strengthens its corporate governance and continuing implementation of corporate social responsibility. Fortunately, at times of stress and hardships, all staff members continue to work hard, perform, and create growth for the Company. In 2019, consolidated sales reached NTD\$ 21,527,348,000, increased by 8.02% from NTD\$ 19,929,717,000 in 2018. Profit after tax totaled at NTD\$ 1,466,602,000, an increase of 33.06% from last year's NTD\$ 1,102,204,000. Earnings per share were 4.72 dollars for the year of 2019 conclusively.

The Company recognizes that only by accelerating innovation and technology, building out a complete system and complying with regulations, and enhancing the competitiveness of enterprises can we ensure the working interest of all staff members and pursue sustainable development. In this regard, the operation direction of this year continues to focus on lean management and further improvement, and strengthens following six aspects:

- (1) "Adjust" structure: promote CSR (Corporate Social Responsibility) policy, introduce information system management, Internet of Things and Industry 4.0, and promote elite training courses and the goal of staff localization.
- (2) "Increase" efficiency: continuously adjust assembly lines in order to uplift automation processes and capacity utilization.
- (3) "Reduce" costs: implement budget and cost control, purchase negotiation strategies and tender offer management processes.
- (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.

Taiwan Hon Chuan is dedicated to professional development, innovative research and developing, and personnel training, strengthening the development of business competitiveness and the accomplishment of corporate strategic directions, by ways of flexible commercial strategies, steady growing pace, bottom-up resources integration, accumulated experience with domestic and international clients and modern production management technology, in order to demonstrate overall operating synergy.

Looking ahead, focusing on core business, Taiwan Hon Chuan will continue to strive towards our corporate purposes: “acquiring good business reputation, 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 2020.

Chairman :  
Dai, Hung-Chuan

President :  
Tsao, Hsih-Chung

Chief Accounting officer :  
Cheng, Ya-Wen

## 1.2 Business Report

### 1.2.1 2019 Operating Result

#### 1.2.1.1 2019 Execution of Business Plans

In 2019, the consolidated revenue posted at NTD\$ 21,527,348 thousand, increased by 8.02% from 2018. The consolidated income before tax booked NTD\$ 1,998,849 thousand, increased by 34.88% from 2018; The consolidated income after tax reached NTD\$ 1,466,602 thousand, 33.06% higher than previous year. The earning per share was 4.72 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 2019.

#### 1.2.1.3 Financial Results and Profitability Analysis

Item		2019	2018
Finance Structure (%)	Debt to Assets Ratio	56.45	55.54
	Long-Term Capital to Fixed Assets, Machinery and Equipment Ratio	140.31	131.32
Solvency (%)	Current Ratio	133.28	144.43
	Quick Ratio	89.24	90.11
	Interest Coverage (times)	8.64	6.96
Profitability (%)	Return on Assets	5.67	4.68
	Return on Equity	10.94	8.40
	Pre-tax Profit to Paid-in Capital Ratio	68.25	50.60
	Net Margin	6.81	5.53
	Earnings Per Share (NTD\$)	4.72	3.73

#### 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 2019 was as follows:

- (1) 3025 biomass material Bio HDPE
- (2) 38mm double screw aseptic cap
- (3) 1881 aseptic connected cap
- (4) 1881 soda cap lightening
- (5) 1881 aseptic cap lightening
- (6) 1810 bottle neck 300ml hot fill bottle
- (7) 1810 bottle neck 520ml heat and pressure resistant soda bottle
- (8) 1881 bottle neck 500ml soda bottle
- (9) 1810 bottle neck 600ml and 1500ml water bottle
- (10) 38mm bottle neck 330ml and 400ml cold fill bottle
- (11) 1881 bottle neck 525ml and 590ml aseptic bottle
- (12) Lug cap BPA-free internal coating
- (13) 12.8 x 8.0mm alumnimun cap



- (14) Spiral iron cap
- (15) Gold-like shrinkable label

## 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 and product service 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 Evaluation System, in order to make the Company's overall operation more Institutionalized, standardized and rationalized. Achieve the goal of sustainable operation and development.
  - (4) Carry out lean management 2.0, implement budget and cost control, and encourage all departments to proactively propose improvement plans and feasible measures, and track the performance of the project on a regular basis in order to reach the lean and refined 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. Continue to 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 2020 is outlined as follows:

Unit: Thousand Pcs/Kg/Bottle/Box

Major Products	Sales Volume
Plastic Closures	28,084,501
PET Bottles	7,720,289
Labels	3,751,450
Aluminum Closures	781,281
Tobacco & Liquor Packaging	833
Beverage Filling OEM	2,338,980
TR Filling OEM	60,723
Metal Lug Caps	287,774
Others	3,754
Totals	43,029,585

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 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 and market direction, 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, such as lighter bottles, single-sheet plastic caps, eco trademarks, eco-friendly packaging materials, barrier packaging materials, PET beer bottles and plastic beer bottle caps to increase the products' functionality, additional value and differentiation, through continuous innovation and research and development to continue the vitality of products and improve the Company's core competitiveness.

We introduce new technologies including 3D printing, QR code, digital printing, 3D laser anti-fraud technology, 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 depth and breadth 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 <sup>th</sup> Model of Entrepreneurs Prize.
1991	➤ Renamed as Hon Chuan Metal Development Co., Ltd. By introducing High-speed Aluminum Cap Machine from Italy and Gravure Machine from UK, Hon Chuan became the largest closure manufacturer in Taiwan. ➤ Awarded 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"> <li>➤ 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.</li> <li>➤ Received a certificate of ISO 9002 International Quality Assurance System.</li> </ul>
1998	<ul style="list-style-type: none"> <li>➤ Set up an electronic component packaging plant, to produce battery casing and accurate electronic parts.</li> </ul>
1999	<ul style="list-style-type: none"> <li>➤ Renamed as “Taiwan Hon Chuan Enterprise Co., Ltd.” to strive for international business.</li> </ul>
2000	<ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ The Company’s IPO was approved by Taiwan Stock Exchange and Ministry of Finance, R.O.C.</li> </ul>
2001	<ul style="list-style-type: none"> <li>➤ Shares were public listed on Taiwan Stock Exchange on March 2.</li> <li>➤ Set up an Anti-static film equipment to produce Anti-static film, which was certified by a domestic company TFT-LCD.</li> <li>➤ Awarded of “Outstanding Industry” by National Industry Award.</li> </ul>
2002	<ul style="list-style-type: none"> <li>➤ Acquired the shares of Suzhou Hon Chuan to develop Great China market.</li> <li>➤ Received a certificate of SGS ISO 9001:2000 International Quality Assurance System.</li> </ul>
2003	<ul style="list-style-type: none"> <li>➤ 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.</li> </ul>
2004	<ul style="list-style-type: none"> <li>➤ Set up In-House Bottling Lines at Uni-President, Yang Mei Plant and Uni-President, Rui Fang Plant.</li> <li>➤ Incorporated “Hon Chuan (Asia) Holdings Co., Ltd.,” which invested Hon Chuan (Thailand) plant, Hon Chuan FD plant, Hon Chuan (Indonesia) plant to explore South-east Asia Market.</li> <li>➤ Established headquarters in Taiwan, China and South-east Asia.</li> </ul>
2005	<ul style="list-style-type: none"> <li>➤ Set up Ningbo Hon Chuan to manufacture battery casing and accurate electronic parts.</li> </ul>
2006	<ul style="list-style-type: none"> <li>➤ Set up 4 mineral water production lines in Suzhou Hongxing, Changsha Hon Chuan, Jinan Hon Chuan and Taiyuan Hon Chuan.</li> <li>➤ Established Taichung 1st Aseptic Filling Plant at Chungkang Export Processing Zone for aseptic co-packing business.</li> </ul>
2007	<ul style="list-style-type: none"> <li>➤ Established “Hon Chuan (Vietnam) Ltd.” through “Hon Chuan (Asia) Holdings Co., Ltd.,” to produce beverage packaging.</li> </ul>
2008	<ul style="list-style-type: none"> <li>➤ Set up PET blowing production lines at Coke Cola, Taoyuan plant (In House) and Chen Kou Wei, Long Cyuan plant (In House).</li> </ul>
2009	<ul style="list-style-type: none"> <li>➤ Set up Qingxin Hon Chuan at Guangdon, China to provide caps, preforms and beverage OEM service.</li> <li>➤ Built Tainan plant to provide beverage OEM service for Coke Cola.</li> </ul>

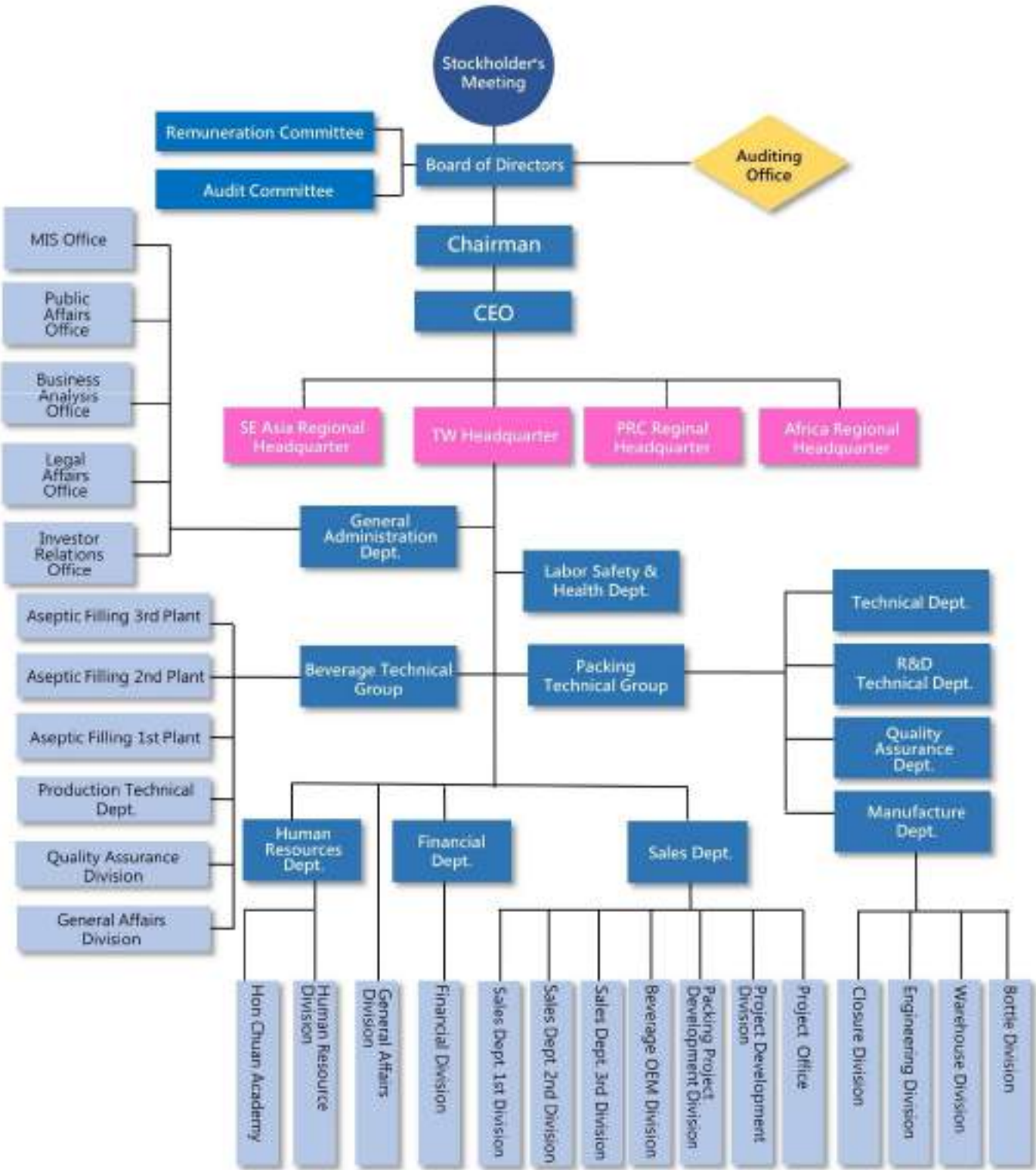
2010	<ul style="list-style-type: none"> <li>➤ Established HeySong Chungli (In-house) Plant and Kuang Chuan Jiayi (In-house) Plant.</li> <li>➤ Established Hon Chuan Indonesia Futami (In house) Plant.</li> <li>➤ Established Xian Coca Cola (In house) plant to provide preforms and water OEM service.</li>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

2017	<ul style="list-style-type: none"> <li>➤ Established In-house blowing bottle plant to cooperate with Tensai Company in Thailand.</li> <li>➤ Established Honhua Holdings Co., Ltd. in Myanmar to invest bottle water production line.</li> <li>➤ Established Hon Chuan Enterprise Packing (Luohe) Co., Ltd. in Henan, China to invest bottle water production line.</li> </ul>
2018	<ul style="list-style-type: none"> <li>➤ Awarded for “Innovative Packaging Design – Gold and Bronze Medal Award”, respectively, in annual innovative products assessment from Taiwan Association for Food Science and Technology.</li> <li>➤ The president, Mr. Tsao, Hsih-Chung, received an Award of Special Contribution in Food Industry from Taiwan Association for Food Science and Technology.</li> </ul>
2019	<ul style="list-style-type: none"> <li>➤ Established In-house blowing bottle plant to cooperate with Vietnam Masan in Vietnam.</li> <li>➤ Established Hon Chuan (Cambodia) Co., Ltd. in Cambodia to invest preform production line.</li> </ul>
2020	<ul style="list-style-type: none"> <li>➤ Set up the 4th aseptic beverage filling production line at the 3rd aseptic beverage filling plant.</li> <li>➤ Established Hon Chuan (Philippines) Corporation in Philippines to develop the Philippines packaging materials market .</li> </ul>

# 3. Corporate Governance Report

## 3.1 Organization

### 3.1.1 Organizational Chart





### 3.1.2 Major Corporate Functions

Department		Functions
Board of directors	Remuneration Committee	Formulate and regularly review the policy, system, standard and structure of directors' and managers' performance evaluation and remuneration. Also, regularly evaluate and formulate the remuneration of directors and managers and supervise the implementation of remuneration policy.
	Audit Committee	Supervise the Company to carry on related business in compliance with The Company Act., Securities and Exchange Act. and related regulations.
	Auditing 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, performance analysis, legal affairs and contract review, ERP systems, project management and investor relationship 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, 2020

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			Remarks (Note 1)
							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  Vice President of Finance Dept.	Dai, Hung-I  Cheng, Ya-Wen	Brother  Spouse	—
Director	R.O.C.	Tsao, Hsih-Chung	M	2017.06.15	3 years	1982.03.22	4,372,243	1.49%	4,372,243	1.49%	1,283,064	0.44%	0	0	(1) The recipient of the 13th China Youth Career Initiation Honor Award (2) Sun Yat-Sen Institute of Policy Research and Development (the tenth term) (3) Wharton School of the University of Pennsylvania, U.S.A. (4) The 18 <sup>th</sup> Director of Food Industry Research and Development Institute (5) Elite Presidents' Camp of Peking University, China (6) The Outstanding Food Entrepreneur Award of Taiwan Association for Food Science and Technology in 2000	(1) General Manager of HON CHUAN (2) Chairman of Hsih-Yueh Development Co., Ltd.	—	—	—	—

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			Remarks (Note 1)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
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 1996 (4) The Outstanding Food Entrepreneur Award of Taiwan Association for Food Science and Technology in 2002 (5) The Distinguished Alumni Award of National Chin-Yi University of Technology in 2010	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	—	—	—	—
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%	5,812,111	1.98%	983,364	0.33%	0	0	(1) Master Degree in urban design, University of Sydney, Australia (2) Department of Architecture, Tamkang University (3) A Chartered Architect in ROC	(1) Director of HON CHUAN (2) Dai Hongyi Architects (3) Chairman of Ren Sun Construction Co., Ltd., Hong-I investment Co., Ltd., Hong-Shan investment Co., Ltd. (4) A member of Urban design advisory committee, Taichung City (5) Assistant professor, Department of Landscape design, National Chin-Yi University of Technology (6) An arbitrator of Chinese Arbitration Association, Taipei	Chairman  Vice President of Finance Dept.	Dai, Hung-Chuan  Cheng, Ya-Wen	Brother  Relationship in law	—
Independent Director	R.O.C.	Kung, Yi-Lu	M	2017.06.15	3 years	2017.06.15	0	0	0	0	0	0	0	0	(1) Master Degree in Accounting, Soochow University, Taiwan (2) Department of Business Administration, Tamkang University, Taiwan (3) Chief Auditor of King's Town Bank (4) Assistant general manager of CDIB Capital Group	Independent Director of HON CHUAN	—	—	—	—
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) Department of Foreign Languages, School of Law, Soochow University (3) Pass the Finance Special Examination (Former senior tax officer of Customs Administration, Ministry of Finance) (4) The 4th member of the Control Yuan (5) Legislator, reelected for 8 times, Chungkuo Kuomintang	Independent Director of HON CHUAN and Rexon Industrial Corp., Ltd.	—	—	—	—

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			Remarks (Note 1)
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
															(6) Convener of Finance Committee					
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 and Tunghai University (6) Independent director of Sino-American Silicon Products Inc. (7) Deputy Section Manager of Finance Division, Administration Department of The Far Eastern Group	(1) Partnership Accountant of EnWise CPAs & Co. (2) A member of Remuneration Committee in Lelon Electronics Corp. (3) A member of Remuneration Committee in Liton Technology Corp. (4) Independent director of Quaser Machine tools Inc.	—	—	—	—

Note 1: Where the chairperson and president or equivalent position (highest level executive officer) is the same person, the spouse, or a first-degree relative, provide information on the reason, reasonableness, necessity, and future improvement measures (such as increasing the number of independent director seats and more than half of all directors not concurrently serving as employees or executive officers): Not applicable.

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

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

Qualifications  Name	Meet One of the Following Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note 2)												Concurrently Serving as an Independent Director / Number of Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department elated to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
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)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
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 the Company or any of its affiliates (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (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 a manager in (1) or personnel in (2) and (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, a top five shareholder, or appointed as the Company's director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (6) Not a director, supervisor, or employee of other companies controlled by the same person with over half of the Company's director seats or shares with voting rights (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (7) Not a director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (8) Not a director, supervisor, or executive officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or

accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the company or to any affiliate of the company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.

- ( 10 ) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company.
- ( 11 ) Not having any of the situations set forth in Article 30 of the Company Act of the ROC.
- ( 12 ) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the ROC.

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, 2020

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			Remarks (Note 3)
					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 18th director of Food Industry Research and Development Institute (5) Elite Presidents' Camp of Peking University, China	Chairman of Hsih-Yueh Development Co., Ltd.	-	-	-	-
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) 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	-	-	-	-	-
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	13,769	0	0	0	(1) Graduated from Electronic engineering Dept., National United University (2) Completed a Management course at Asia 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			Remarks (Note 3)
					Shares	%	Shares	%	Shares	%			Title	Name	Relationship	
Sales Dept. Vice President	R.O.C.	Lai, Shen-Yuan	M	2016.03.29	8,159	0	4,339	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	-	-	-	-	-
Auditing Dept. Senior Assistant Vice President	R.O.C.	Hsieh, Hung-Lung	M	2009.08.11	613	0	489	0	0	0	(1) Graduated from Industrial Management Dept., National Taiwan University of Science and Technology (2) MBA of National Yunlin University of Science and Technology (3) The 1 <sup>st</sup> Taiwan industrial excellence manager Award	-	-	-	-	-
Sales Dept. Senior Assistant Vice President	R.O.C.	Fang, Yu-Lung	M	2009.01.01	1,153	0	1,000	0	0	0	(1) Graduated from Chemical Engineering Dept., Shu-te University (2) Sales Manager, The Key Industrial Co., Ltd.	-	-	-	-	-
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. Senior 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. Senior 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	461	0	0	0	Master degree of Food Science Dept., National Pingtung University of Science and Technology	-	-	-	-	-
Manufacture Dept. Assistant Vice President	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	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	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	-	-	-	-	-



Human Resource Dept. Assistant Vice President (Note 2)	R.O.C.	Lin, Tsang-Pin	M	2020.01.10	163,358	0.06%	0	0	0	0	Master degree of Labor Relations Dept., National Chung Cheng University	-	-	-	-	-
Sales Dept. Assistant Vice President (Note 2)	R.O.C.	Lin, Wei-Hsiang	M	2020.01.10	2,500	0	0	0	0	0	Graduated from International Business Dept., Feng Chia University	-	-	-	-	-

Note 1: The scope of application of managers is according to the explanation in Taiwan-Finance-Securities-(III)-0920001301 of Ministry of Finance, which includes the following:

- (1) General managers or their equivalents
- (2) Assistant general managers or their equivalents
- (3) Deputy assistant general managers or their equivalents
- (4) Chief financial
- (5) Chief accounting officers
- (6) Other persons authorized to manage affairs and sign documents on behalf of a company

Note 2: Promoted from Manager to Assistant Vice President on January 1, 2020.

Note 3: Where the chairperson and president or equivalent position (highest level executive officer) is the same person, the spouse, or a first-degree relative, provide information on the reason, reasonableness, necessity, and future improvement measures (such as increasing the number of independent director seats and more than half of all directors not concurrently serving as employees or executive officers): Not applicable.

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

### 3.3.1 Remuneration of Directors and Independent Directors

December 31, 2019  
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	10,629	10,629	0	0	0.77%	0.77%	8,210	19,840	104	104	2,803	0	2,803	0	1.57%	2.42%	-
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	0	0	0	0	1,800	1,800	0	0	0.13%	0.13%	0	0	0	0	0	0	0	0	0.13%	0.13%	-
Independent Director	Huang, Hsiang-Ying																					
Independent Director	Kung, Yi-Lu																					

Note 1: Pension was recorded as expenses and appropriated in 2019.

Note 2: Describe the policy, system, standard, and structure of remuneration to independent directors, and the correlation between duties, risk, and time input with the amount of remuneration: In accordance with the Company's Articles of Incorporation, the remuneration of independent directors are based on the extent of their participation in the Company's business operations or value of their contribution, at a level consistent with general practices in the industry, and authorized to be passed by the board of directors.

## 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
Less than NT\$ 1,000,000	Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu	Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu	Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu	Hung, Chao-Nan Huang, Hsiang-Ying Kung, Yi-Lu
NT\$ 1,000,000 ~ NT\$ 1,999,999	Liu, Yun-Chang Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu	Liu, Yun-Chang Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu	Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu	Lin, Chuan-Nui Dai, Hung-I Chang, Chun-Shu
NT\$ 2,000,000 ~ NT\$ 3,499,999	Dai, Hung-Chuan Tsao, Hsih-Chung	Dai, Hung-Chuan Tsao, Hsih-Chung	0	0
NT\$ 3,500,000 ~ 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 Remuneration of Supervisors: Not applicable.

### 3.3.3 Compensation of General Manager and Senior Vice President

December 31, 2019  
Unit: NTD\$ Thousand

Unit: NT\$ 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		Compensati on 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	25,391	33,977	308	308	0	0	13,343	0	13,343	0	2.83%	3.45%	—
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 2019 and made pension contributions totaling NTD\$ 308 thousand (including NTD\$ 117 thousand under the new system and NTD\$ 191 thousand under the old system).

### Compensation Brackets

Range of Compensation	Names of President and Vice President	
	From HON CHUAN	From All Consolidated Entities
Less than NT\$ 1,000,000	0	0
NT\$ 1,000,000 ~ NT\$ 1,999,999	0	0
NT\$ 2,000,000 ~ NT\$ 3,499,999	Liu, Yun-Chang Lai, Shen-Yuan Lu, Ching-Chou Chuang, Kuei-Ching	Liu, Yun-Chang Lai, Shen-Yuan Lu, Ching-Chou Chuang, Kuei-Ching
NT\$ 3,500,000 ~ NT\$ 4,999,999	Lee, Chin-Hsiung	Lee, Chin-Hsiung
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

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

December 31, 2019

Unit: NTD\$ Thousand

Title		Name	Stock	Cash	Total Employees' Profit Sharing Bonus	Total Employees' Profit Sharing Bonus Paid to Management Team as a % of Net Profit
Management Team	General Manager	Tsao, Hsih-Chung	-	15,884	15,884	1.15%
	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. Senior Assistant Vice President	Ting, Chih-Hao				
	R&D Technical Dept. Senior Assistant Vice President	Tsao, Chien-Hsia				
	Beverage Technical Group Assistant Vice President	Cheng, Chih-Hung				
	Manufacture Dept. Assistant Vice President	Tsai, Yung-Fu				
	Sales Dept. Assistant Vice President	Liu, Li-Yuan				
	Sales Dept. Assistant Vice President	Pai, Hsien-Wei				

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

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

Title	Total Remuneration as % of 2019 Net Profit		Total Remuneration as % of 2018 Net Profit	
	From HON CHUAN	From All Consolidated Entities	From HON CHUAN	From All Consolidated Entities
Directors	1.71%	2.55%	1.91%	2.84%
General Manager and Vice Presidents	2.83%	3.45%	3.02%	3.68%

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) In accordance with Article 3 Item 2 Paragraph 1 of Remuneration Committee Charter of the Company, performance evaluation and remuneration to directors, supervisors and managers shall take factors into account including industry average remuneration as well as reasonable correlation among individual's performance, the Company's earnings and future risk exposure. The remuneration to general manager and vice presidents 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 2019 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	5	0	100	-
Director	Lin, Chuan-Nui	4	0	80	-
Director	Dai, Hung-I	5	0	100	-
Independent Director	Hung, Chao-Nan	5	0	100	-
Independent Director	Huang, Hsiang-Ying	5	0	100	-
Independent Director	Kung, Yi-Lu	4	0	80	-

Other required information:

1. In the event of either of the following situations, dates, sessions, contents of resolutions of the Board Meetings, opinions from all independent directors, and Company responses to their opinions should be noted:

(1) Article 14-3 of the Securities and Exchange Act: For the year 2019 up to the date of publication of the annual report, the Board of Directors has convened seven meetings. Matters relating to Article 14-3 of the Securities and Exchange Act are as follows:

Meeting Date of the Board of Directors	Content of Motion	All independent directors' opinion and the Company's response
2019.03.26	1. Approved the additional two aseptic beverage production lines of Hon Chuan (Indonesia) Co., Ltd.	Approved by all independent directors; The Company's handling of independent directors' opinions: None
	2. Approved the replacement of CPAs.	
	3. Approved the Statement of Internal Control System	
	4. Approved increase (adjustment) of corporate guarantee for subsidiaries.	
	5. Approved the amendment of Procedures for Acquisition or Disposal of Assets.	
	6. Approved the amendment of Procedures for Loaning of Company Funds to other Parties.	
	7. Approved the amendment of Procedures of Endorsements and Guarantees.	
	8. Approved the amendment of Procedures for Trading Derivatives.	



Meeting Date of the Board of Directors	Content of Motion	All independent directors' opinion and the Company's response
2019.05.10	1. Approved establishment of Hon Chuan (Cambodia) Co., Ltd.	Approved by all independent directors; The Company's handling of independent directors' opinions: None
2019.06.19	1. Approved Cash Capital Increase of Hon Chuan (China) Holdings Co., Ltd. to improve financial structure	
	2. Approved addition of the fourth aseptic beverage production line	
	3. Approved the amendment of Standard Operating Procedure of Handling the Requirements of the Director.	
2019.08.09	1. Approved increase (decrease) of corporate guarantee for subsidiaries.	
2019.11.12	1. Approved establishment of Hon Chuan (Philippines) Co., Ltd.	
	2. Approved the replacement of CPAs.	
	3. Approved increase (decrease) of corporate guarantee for subsidiaries.	
2020.03.23	1. Approved the Statement of Internal Control System	
	2. Approved the amendment of Rules and Procedures for Shareholders' Meeting	
	3. Approved the amendment of Rules and Procedures for Meetings of the Board of Directors	
	4. Approved the amendment of Audit Committee Charter	
	5. Approved the amendment of Salary Compensation Organization Charter	
	6. Approved decrease of corporate guarantee for subsidiaries.	
	7. Approved the stipulation of Operating Procedures for Handling Material Inside Information and Preventing Insider Trading	
	8. Approved the amendment of Ethical Corporate Management Best Practice Principles	
	9. Approved the amendment of Corporate Social Responsibility Best Practice Principles	
	10. Approved the share repurchase program	
2020.05.08	1. Approved the decrease of cash capital increase of Hon Chuan (China) Holdings Co., Ltd.	
	2. Approved the amendment of Ethical Corporate Management Best Practice Principles	

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

- 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: Before the motions are read, the master of ceremonies will remind the directors who have a personal interest in the motion to depart from the field in each board meeting. In the year 2019 up to the date of publication of the annual report, total 7 board meetings were held and all were conducted in accordance with Rules and Procedures for Meetings of the Board of Directors. There was no directors' avoidance of motion in conflict of interest in the 7 board meetings, so no director is required to avoid the motion in conflict of interest.
- TWSE/TPEX Listed Companies shall disclose such information as the evaluation cycle, evaluation periods, scope, method and content of the Board of Directors' self-evaluation or peer evaluation, and fill in the implementation status of the Board of Directors' evaluation.

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation method	Evaluation items
Once a year	Performance evaluation form January 1, 2019 to December 31, 2019	Evaluation of the board of directors and individual directors	Internal evaluation of the board	<p>(1) The board performance evaluation of the Company includes five aspects:</p> <ul style="list-style-type: none"> <li>■ Participation in the operation of the company</li> <li>■ Improvement of the quality of the board of directors' decision making</li> <li>■ Composition and structure of the board of directors</li> <li>■ Election and continuing education of the directors</li> <li>■ Internal control</li> </ul> <p>(2) The individual directors evaluation of the Company includes six aspects:</p> <ul style="list-style-type: none"> <li>■ Alignment of the goals and missions of the company</li> <li>■ Awareness of the duties of a director;</li> <li>■ Participation in the operation of the company</li> <li>■ Management of internal relationship and communication</li> <li>■ The director's professionalism and continuing education</li> <li>■ Internal control</li> </ul>
Once a year	Performance evaluation form January 1, 2019 to December 31, 2019	Evaluation of Audit Committee	Internal evaluation of the Audit Committee	<p>(3) The Audit Committee evaluation includes five aspects:</p> <ul style="list-style-type: none"> <li>■ Participation in the operation of the company</li> <li>■ Awareness of the duties of the Audit Committee</li> <li>■ Improvement of quality of decisions made by the Audit Committee</li> <li>■ Makeup of the Audit Committee and election of its members</li> <li>■ Internal control</li> </ul>
Once a year	Performance evaluation form January 1, 2019 to December 31, 2019	Evaluation of Remuneration Committee	Internal evaluation of the Remuneration Committee	<p>(4) The Remuneration Committee evaluation includes four aspects:</p> <ul style="list-style-type: none"> <li>■ Participation in the operation of the company</li> <li>■ Awareness of the duties of the Remuneration Committee</li> <li>■ Improvement of quality of decisions made by the Remuneration Committee</li> <li>■ Makeup of the Remuneration Committee and election of its members</li> </ul>

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

##### (1) Strengthen the functionality of the Board of Directors:

The Company established functional committees, including the Remuneration Committee (established on 15 March 2012) and Audit Committee (established on 15 June 2017), in order to strengthen the functionality of the Board of Directors. The independent directors as well as the members of the Remuneration Committee, have a wide range of expertise

in accounting, finance, business and law, and often provide effective and professional advice on issues relating to corporate finance, management, new investment plans, internal control and risk control at board meetings; The committee members in accordance with his/her professionalism and independence, make review comments to the Board of Directors in order to ensure the appropriateness of the Company's financial and non-financial reports, the effectiveness of the internal control system, and the reasonableness of the performance evaluation and remuneration of the Company's directors and managers.

## (2) Diversity of the Board of Directors

According to Article 20 of Corporate Governance Best Practice Principle of the Company, the composition of the board of directors shall be determined by taking diversity into consideration and formulating an appropriate policy on diversity based on the company's business operations, operating dynamics, and development needs.

Name of Directors	Gender	Employee of the Company	age			Operational judgment	Management administration	Leadership and policy decision	Accounting and financial	Industry experience	Crisis management	International market perspective
			Under 60	61 to 70	Over 70							
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			✓		✓	✓	✓	✓		✓	✓

Apart from independent directors, general directors of the Company are composed of members with rich industry experience and professional skills. Not only do many of them have higher education degree such as Master Degree in Structural Engineering, University of California, Berkeley, U.S.A, Master Degree in Urban Design, University of Sydney, Australia, EMBA of Beijing University, China, etc., but they are also award-winning leaders in the food packaging industry. As for independent directors, besides outstanding education records 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, Master Degree in Accounting, Soochow University, Taiwan, they also have diverse professional backgrounds and skills, such as legislator for eight consecutive terms, member of the Control Yuan, senior certified public accountants, and general auditor of finance holding company.

## (3) Improve information transparency

The Company has established a comprehensive spokesman system to ensure timely disclosure of all material Information for the reference of shareholders and stakeholders on the financial position and operation of the Company. The Company's website is constantly updated to provide timely information of operations, financial standing and corporate governance to ensure that shareholders have access to the latest information.

## (4) Liability insurance for directors and managers:

In order to reduce the legal and financial burden of management team and lessen the

possible damage to directors and the Company on exercising their duties, the Company has, since 2010, purchased liability insurance for directors and management team. In 2019, the Company has taken out liability insurance with Cathay Century Insurance and the major contents of insured period, insured amount, coverage and so on have been resolved by the Board of Directors on March 23, 2020 according to Article 39 of Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies.

(5) The implementation status of the Board of Directors' functionality:

- The Company amended Rules and Procedures for Meetings of the Board of Directors, Audit Committee Charter, Remuneration Committee Charter in accordance with the applicable regulations.
- In order to strengthen the functionality of the Board of Directors, Standard Operating Procedure of Handling the Requirements of the Director has been resolved by the Board of Directors on June 19, 2019.
- To actively promote corporate governance, the Company reported the implementation status of promoting ethical management affairs to the Board of Directors on March 23, 2020, and amended part of Ethical Corporate Management Best Practice Principles and Corporate Social Responsibility Best Practice Principles.
- To implement the internal control systems, the Board of Directors passed the Operating Procedures for Handling Material Inside Information and Preventing Insider Trading on March 23, 2020.

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

#### **1. Operations of Audit Committee**

(1) The operation of Audit Committee: The Audit Committee of the Company consists of 3 independent directors with diversified professional background and financial expertise such as—legislator for eight consecutive terms, member of the Control Yuan, senior certified public accountants, and general auditor of finance holding company. The Audit Committee holds meetings before board meetings regularly every quarter, and reviews the following matters:

- Review financial reports, business report, profit distribution proposal.
- Review the effectiveness of internal control system.
- Review the adoption of or any amendment to the relevant regulations of internal control system.
- Review the material investment of the Company.
- Review the offering, issuance, or private placement of any equity-type securities of the Company.
- Review material asset or derivatives transactions, loan of fund, endorsement, or provision of guarantee.
- Review the hiring or dismissal of an attesting CPA, or the compensation given thereto.
- Review the assessment report of the independence and suitability of the CPA engaged by the Company.
- Review the Internal Audit report.

- (2) The Audit Committee, comprising 3 independent directors, was set up on June 15, 2017, and assists the Board of Directors in supervising fair presentation of the financial reports of this Corporation, reviewing the assessment report on the independence and competency of the CPA firm, effectiveness of internal control, compliance with relevant laws and regulations, risk management and so on. Audit Committee held 5 meetings (A) in 2019 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	5	0	100	-
Member	Huang, Hsiang-Ying	5	0	100	-
Member	Kung, Yi-Lu	4	0	80	-

Other required information:

1. If any of the following circumstances occurs in the operation of the Audit Committee, the date, period, content of the proposals, the Audit Committee's resolution, and the Company's handling of Audit Committee members' opinions shall be stated:

(1) Matters listed in 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
2019.03.26	1. Resolved the 2018 Financial reports.	Approved by all members of Audit Committee
	2. Resolved the replacement of CPAs.	
	3. Approved the Statement of Internal Control System.	
	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.	
2019.06.19	1. Resolved Cash Capital Increase of Hon Chuan (China) Holdings Co., Ltd. to improve financial structure	Approved by all members of Audit Committee
	2. Resolved addition of the fourth aseptic beverage production line	
2019.08.09	1. Resolved the 2019 First half Financial reports.	Approved by all members of Audit Committee
	2. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2019.11.12	1. Resolved the replacement of CPAs.	Approved by all members of Audit Committee
	2. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2020.03.23	1. Resolved the 2019 Financial reports.	Approved by all members of Audit Committee
	2. Resolved 2019 Profit Distribution Proposal	
	3. Resolved the amendment of Audit Committee Charter	

	4. Resolved increase (decrease) of corporate guarantee for subsidiaries.	
2020.05.08	1. Resolved decrease the amount of cash capital increase of Hon Chuan (China) Holdings Co., Ltd.	Approved by all members of Audit Committee

(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: In the year 2019 up to the date of publication of the annual report, total 6 auditing meetings were held. There was no independent directors' avoidance of motion in conflict of interest in the 6 meetings, so no independent director is required to avoid the motion in conflict of interest.

3. Communication between independent directors and the chief internal auditor and CPAs (must include material matters of communication, methods, results relating to the Company's financial reports and business conditions):

(1) The communication status between independent directors, Chief Audit Executive and CPAs

Date	Meeting	Item discussed	Opinion of Independent Directors
2019.03.26	Auditing meeting	1. Reviewed the Audit report and Defects follow-up report. 2. Reviewed the Company's 2018 Management's reports on internal control.	All independent directors had no opinion
2019.05.10	Auditing meeting	Reviewed the Audit report and Defects follow-up report.	All independent directors had no opinion
2019.08.09	Auditing meeting	Reviewed the Audit report and Defects follow-up report.	All independent directors had no opinion
2019.11.12	Auditing meeting	1. Reviewed the Audit report and Defects follow-up report. 2. Reviewed the Company's 2020 Annual audit plans.	All independent directors had no opinion
2020.03.23	Auditing meeting	1. Reviewed the Audit report and Defects follow-up report. 2. Reviewed the Company's 2019 the Statement of Internal Control System	All independent directors had no opinion

(2) The communication status between independent directors and CPAs

Date	Meeting	Item discussed	Opinion of Independent Directors
2019.03.26	Auditing meeting	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.	All independent directors had no opinion
2019.06.19	Auditing meeting	1. Report of regulatory changes. 2. Discuss Cash Capital Increase of Hon Chuan (China) Holdings Co., Ltd.	All independent directors had no opinion

2020.03.23	Auditing meeting	<ol style="list-style-type: none"> <li>1. Discussed about the content, adjusting entries of 2019 Individual and Consolidated Financial Statements and auditors' report.</li> <li>2. Report of regulatory changes.</li> <li>3. Reviewed the qualification, performance and independency of CPAs.</li> </ol>	All independent directors had no opinion
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## 2. Supervisors' participation in the operation of the Board of Director:

The Company established the Audit Committee in 2017 to replace the supervisor, so it's not applicable.

### 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, approved by the board of directors on November 12, 2015. The principle has resolved in the shareholders' meeting on June 22, 2016. The Company has disclosed on its official website ( <a href="http://www.honchuan.com.tw">www.honchuan.com.tw</a> ) and the Market Observation Post System important management policies regarding protecting shareholders' rights, enhancing the responsibilities of the board of directors, respecting stakeholders' rights, elevating information transparency and so forth.	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 investor relationship 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 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", "Operating Procedures for Handling Material Inside Information and Preventing Insider Trading" and so forth, in order to establish policies of information process and disclosure,	None



Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			prevent information being spilled improperly, make sure the information which the Company discloses publicly consistent and accurate, prevent insider trading from happening.	
3. Composition and Responsibilities of the Board of Directors: (1) Has the Board of Directors developed and implemented diverse corporate policies regarding the composition of members?	V		(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 Page 30. There are nine seats in the Board of Directors, and all of them possess various professional background and work domain: <ol style="list-style-type: none"> <li>1. The percentage of the Company's directors who are employee is 22%. The percentage of independent directors is 33%. 11% of directors are female. The three independent directors were all appointed for the first time on June 15, 2017 and the term of office is under 3 years.</li> <li>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.</li> <li>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,</li> </ol>	None
		V		

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			Central University of Finance and Economics, Peking, China and Master Degree in Accounting, Soochow University, Taiwan and so forth.	
(2) Besides existing Remuneration Committee and Audit Committee, is the company voluntarily setting up other functional committees?	V		4 The board members of the Company are gradually getting younger and the goal is to decrease the average age of directors by 5%. In the future, to cope with the Company's development strategy and internally and externally environmental changes, the Company will strengthen the balance of the Board of Directors according to their expertise and different experience. (2) Besides existing Remuneration Committee and Audit Committee, the Company is evaluating to set up other functional committee.	Other functional committee is being evaluated to set up. Conform to Corporate Governance Best-Practice Principles. None
(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 2019 Board performance evaluation of the Company has been completed and resolved by the Board of Directors on March 23, 2020. The result of this evaluation 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.	
(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 2019 CPAs independence evaluation of the Company has been	None

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			completed and resolved by the Board of Directors on March 23, 2020, in order to implement corporate governance and enhance the functions of the Board of Directors. For CPAs independence evaluation results, please refer to Note 1.	
4. Whether the listed company sets up a suitable number of competent corporate governance personnel, and has it appointed a corporate governance supervisor responsible for corporate governance matters (including but not limited to provide the information required by directors and supervisors, to assisting directors and supervisors with regulatory compliance, to handle the matters relating to the Board of Directors' and the shareholders' meeting to keep minutes during the Board of Directors' and the shareholders' meeting)?	V		<p>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:</p> <ol style="list-style-type: none"> <li>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 structures to promote the independency of the Board of Directors, enhance the transparency of the Company, comply with laws and regulations and implement internal audit and internal control.</li> <li>2. Consult each director about opinions, formulate agenda, inform all directors of attendance 7-day earlier, provide meeting document before the Board of Directors' meeting. Remind the directors to avoid attendance If they have conflict of interest in any agenda .</li> <li>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.</li> </ol>	None
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's website has a stakeholders section, which provides exclusive communication channels for different stakeholders (including employees, investors / media, customers, purchasing vendors / cooperative vendors / banks, etc.) in order to respond those major corporate social responsibility issues of which stakeholders are concerned.	None

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
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 relationship 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 PowerPoints of investor conference in Investors' section on the Company's website.	None
(3) Does the company announce and report annual financial statements within two months after the end of each fiscal year, and announce and report Q1, Q2, and Q3 financial statements, as well as monthly operation results, before the prescribed time limit?	V		(3) The Company will understand and evaluate the feasibility with relevant departments.	None
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		1. Employee rights: The Company sets up Employee Welfare Committee to protect employee rights and provides comprehensive training, talent cultivation and promotion system. 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	None

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			<p>(monthly meeting, President mailbox, employee satisfaction survey and so on), and gives appropriate respond and improvement.</p> <p>3. Investor relation: The Company continues to maintain positive interaction with investors, including building up an investor relations zone on the website, 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 &amp; Rights of stakeholders: The Company has identified major stakeholders through internal meetings and discussions with the CSR committee. Also, the Company sets up the consultation 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 identification:</p> <p>A. The Company assesses the risk of the environmental, social and corporate governance issues that may affect the operation of the Company and formulates the relevant countermeasures. For details, please refer to the Company's website to download the corporate social responsibility report.</p>	

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
			<p>B. 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.</p> <p>Please refer to page 186 to 191 “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 enhancement of market competition advantages. Please refer to page 89 to 97 “overview of market, production and sales” in this annual report.</p> <p>8. Liability insurance for directors and supervisors: The Company purchases liability insurance for all directors (independent directors) every year, the insurance coverage is USD 7 million now. The major contents of liability insurance, which expired and then renewed in January 2020, such as the insured period, insured amount, coverage, premium rate and so on have been resolved by the Board of Directors on March 23, 2020.</p>	

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies	
	Yes	No	Description		
9. According to the result of Corporate Governance Evaluation issued in the most recent year by Corporate Governance Center of Taiwan Stock Exchange, please explain the improvement status, and give priority to matters and measures that have not yet been improved:					
No	Index		Improvement Status		
1.15	Do the Company's internal rules stipulate and disclose on the company's website that it prohibits insiders such as company directors or employees from using information that is not available in the market for profit?		The Company's Board of Directors resolved the " Operating Procedures for Handling Material Inside Information and Preventing Insider Trading" on March 23, 2020, which clearly prohibits insiders from exploiting information that is not available to the market for porfit.		
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 2019 Board performance evaluation of the Company has been completed and resolved by the Board of Directors on March 23, 2020, and will be disclosed at the Company's website.		
4.2	Does the Company set up a full-time (part-time) unit that promotes corporate integrity management and is responsible for the formulation and supervision of the integrity management policy and prevention plan, and describes the operation and implementation of the unit on the Company website and annual report, and regularly reports to the board of directors?		The Human Resources Department of the Company is responsible for promoting the ethical management policy, and the Auditing Office is responsible for the formulation and supervision of the ethical management policy and prevention plan. The execution of ethical management in 2019 was reported to the Board of Directors by the audit supervisor on March 23, 2020.		
4.1	Does the Company set up an appropriate governance structure to formulate and review corporate social responsibility policies, systems or related management policies, and disclose them on the Company's website and annual report?		The Company has established the "Corporate Social Responsibility Committee" in October 2019 to formulate corporate social responsibility policies. The General Administration Department, as the promoting integration unit, shall assist each group in holding meetings and confirming the implementation progress. The Company will officially release the first corporate social report and it will be available on the Company's website at the end of June 2020, following the core option of GRI Standards: 2016 issued by the Global Reporting Initiative (GRI), and the report is also compiled in accordance with the " Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Corporate		
4.3	Does the Company regularly disclose the specific promotion plans and implementation of corporate social responsibility on the Company's website and annual report?				
4.4	Does the Company reference internationally accepted reporting standards or guidelines, and prepare reports that disclose non-financial information of the Company, such as corporate social responsibility reports?				

Item	Implementation Status			Reason for Deviations from Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
4.5			Do the corporate social responsibility reports that disclose non-financial information of the Company obtain assurance from a third party verification unit?	Social Responsibility Reports by TWSE Listed Companies ", and it has been verified by an independent third-party organization, SGS Taiwan. This report discloses relevant information such as the concrete promotion plans and implementation results. For details, please refer to the Company's website to download the corporate social responsibility report.

Note 1: 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	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)
	Name	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	9	10		
Independent director	Hung, Chao-Nan		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None	-
Independent director	Huang, Hsiang-Ying	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	-
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 any of its affiliates (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (3) Not a natural-person 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 one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the Company's outstanding shares, is a top five shareholder, or appointed a representative as the Company's director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (6) Not a director, supervisor, or employee of other companies controlled by the same person with over half of the Company's director seats or shares with voting rights (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (7) Not a director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (8) Shareholders (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
- (9) Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT\$500,000 in the most recent two years to the company or to any affiliate of the company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.
- (10) 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 2019.

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
2019.03.26	1. Resolved the Company's 2018 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 2019 promotion of executives.		
2019.05.10	1. Resolved the Company's 2018 Employees dividend of Managers.		

### 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. Has the Company conducted risk assessment on environmental, social and corporate governance issues related to business operations of the Company in accordance with the concept of materiality and established relevant risk management policies or strategies?	V		In order to reduce the impact of potential risk losses, the Company has planned that each functional unit shall identify potential risks, assess the environmental, social and corporate governance issues that may affect the Company's operations, and adopt comprehensive risk control and management from all personnel to set up successive lines of defense. When a risk loss occurs, the Company has an internal crisis management team to quickly take corresponding measures and carry out relevant management and control, so as to ensure the survival of the enterprise and quickly resumes normal production and business activities.	None
2. 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		The Company upholds the corporate purpose of "Business Reputation, Market Orientation, Employee Welfare, Customer Service, Society Charity, Employee Respect", and also deeply understands that in addition to the pursuit of stable growth, the Company attaches importance to corporate social responsibility, which is the responsibility of being a corporate citizen. As a result, the Company formulated "Corporate Social Responsibility Best Practice Principles" on November 12, 2015 and established the "Corporate Social Responsibility Promotion Committee" in October 2019, which stipulates that the General Administration Department shall be responsible for corporate social responsibility policies and systems, integrate the management policies and specific promotion plans of the implementation teams, and report the implementation status to the Board of Directors. The Company will officially release the first corporate social report in June 2020. For details, please refer to the Company's website.	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
3. Sustainable Environment Development: (1) Dose the company develop proper environmental management policy suitable for its industry characteristics?	V		(1) The Company offers beverage packaging products and OEM filling service, and the production processes are related to environmental protection, food safety, and customer health and so on. In order to implement completely social responsibility, comply with national regulations and other requests, it devotes to the prevention of environmental pollution and enhancement of employees' safety and health in work place. Also, it sets up "Labor Safety & 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 (ISO45001 、CNS 15506 (TOSHMS), Environmental Management System (ISO 14001) 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.	None
(2) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		(2) 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

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 evaluate potential risks and opportunities brought by climate change, and take response measures to climate-related issues?	V		(3) After assessing the environmental risks, the Company's response to climate change are as follows: 1. Purchase goods according to plan and select the supply source, origin and production mode, etc., to avoid the impact of cost due to climate change and natural disasters. 2. Carefully evaluate and actively develop new material sources, in addition to reducing the risk of interruption, and use alternative materials and formulations that are more environmentally friendly.	None				
(4) Does the company compile statistics of greenhouse gas emissions, water use, and total weight of waste in the past two years, and does it establish policies for energy conservation & carbon reduction, greenhouse gas emission reduction, water use reduction, and other waste management?	V		(4) The Company attaches importance to and actively promotes the issues related to environmental protection, formulates environmental policies and promotes the implementation. Every year, the Company counts the total amount of electricity consumption, greenhouse gas emissions, water consumption and waste disposal and compiles the statistics. After analysis and evaluation, the Company sets the following goals: <table border="1"><tr><td>Short-term</td><td>1. Enhance the Company's colleagues' awareness of environmental protection and acting in according to the law. 2. Reduce electricity consumption by more than 1% annually and annual energy intensity of Taichung 1st Plant reduces by 1%. 3. Reduce organic air pollutant emissions by about 110 tons per year. 4. Promote and implement recycling and waste management control to colleagues.</td></tr><tr><td>Mid-</td><td>1. To systematize and standardize the</td></tr></table>	Short-term	1. Enhance the Company's colleagues' awareness of environmental protection and acting in according to the law. 2. Reduce electricity consumption by more than 1% annually and annual energy intensity of Taichung 1st Plant reduces by 1%. 3. Reduce organic air pollutant emissions by about 110 tons per year. 4. Promote and implement recycling and waste management control to colleagues.	Mid-	1. To systematize and standardize the	None
Short-term	1. Enhance the Company's colleagues' awareness of environmental protection and acting in according to the law. 2. Reduce electricity consumption by more than 1% annually and annual energy intensity of Taichung 1st Plant reduces by 1%. 3. Reduce organic air pollutant emissions by about 110 tons per year. 4. Promote and implement recycling and waste management control to colleagues.							
Mid-	1. To systematize and standardize the							

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies						
	Yes	No	Description							
			<table><tr><td>term</td><td>environmental protection management of each plant</td></tr><tr><td></td><td>2. Implement the requirements of the competent authority and promote continuous improvement measures and replace the energy-intensive equipment.</td></tr><tr><td>Long-term</td><td>Increase investment in new environmental protection technologies or equipment, and implement recycling or pollution source reduction</td></tr></table> <p>Please refer to the Company's website to download the corporate social responsibility report for details.</p>	term	environmental protection management of each plant		2. Implement the requirements of the competent authority and promote continuous improvement measures and replace the energy-intensive equipment.	Long-term	Increase investment in new environmental protection technologies or equipment, and implement recycling or pollution source reduction	
term	environmental protection management of each plant									
	2. Implement the requirements of the competent authority and promote continuous improvement measures and replace the energy-intensive equipment.									
Long-term	Increase investment in new environmental protection technologies or equipment, and implement recycling or pollution source reduction									
4. Social issues:										
(1) Does the company develop related management policies and procedures in compliance with relevant regulations and International Bill of Human Rights?	Y		(1) The Company complies with International Bill of Human Rights, such as gender equality, the right to work and the right to prohibit discrimination, as well as the work rules and regulations stipulated by the Labor Standards Law and relevant regulations, and formulates human resources policies to ensure the rights and interests of workers.	None						
(2) Does the company have reasonable employee benefit measures (including salaries, leave, and other benefits), and do business performance or results reflect on employee salaries?	Y		(2) The Company has remuneration and various bonus plans. In addition to the basic salary and holiday bonus, the Company also provides employees with rewards according to the Company's operating conditions and the performance of each colleague, including performance bonus, overfulfillment bonus, year-end bonus, project bonus, extra dividend, and so on. Furthermore, the Company has also formulated work rules and related personnel management rules, which are in accordance with Labor Standards Law, Act of Gender Equality in Employment, and so on. The Employee Welfare Committee is responsible for implementation of welfare matters.	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 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 offer career development training program to employees?	V		(4) In order to actively train personnel, 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 103 to 105 "labor relations" in this annual report and the human resource section on Company's website.	None
(5) Does the company comply with relevant regulations and international standards in customer health and safety, customer privacy, and marketing and labeling its goods and services, and has it established consumer rights protection policies and complaint procedures?	V		(5) In order to provide to customer products that meet customer requirements and requirements of the laws and regulations, the Company identifies food safety hazards and effectively control the occurrence of risks, strengthening the control capability of food and quality safety. Since 1996, the Company has self-required the formation of an cross-functional team which is responsible for implementation of the establishment, promotion and maintenance of the food quality/safety management system, and has successively passed the certification of the ISO 9001 Quality Management System and the Food Safety System Certification 22000 (FSSC 22000) and	None

Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
(6) Does the company have a supplier management policy, require suppliers to comply with regulations on environmental protection, occupational safety and health, and labor rights, and what is its implementation status?	V		<p>TQF, and continuously improved and maintained the effectiveness of the system.</p> <p>For the past few years, the Company has produced products in accordance with the Act Governing Food Safety and Sanitation on product liability and labeling requirements, without any illegal records. The Company also attaches great importance to the rights and interests of consumers and has set up a customer complaint service (Sales Department) which handles the reply, review and report immediately.</p> <p>(6) For all contracts, the Company requests suppliers to comply with government laws and all regulations. If there is any violation, the entire penalty is on the suppliers, and the Company may terminate or remove related clauses in the contracts at any time.</p>	None
5. Does the company reference internationally accepted reporting standards or guidelines, and prepare reports that disclose non-financial information of the company, such as corporate social responsibility reports? Do the reports above obtain assurance from a third party verification unit?	V		<p>The Company will officially release the first corporate social report at the end of June 2020, following the core option of GRI Standards: 2016 issued by the Global Reporting Initiative (GRI), and the report is also compiled in accordance with the " Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies ", and it has been verified by an independent third-party organization, SGS Taiwan. For details, please refer to the Company's website to download the corporate social responsibility report.</p>	None
6. 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.				
<p>7. Other helpful information in understanding corporate social responsibility:</p> <p>For more details of the Company's corporate social responsibility performance, corporate governance, food safety, product services, sustainable environment, caring for employees / society, please refer to the Company's website to download the corporate social responsibility report</p>				



Item	Implementation Status			Reason for Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies
	Yes	No	Description	
8. Please illustrate if the Corporate Social Responsibility Report has been certified: The Company's 2019 corporate social responsibility report has been verified by an independent third party organization, SGS Taiwan, according to the AA1000AP Account Ability Principles, and complied with the core option of GRI Standards: 2016 issued by the Global Reporting Initiative (GRI) and the Type 1 Moderate level.				

### 3.4.6 Implementation of Ethical Corporate Management and Deviations from the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons

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 establish an ethical corporate management policy that was approved by the Board of Directors, and declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board and management to implement the policies?	V		(1) The General Administration Department of the Company has made the "Ethical Corporate Management Best Practice Principles" on November 12, 2015 which has been resolved by the Board of Directors that year and amended by the Board of Directors on March 23, 2020. Also, the Company requires that from the Board of Directors, the senior management to all the colleagues must implement the commitment of the ethical management policy. This code has been published on the Company's website for reference by various stakeholders.	None
(2) Does the company establish mechanisms for assessing the risk of unethical conduct, periodically analyze and assess operating activities within the scope of business with relatively high risk of unethical conduct, and formulate an unethical conduct prevention plan on this basis, which at least includes preventive measures for conduct specified in Article 7, Paragraph 2 of the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies?	V		(2) In order to ensure the implementation of ethical management, the Company has established effective accounting system and internal control system through the work of various departments and the Company's management policy of organization, authority and responsibility; the internal auditors conduct regular and irregular internal control and audit every year to establish a supervisory mechanism to prevent the occurrence of internal dishonest and improper behaviors.	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	V		(3) The Company has formulated "Corporate Governance Best Practice Principle", "Ethical Corporate Management Best Practice Principles", "Guidelines for the Adoption of Codes of Ethical Conduct for Directors and Managerial Officers",	None

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
listed companies?			"Whistle-blowing Procedures for Violations of Ethical Corporate Management " and so on. Also, the Company has standardized the relevant anti-fraud measures, the operation procedures of ethical management, punishment and grievance system for violations, and implemented them one by one.	
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
(2) Did the company establish a dedicated unit under the board of directors to promote ethical corporate management, and periodically (at least once a year) report to the Board of Directors and supervise the implementation of the ethical corporate management polic and unethical conduct prevention plan?	V		(2) The Company's Board of Directors resolved the " Ethical Corporate Management Best Practice Principles " on March 23, 2020, which clearly stated that the Human Resources Department of the Company is responsible for promoting the ethical management policy, and the Auditing Office is responsible for the formulation and supervision of the ethical management policy and prevention plan. The execution of ethical management in 2019 was reported to the Board of Directors by the audit supervisor on March 23, 2020.	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	V		(4) In order to make sure the implementation of ethical management, the Company has established an effective accounting system, set up the independent Auditing Office under the organization of Board of	None

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
<p>accountant agency?</p> <p>(5) Does the company hold internal and external ethical corporate management training courses regularly?</p>	V		<p>Directors, and established an internal control system in accordance with "Regulations Governing Establishment of Internal Control Systems by Public Companies".</p> <p>The Auditing Office prepares annual audit plans and projects according to the results of risk assessment every year. For the inspection result, the internal auditors will fully communicate with the inspected units, put forward improvement suggestions and track the improvement results. The defects and anomalies of the internal control system will be disclosed in the audit report.</p> <p>(5) The Company holds related courses in "Ethical Corporate Management Best Practice Principles" to every new employees, and holds related Educational trainings and propagandas irregularly for directors, managers and employees. In 2019, the Company held in total 501 attendants and 318 hours of courses related to ethical corporate management.</p>	None
<p>3. Whistle-blowing system:</p> <p>(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?</p>	V		<p>(1) 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 channels and procedures. Whistler may report the whistle-blowing case through the following ways:</p> <ul style="list-style-type: none"> <li>• Email: <a href="mailto:ethics@mail.houchuan.com.tw">ethics@mail.houchuan.com.tw</a></li> <li>• Paper document: No.6, 2nd. Road, Industrial Park, Xitun Dist., Taichung Taiwan, R.O.C (To Auditing Office).</li> </ul> <p>Moreover, the Company sets up a president's mailbox and a stakeholders section on its website, for clients, suppliers, subcontractors and employees</p>	None

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
(2) Does the company establish standard operating procedures for investigating reported cases, and does it take subsequent measures and implement a confidentiality mechanism after completing investigation?	V		to report or appeal. (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.	None
(3) Does the company have protection mechanism for whistleblower?	V		(3) The Company sets up a protection policy for whistleblower in its "Whistle-blowing Procedures for Violations of Ethical Corporate Management". The personal data of the whistleblowers and interested parties, such as their names, telephone numbers and addresses, shall be kept strictly confidential. Those responsible for investigating the reporting matters shall also strictly observe the confidentiality of the whistleblowers and the matters reported. If it is necessary to disclose the identity of the whistleblower, the consent of the whistleblower shall be obtained, and all activities conducted by the whistleblower or his/her department or other relevant departments for the purpose of identifying the identity of the whistleblower shall be prohibited. If the identity of the whistleblower is accidentally exposed, the unit that accepts the whistle-blowing shall investigate the process of exposure, strictly deal with the identity and the contents of the whistleblower in accordance with the related regulations of the Company, and assign a person to investigate the content of whistle-blowing. If whistleblower'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

Item	Implementation Status			Reason for Deviations from ECM Best-Practice Principles for TWSE Listed Companies
	Yes	No	Summary Description	
4. Enhancing Information Disclosure: Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and Market Observation Post System?	V		<p>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.</p> <p>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/her related information in accordance with regulation.</p> <p>In order to protect the rights and interests of relevant stakeholders, the Company is committed to providing multiple channels for the most immediate communication with stakeholders and exposing important information in a transparent, smooth and multi-faceted way. We have set up multiple channels for all kinds of stakeholders in the stakeholders section of the Company's website to improve the efficiency of communication between the company and all stakeholders and enhance the transparency of information disclosure.</p>	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 Ethical Corporate Management Best-Practical Principles.				
6. Other helpful information in understanding the Company's corporate social responsibility practices: <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>3. The Company sets up "Operating Procedures for Handling Material Inside Information and 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.</li> </ol>				

### 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
Director	Dai, Hung-Chuan	2017.06.15	2019.11.12	Taiwan Institute of Directors	The 8 <sup>th</sup> Annual Chiines Family Business Forum	3 hours
Independent Director	Kung, Yi-Lu	2017.06.15	2019.11.06	Taiwan Stock Exchange	The propaganda of Fulfilling the function of the board of directors.	3 hours
Independent Director	Huang, Hsiang-Ying	2017.06.15	2019.02.13	CPA Associations R.O.C.(Taiwan)	The Application of Cloud Computing in Business Management	3 hours
			2019.03.27	CPA Associations R.O.C.(Taiwan)	Common Missing Signing of Public Companies	3 hours
			2019.04.11	CPA Associations R.O.C.(Taiwan)	Tax Act of Repatriation of funds of Taiwanese Businessman	3 hours
			2019.06.03	Associations Approved Symposium	Construction Enterprises Registration and Net Value Review	3 hours
			2019.06.12	CPA Associations R.O.C.(Taiwan)	Small and Medium Accountancy Firms Managament	3 hours
			2019.06.21	CPA Associations R.O.C.(Taiwan)	Planning of Family Business Succession	3 hours
			2019.08.21	CPA Associations R.O.C.(Taiwan)	How to Respond Money Laundering Control Act	3 hours
			2019.11.26	Associations Approved Symposium	Audit Supplemental Instruction	3 hours
			2019.11.29	Associations Approved Symposium	Small and Medium Enterprise Consolidates management right	3 hours
			2019.12.23	CPA Associations R.O.C.(Taiwan)	Finance and Tax of Consortium	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 23, 2020

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 2019:

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, 2019, 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 2019 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 23, 2020, 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 If there has been any legal penalty against the company or its internal personnel, or any disciplinary penalty by the company against its internal personnel for violation of the internal control system, during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report, where the result of such penalty could have a material effect on shareholder equity or securities prices, the annual report shall disclose the penalty, the main shortcomings, and condition of improvement:**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 19, 2019	<ol style="list-style-type: none"> <li>1. Approval of 2018 Financial Statements.</li> <li>2. Approval of 2018 Profit Distribution Proposal.</li> <li>3. Resolution of amendments to "Articles of Incorporation".</li> <li>4. Resolution of amendments to "Procedures for Acquisition or Disposal of Assets".</li> <li>5. Resolution of amendments to "Procedures for Loaning of Company Funds to other Parties".</li> <li>6. Resolution of amendments to "Procedures for Endorsements and Guarantees".</li> <li>7. Resolution of amendments to "Procedures for Trading Derivatives".</li> </ol>	<ol style="list-style-type: none"> <li>1. Related statements have been submitted to competent authority and publicly reported in accordance with The Company Act and related regulations.</li> <li>2. Set up July 13, 2019 as the ex-dividend date, and the distribution has been completed.</li> <li>3. Effective upon resolution of the shareholders meeting.</li> <li>4. Effective upon resolution of the shareholders meeting, and the revised content has been published in the Market Observation Post System(MOPS).</li> <li>5. Effective upon resolution of the shareholders meeting, and the revised content has been published in the Market Observation Post System(MOPS).</li> <li>6. Effective upon resolution of the shareholders meeting, and the revised content has been published in the Market Observation Post System(MOPS).</li> <li>7. Effective upon resolution of the shareholders meeting.</li> </ol>

### 3.4.11.2 Significant resolutions reached in the Board meeting

Date	Major Proposals
March 26, 2019	<ol style="list-style-type: none"> <li>1. Resolution of 2018 Employees' Compensation and Directors' Remuneration.</li> <li>2. Approval of 2018 Financial Statements.</li> <li>3. Approval of 2018 Consolidated Financial Statements.</li> <li>4. Resolution of 2018 Profit Distribution.</li> <li>5. Resolved to convene 2019 Annual Shareholders' Meeting on June 19, 2019.</li> <li>6. Resolution of amendments to "Articles of Incorporation."</li> <li>7. Approval of the addition of two aseptic beverage production lines for Indonesia Hon Chuan.</li> <li>8. Approval of the replacement of CPAs.</li> <li>9. Approval of increase (adjustment) of corporate guarantee for subsidiaries.</li> <li>10. Resolution of amendments to "Procedures for Acquisition or Disposal of Assets."</li> <li>11. Resolution of amendments to "Procedures for Loaning of Company Funds to other Parties."</li> <li>12. Resolution of amendments to "Procedures of Endorsements and Guarantees."</li> <li>13. Resolution of amendments to "Procedures for Trading Derivatives."</li> </ol>
May 10, 2019	<ol style="list-style-type: none"> <li>1. Approval of the 1th quarter of 2019 Consolidated Financial Statements.</li> <li>2. Resolution of the establishment of Cambodia Hon Chuan company.</li> </ol>
June 19, 2019	<ol style="list-style-type: none"> <li>1. Resolution of Cash Capital Increase of Hon Chuan (China) Holdings Co., Ltd. to improve financial structure.</li> <li>2. Resolution of addition of the fourth aseptic beverage production line.</li> <li>3. Resolution of the date for cash dividend distribution.</li> <li>4. Resolution of amendments to "Standard Operating Procedure of Handling the Requirements of the Director".</li> </ol>
August 9, 2019	<ol style="list-style-type: none"> <li>1. Approval of the 2nd quarter of 2019 Consolidated Financial Statements.</li> <li>2. Resolution of increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
November 12, 2019	<ol style="list-style-type: none"> <li>1. Approval of the 3rd quarter of 2019 Consolidated Financial Statements.</li> <li>2. Resolution of the establishment of Hon Chuan Philippines.</li> <li>3. Resolution of the replacement of CPAs.</li> <li>4. Resolution of increase (decrease) of corporate guarantee for subsidiaries.</li> </ol>
March 23, 2020	<ol style="list-style-type: none"> <li>1. Resolution of 2019 Employees' Compensation and Directors' Remuneration.</li> <li>2. Approval of 2019 Financial Statements.</li> <li>3. Approval of 2019 Consolidated Financial Statements.</li> <li>4. Resolution of 2019 Profit Distribution.</li> <li>5. Resolved to convene 2020 Annual Shareholders' Meeting on June 19, 2020.</li> <li>6. Resolution of Directors Election</li> <li>7. Resolution of the Release for the Directors and Independent Directors from the Non-competition Restriction.</li> <li>8. Resolution of amendments to "Rules and Procedures for Shareholders' Meeting".</li> <li>9. Resolution of amendments to "Rules and Procedures for Meetings of the Board of Directors".</li> <li>10. Resolution of amendments to "Audit Committee Charter".</li> <li>11. Resolution of amendments to "Remuneration Committee Charter".</li> <li>12. Resolution of decrease of corporate guarantee for subsidiaries.</li> <li>13. Resolution of stipulation of "Operating Procedures for Handling Material Inside Information and Preventing Insider Trading".</li> <li>14. Resolution of amendments to "Ethical Corporate Management Best Practice Principles".</li> <li>15. Resolution of amendments to "Corporate Social Responsibility Best Practice Principles".</li> <li>16. Resolution of share repurchase and cancel the registration of such shares.</li> </ol>
May 8, 2020	<ol style="list-style-type: none"> <li>1. Approval of the 1th quarter of 2020 Consolidated Financial Statements.</li> <li>2. Resolution of adjustment of Cash Capital Increase of Hon Chuan (China) Holdings Co., Ltd.</li> </ol>

Date	Major Proposals
	3. Resolution of amendments to "Ethical Corporate Management Best Practice Principles"

**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. Information Regarding the Company's Audit Fee and Independence

Name of accounting firm	Accountant name		Audit period	Remarks
Deloitte & Touche	Tseng, Done-Yuin	Yen, Hsiao-Feng	Jan 01, 2019 ~ Dec 31, 2019	-

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)				

### 3.5.2 Non-audit fees paid to CPA, accounting firm and affiliated companies thereof that amount to more than 1/4 of audit fees:

CPA Firm	Name of CPAs	Audit Fee	Non-Audit Fee					Audit Period	Note
Deloitte & Touche	Tseng, Done-Yuin	8,100	Policy Design	Business Registration	Human Resource	Other (Note 1)	Subtotal	Jan 01, 2019 ~ Dec 31, 2019	-
	Yen, Hsiao-Feng		0	30	0	578	608		

Note 1: Services relate to transfer pricing report.

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

**3.5.4 Reduction of audit fees by more than 10% compared to the previous year: None.**

## **3.6 Replacement of CPAs**

### **3.6.1 Regarding former CPA**

Date of change	November 12, 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	Tseng, Done-Yuin and Yen, Hsiao-Feng (Note)
Date of appointment	November 12, 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 Yen, Hsiao-Feng and Wu, Li-Dong to Tseng, Done-Yuin and Yen, Hsiao-Feng on November 12, 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	2019		As of April 21, 2020	
		Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged	Increase (Decrease) in Shareholding	Increase (Decrease) in Shares Pledged
Chairman	Dai, Hung-Chuan	(93,000)	0	0	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	(93,000)	0	15,000	0
Director	Chang, Chun-Shu	0	0	0	0
Independent Director	Hung, Chao-Nan	0	0	0	0
Independent Director	Huang, Hsiang-Ying	0	0	0	0
Independent Director	Kung, Yi-Lu	0	0	0	0
Group Vice President	Pai, Wen-Pin	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	(93,000)	0	0	0
Vice President	Lee, Chin-Hsiung	0	0	0	0
Vice President	Lai, Shen-Yuan	0	0	5,000	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	0	0	0	0
Assistant Vice President	Liu, Li-Yuan	0	0	0	0
Assistant Vice President	Pai, Hsien-Wei	0	0	0	0
Assistant Vice President	Lin, Tsang-Pin(Note 1)	0	0	0	0
Assistant Vice President	Lin, Wei-Hsiang(Note 1)	0	0	0	0

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

Note 2: Promoted from the 1<sup>st</sup> grade manager to Assistant Vice President on January 01, 2020.

#### 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, 2020

Name	Shareholding of the Principal		Shareholdings by spouse and underage children		Shareholding by nominee arrangement		Spouse, relative of second degree or closer, and relationships among top 10 Shareholders		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
HSBC entrusted with Morgan Stanley International Limited accounts	11,053,405	3.77%	0	0	0	0	None	None	
Chunghwa Post Co., Ltd. Representative: Wu, Hung-Mou	10,859,964	3.71%	0	0	0	0	None	None	
Norges Bank	7,095,857	2.42%	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	5,812,111	1.98%	983,364	0.33%	0	0	None	None	
Robeco Capital Growth Funds	4,870,000	1.66%	0	0	0	0	None	None	
The investment account of Merrill Lynch International	4,599,230	1.57%	0	0	0	0	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	4,585,133	1.57%	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	
Vanguard Emerging Markets Stock Index Fund	4,144,650	1.42%	0	0	0	0	None	None	

## 3.10 Ownership of Shares in Affiliated Enterprises

December 31, 2019

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	480,943,793	100%	—	—	480,943,793	100%
Bon Trust International Trade Co., Ltd.	999,000	99.9%	—	—	999,000	99.9%
Hon Chuan (Cambodia) Co., Ltd.	600	100%	—	—	600	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.	—	—	236,798,360	100%	236,798,360	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	—	—	98,577,783	100%	98,577,783	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.	—	—	14,474,054	95.94%	14,474,054	95.94%
Hon Hua (Samoa) Holdings Limited.	—	—	8,100,000	60%	8,100,000	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, 2020  
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-1040000046 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, 2020  
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, 2020  
Unit: Person / Share

Structure of Shareholder QTY	Government institutions	Financial institutions	Other juristic person	Natural person	Foreign institution & foreigners	Total
Number of persons	1	12	119	21,104	186	21,422
Shareholding	20	15,729,000	42,266,378	159,382,543	75,500,938	292,878,879
Shareholding ratio	-	5.37%	14.43%	54.42%	25.78%	100%



### 4.1.3 Status of Ownership Dispersion

#### 4.1.3.1 Dispersion status of Common shares

April 21, 2020

Unit: Person / Share

Shareholding bracket	Number of shareholders	Shareholding	Shareholding ratio (%)
1 ~ 999	6,276	1,124,341	0.38%
1,000 ~ 5,000	11,275	22,825,135	7.79%
5,001 ~ 10,000	1,885	14,363,556	4.9%
10,001 ~ 15,000	629	7,810,345	2.67%
15,001 ~ 20,000	358	6,494,421	2.22%
20,001 ~ 30,000	322	8,070,044	2.76%
30,001 ~ 40,000	142	5,037,715	1.72%
40,001 ~ 50,000	104	4,788,482	1.63%
50,001 ~ 100,000	173	12,372,235	4.22%
100,001 ~ 200,000	103	14,853,111	5.07%
200,001 ~ 400,000	58	16,305,756	5.57%
400,001 ~ 600,000	30	15,339,186	5.24%
600,001 ~ 800,000	7	4,808,129	1.64%
800,001 ~ 1,000,000	6	5,024,288	1.72%
Over 1,000,001	54	153,662,135	52.47%
Total	21,422	292,878,879	100%

#### 4.1.3.2 Dispersion status of Preferred shares: None.

#### 4.1.4 List of major shareholders

April 21, 2020

Name of major shareholders	Shares	Shareholding	Shareholding ratio (%)
HSBC entrusted with Morgan Stanley International Limited accounts		11,053,405	3.77%
Chunghwa Post Co., Ltd. Representative:Wu, Hung-Mou		10,859,964	3.71%
Norges Bank		7,095,857	2.42%
Tsao, Hung-Yu		6,529,134	2.23%
Dai, Hung-I		5,812,111	1.98%
Robeco Capital Growth Funds		4,870,000	1.66%
The investment account of Merrill Lynch International		4,599,230	1.57%
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds		4,585,133	1.57%
Tsao, Hsih-Chung		4,372,243	1.49%
Vanguard Emerging Markets Stock Index Fund		4,144,650	1.42%

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

Unit: NTD\$ / Share

Item \ Year			2018	2019	As of March 31, 2020
Market price per share	Maximum		58.70	62.70	65.30
	Minimum		45.75	46.85	39.6
	Average		52.78	55.18	55.11
Net worth per share (Note 1)	Before distribution		42.5	44.19	39.25
	After distribution		40.2	(Note 1)	-
Earnings per share	Weighted average shares	Before adjustment	292,878,879	292,878,879	292,878,879
		After adjustment	292,878,879	Not distributed yet	Not distributed yet
	Earnings per share	Before adjustment	3.73	4.72	0.91
		After adjustment	3.73	-	-
Dividend per share	Cash dividend		2.3	3.0 (Note 1)	-
	Stock dividend	Stock Dividend from Retained earnings	-	-(Note 1)	-
		Stock Dividend from additional paid-in capital	-	-(Note 1)	-
	Cumulative un-paid dividend		-	-	-
Return on investment analysis	Price-Earnings (P/E) Ratio (Note 3)		13.96	11.31	-
	Profit Ratio (Note 4)		22.64	17.79	-
	Cash Dividend Yield (Note 5)		4.42%	5.62%	-

Note 1: The Company's 2019 Profit Distribution Proposal was resolved by the Board of Directors on March 23, 2020, and has yet to be resolved by the shareholders' meeting. If the number of total shares outstanding, prior to the ex-dividend date for the distribution, has changed so that the ratios of dividends are affected, the Board of Directors is authorized to make such adjustments.

Note 2: Price-Earnings (P/E) Ratio = Average closing price per share of the year / Earnings per share.

Note 3: Profit Ratio = Average closing price per share of the year / Cash dividend per share.

Note 4: 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) 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.

If the distributable dividend, bonus, capital surplus or legal reserve in whole or in part are to be paid in the form of cash, the Board of Directors is authorized to implement by a resolution to be adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors; and in addition thereto a report of such distribution shall be submitted to the 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 unappropriated 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 23, 2020, and will be proposed to Shareholders' meeting which held on June 19, 2020 for ratification)**

Unit: NTD\$	
Items	Amount
<b>Unappropriated retained earnings of previous years</b>	1,826,560,032
Remeasurement of defined benefit obligation	(2,429,518)
Effect of the initial application and restatement of applying IFRS 9	<u>(261,911)</u>
<b>Unappropriated retained earnings after adjustment</b>	1,823,868,603
Net Income of 2019	1,381,036,649
10% for legal capital reserve	(138,103,665)
Special reserve	<u>(209,737,908)</u>
<b>Retained Earnings Available for Distribution as of 2019</b>	2,857,063,679
Shareholders' Dividend (NTD\$ 3 per share)	<u>(878,636,637)</u>
<b>Unappropriated Retained Earnings</b>	<u><u>1,978,427,042</u></u>

If the number of total shares outstanding, prior to the ex-dividend date for the distribution, has changed so that the ratios of dividends are affected, the Board of Directors is authorized to make such adjustments.

**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 holding or affiliates companies who meet the qualifications which the Board of Directors stipulates.

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 2020.

### **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 23, 2020.

Employees' compensation: 1.78% as of NTD\$ 28,951,000 in Cash.

Directors' remuneration: 0.76% as of NTD\$ 12,429,330 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 2020 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 23, 2020 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	2018			
	Recorded amount	Actually paid	Difference (Note)	Remark
Employees' compensation	23,694,500	23,665,500	29,000	Recorded as Other revenue
Directors' and supervisors' remuneration	9,832,772	9,832,772	None	-

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

#### 4.1.9 Shares Repurchase Execution Report:

May 22, 2020

	Status of The Third Share Repurchase Program
Purpose of Repurchase	Maintain the Company's credit and shareholders' rights and interests.
Period for Repurchase	2020/04/29~2020/05/19
Price Range	From NT\$52.55 to NT\$56.55
Type and Numbers of repurchased-back shares	5,093,000 common stocks
Total Amount of the Share Repurchase	NT\$ 277,422,689
Number of Shares Repurchased to Expected Number of Shares Repurchased (%)	50.93%
Shares Voided/Transferred	0 Shares
Cumulative Number of Company Shares Held	5,093,000 Shares
Ratio of Cumulative Number of Own Shares Held During the Repurchase Period to the Total Number of the Company's Issued Shares: (%)	1.74%

## 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**

1. The Company doesn't have uncompleted public issue placement of securities, and to such issues and placements that were completed in the most recent 3 years but have not yet fully yielded the planned benefits.
2. For the period as of the quarter preceding the date of publication of the annual report, the Company's financing plans of each public issue placement of securities have been completed.

## 5. Operation Highlights

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### 5.1.1.1 Major Business of Hon Chuan

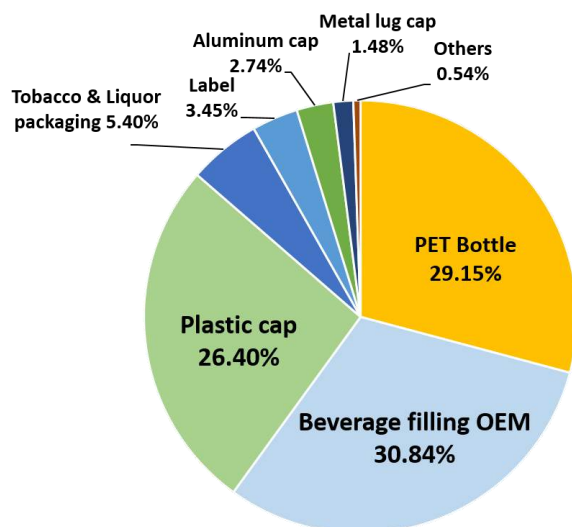
1. C805010 Plastic Sheets, Pipes and Tubes Manufacturing.
2. C805990 Other Plastic Products Manufacturing.
3. C110010 Beverage Manufacturing.
4. C102010 Dairy Products Manufacturing.
5. CB01010 Machinery and Equipment Manufacturing.
6. CB01990 Other Machinery Manufacturing Not Elsewhere Classified.
7. 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. A102060 Grain Commerce
39. F201010 Retail sale of Agricultural Products
40. 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

#### 2019 Major products and Revenue Proportion

Unit: NTD\$ Thousand



2019	Net Sales	Percentage
Beverage filling OEM	6,641,507	30.84%
PET Bottle	6,274,340	29.15%
Plastic cap	5,682,745	26.40%
Tobacco & Liquor packaging	1,163,025	5.40%
Label	742,842	3.45%
Aluminum cap	589,579	2.74%
Metal lug cap	317,722	1.48%
Others	115,588	0.54%
<b>Total</b>	<b>21,527,348</b>	<b>100.00%</b>

### 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, hologram aluminum cap
	Plastic cap	Plastic cap for carbonated drink, mineral water, hot fill drink & aseptic drink, QR Code plastic cap
	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, sorghum, 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. New specifications and lightweight 1881 Aseptic cap and Soda cap	<b>NTD\$ 79.88 million</b>
2. Long protruded cap, Bi-color cap, clamshell cap, etc. for enhanced appearance and usability	
3. Connected cap and decomposable thin film with environmental protection demands	
4. Highly light-barrier, oxygen-barrier packaging materials	
5. New spiral iron cap and functional metal cap	
6. New environmental label and other packaging materials	

#### 5.1.2 Market and Sales Conditions

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

In the report of 2019 Food Industry Year Book, the gross production value of Taiwan's Food and Beverage Manufacturing Industry in 2018 was NTD\$ 615.3 billion, up by 2.18% from the previous year. Dividing the industry into two segments, the production value of Food manufacturing was NTD\$ 522.7 billion, and the aforesaid amount of Beverage manufacturing (including Alcoholic beverage) was NTD\$ 92.6 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 have adopted the strategy of concentrating resources to launch new products, and through the diversification of 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 2018 reached NTD\$ 51.07 billion, decreased by 2.5% compared with NTD\$ 52.38 billion in the previous year. In terms of product types, Tea was the leading product which reached NTD\$ 19.8 billion (38.8%). Vegetable juice followed, stood at NTD\$ 5.7 billion (11.2%). Coffee took the third place, stood at NTD\$ 5.46 billion (10.7%), and was followed by Carbonated drinks with NTD\$5.11 billion (10%) and Energy drinks with NTD\$ 2.85 billion (5.6%).

The amount of initially launched products in food and beverage market lightly increase by 0.97% in 2018, and the majority types of these development were promoting brand-new products, which accounted for nearly 45% (same as the previous year). The extended products of new products series followed and had a proportion of 36% (same as the previous year). Then, the new products with new packaging accounted for 14% (higher than 13% 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 beverage industry is maturing, the competition in the overall beverage market has become relatively fierce, and brands manufacturers are launching new brands and new product to win more market share. According to the report of 2019 Food Industry Year Book, as the the gradual increase of the aging population, the development of health care and

functional drinks will be promoted, and natural non-artificial additives will be the main focus of the product development; in addition, beverage production equipment and manufacturing process developing towards AI intelligence, which is the main trend in the future.

It is already the global trend for the beverage packaging to develop towards lightweight, eco-friendly, carbon footprint and carbon labeling, and so on. Under current phenomenon of global plastic reduction, international beverage manufacturers are gradually turning to green and circular economy products as alternative materials. In the future, there may exist innovative packaging in the beverage market.

In addition, in the recent years, the society has placed great emphasis on food safety; the 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 customers. The Company will keep cooperating with the leading brands in the beverage market, hoping to grasp the mainstream products in the market and continue to expand the market development.

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, and can not meet customer expectations of product value and service, they would withdraw from the cap market due to lack of competitiveness. As a result, the market is highly concentrated with the characteristics of economies of scale.

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

### (5) Beverage Filling

The Company's aseptic beverage plants adopt the newest generation of Germany GEA beverage aseptic filling equipment, which can produce low acid beverages (products such as tea, coffee, milk tea, etc.) and aseptic carbonated beverage (products such as soda, juice soda, sparkling water, 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

The Company's business is mainly in the packaging materials, and due to the fact that the packaging methods for various downstream products are different, product categories of the Company 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, the correlations among the upstream, midstream and downstream of the industries for the Company's main products, such as cap category, label category, PET bottles and beverage filling, etc., is explained as follows:

#### (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.

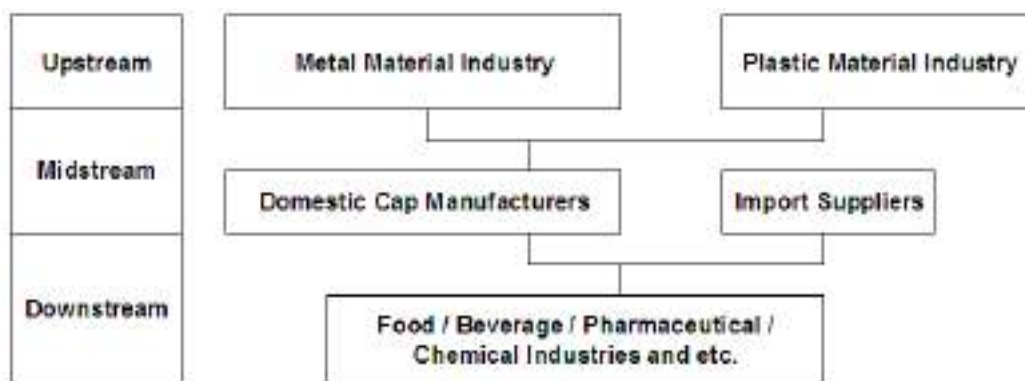
##### ② The Manufacturers and the Import Suppliers

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.

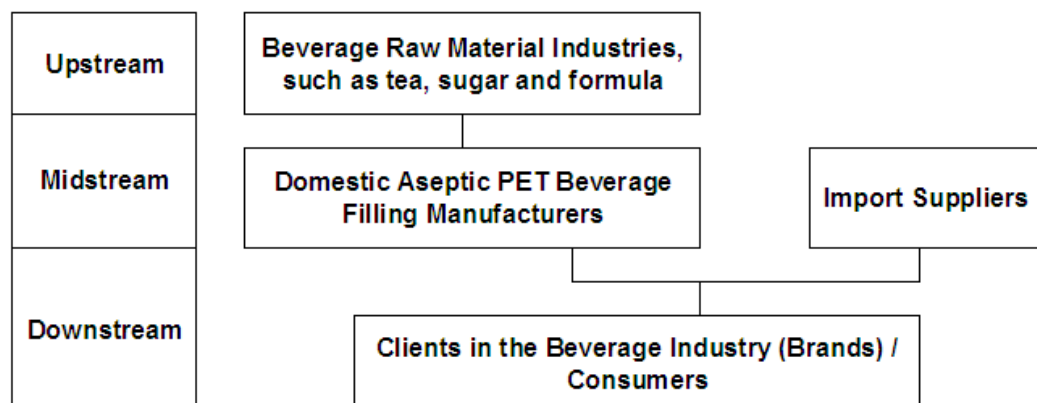
The relationships among the PET bottles manufacturers and sellers are as follows:



### (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. The 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 Canadean 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
2019	86,057	1. 3025 biomass material Bio HDPE 2. 38mm double screw aseptic cap
As of March 31, 2020	22,450	3. 1881 aseptic connected cap 4. 1881 soda cap lightening 5. 1881 aseptic cap lightening 6. 1810 bottle neck 300ml hot fill bottle 7. 1810 bottle neck 520ml heat and pressure resistant soda bottle 8. 1881 bottle neck 500ml soda bottle 9. 1810 bottle neck 600ml and 1500ml water bottle 10. 38mm bottle neck 330ml and 400ml cold fill bottle 11. 1881 bottle neck 525ml and 590ml aseptic bottle 12. Lug cap BPA-free internal coating 13. 12.8 x 8.0mm aluminum cap 14. Spiral iron cap 15. Gold-like shrinkable label

### 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 and taking root, sales & marketing capabilities, customer service, 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 deepening customer management and services, achieve customer satisfaction, customers touched, customer brand life trust, 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) Servitization of Manufacturing: The Company is committed to vertical Integration in order to meet customers' demand for one stop shopping, providing comprehensive production, responsibility and services.
- (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, avoid raw material fluctuation risk to ensure the Company's revenues and profits, and at the time, assist the customers broaden their market shares and resource sharing, 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 2019 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, the Company 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, Thailand, Indonesia, Philippines, Vietnam, Myanmar, New Caledonia(Oceania), Australia, New Zealand, Canada, USA, Pakistan, Oman, Africa, Sri Lanka, Palau, Vanuatu, Malawi, Haiti, Mongolia 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.

In the recent years, the Company also introduces QR CODE 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.

(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.

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.

(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 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"> <li>1. The products have eco-friendly appeals and are easy to be accepted by the consumers, so the future prospects look good.</li> <li>2. Actively develop the international market and expand export business.</li> <li>3. With the bundling and integration of packaging materials, the clients are provided with even more convenient services.</li> </ol>	There is labor shortage, so the wage costs are increasing.	<ol style="list-style-type: none"> <li>1. Actively improve existing machinery and equipment and strive to move towards the direction of high level of automation. Cooperate with China Productivity Center to carry out the improvement of production processes, and conduct the research of material formula with Plastics Industry Development Center to enhance output efficiency.</li> <li>2. To respond to the demand for labor by introducing part of foreign laborers to help with production and to improve the situations with labor shortage and wage increases.</li> </ol>
2. The sales status of the major products	<ol style="list-style-type: none"> <li>1. The packaging products we produced spread around an extensive range, so by the same token, we can satisfy our clients' need for all kinds of packaging materials; as the extensive range of products can be applied to the use of various types of packaging containers, the business risks can be diversified.</li> <li>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.</li> <li>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.</li> </ol>	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"> <li>1. To establish the R&amp;D department, actively recruit talents, and apply foreign technology in order to improve professional qualities and product standards.</li> <li>2. Constantly pay attention to the market trends, and participate in exhibitions overseas to collect relevant information.</li> </ol>
3. Position in the industry	<ol style="list-style-type: none"> <li>1. Our products are the leading brands domestically, received certification from international well-known beverage plants, and have vast marketing channels.</li> <li>2. We have leading R&amp;D technology, high degree of facility automation, and good process capabilities, so we are in the leading position of the industry.</li> </ol>	There are quite a few small plants and which could easily result in pricing competition of products.	<ol style="list-style-type: none"> <li>1. Develop products with high added value and high quality.</li> <li>2. Actively develop the international markets, constantly develop new products and become the leader in the integrated packaging industry.</li> </ol>
4. The supply	All the suppliers of our company's	The increase of raw	Sign long-term purchase

Items	Favorable Factors	Unfavorable Factors	Countermeasures
status of the major raw materials	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.	material prices causes the increase of costs.	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 BUUV type, BP type, BHUV type, BHC type, BHP type, BHA type, BC type, YPL type, 1881 type, 3025 type, KBPV type, BPKS type, etc., and we have been granted several patent rights and were approved by Coca-Cola & Pepsi-Cola international to be qualified; they are extensively used for products such as mineral water, carbonated beverages, hot-fill beverages, etc., and there is great development potential with excellent prospects.

#### (3) Lug Cap Category:

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

(4) Label Category:

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

(5) PET Bottles:

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

(6) Beverage Filling:

In addition to high acid products, low acid products (tea, coffee, dairy products, etc.) and aseptic carbonated beverage (products such as soda, juice soda, sparkling water, etc.) can also be filled, 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 (with liner and gluing) → 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. Aluminum sheet → raw material aluminum sheet – coating & printing → automatic slitting → automatic cap pressing → high frequency liner forming (TPE) → computer visual inspection → finished product

d. Iron sheet → coating & printing → wax spraying → automatic slitting → automatic cap pressing → rolling → automatic knurling → gluing (with liner) → 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 → wax spraying → cap pressing → pre-rolling → forming → gluing → oven → computer visual inspection → finished product

b. Printing and coating iron sheet → wax spraying → 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 barrel→ not aerating  
(aerating) →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, Jiangsu Xingye Plastics	Good
Beverage Filling OEM	Tea, Fructose, Sugar, Condensed milk, Milk powder, coffee powder, Carton and etc.	Li Yu, Tairoun, Taisugar, MitaCharm, Foodarts, Mauritius, TetraPak, twfysugar, Jiaher Paper, Cheng Loong, UCC 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	2018				2019				As of March 31, 2020			
	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	1,185,800	11%	None	X	1,058,272	9%	None	X	183,462	8%	None
2	Others	9,889,086	89%	None	Others	10,411,799	91%	None	Others	2,176,449	92%	None
	Net Purchases	11,074,886	100%		Net Purchases	11,470,071	100%		Net Purchases	2,359,911	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	2018				2019				As of March 31, 2020			
	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	2,017,100	10%	None	X	1,874,970	9%	None	X	381,172	9%	None
2	Others	17,912,617	90%	None	Others	19,652,378	91%	None	Others	4,038,308	91%	None
	Net Sales	19,929,717	100%		Net Sales	21,527,348	100%		Net Sales	4,419,480	100%	

## 5.2.5 Production volume over the Last Two Years

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

Year Category	Unit	2018			Unit	2019		
		Capacity	Quantity	Value		Capacity	Quantity	Value
PET Bottle	pcs	12,079,509	4,681,962	5,179,783	pcs	12,917,054	6,147,715	5,568,624
Beverage filling(Note 1)	pcs	3,836,234	1,726,771	4,238,843	pcs	3,988,138	1,939,531	5,022,646
Plastic Cap	pcs	40,688,989	24,939,730	4,354,407	pcs	39,818,088	25,479,352	4,067,715
Label	pcs	7,445,826	2,255,128	560,963	pcs	9,089,658	2,416,043	639,175
Tobacco & Liquor Packaging		-	1,339	1,073,667		-	14,100	1,117,873
Aluminum Cap	pcs	1,629,072	745,885	407,558	pcs	1,629,072	718,743	395,587
Metal lug Cap	pcs	279,158	191,282	162,999	pcs	279,158	223,294	187,967
Beverage Filling (TR & TBA)	box	195,700	132,533	561,126	box	195,700	132,528	551,524
Other		-	73,733	160,823		-	59,840	157,255
Total				16,700,169				17,708,366

Note 1: Beverage filling includes PET Bottle, Label, Plastic Cap

## 5.2.6 Sales volume over the Last Two Years

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

Category \ Year	Unit	2018				Unit	2019			
		Domestic		Overseas			Domestic		Overseas	
		Quantity	Value	Quantity	Value		Quantity	Value	Quantity	Value
PET Bottle	pcs	4,006,418	4,871,113	375,636	660,374	pcs	5,105,220	5,567,580	415,958	726,050
Beverage filling(Note 1)	pcs	1,686,909	4,927,040	3,756	27,278	pcs	2,036,161	5,909,513	5,995	49,378
Plastic Cap	pcs	22,920,703	5,282,856	1,311,588	311,364	pcs	24,331,429	5,317,707	1,478,451	346,094
Label	pcs	2,004,377	608,960	119,898	55,305	pcs	2,062,755	594,395	86,988	45,359
Tobacco&Liquor Packaging		1,095	532,068	45	577,880		12,143	602,274	35	560,751
Aluminum Cap	pcs	660,464	553,291	63,660	39,522	pcs	634,640	531,899	86,049	58,400
Metal lug Cap	pcs	154,930	211,478	38,459	46,906	pcs	171,572	246,704	53,718	66,185
Beverage Filling (TR & TBA)	box	132,554	746,677	-	-	box	132,549	682,746	-	-
Other		73,714	463,534	70	4,071		66,680	209,169	168	13,144
Total			18,207,017		1,722,700			19,661,987		1,865,361

Note 1: Beverage filling includes PET Bottle, Label, Plastic Cap

## 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, 2020

Year		2018		2019		As of March 31, 2020	
Number of Employees	Direct	2,700		2,591		2,661	
	Indirect	1,838		2,051		2,139	
	Total	4,538		4,642		4,800	
Average Age		33.43		33.47		33.8	
Average Years of Service		4.95		5.41		5.47	
Education	Ph.D.	0	0.00%	0	0.0%	0	0.0%
	Masters	90	1.98%	102	2.20%	106	2.21%
	Bachelor's Degree	1,869	41.19%	1,975	42.55%	2,038	42.46%
	Senior High School	1,759	38.76%	1,812	39.03%	1,872	39.00%
	Below Senior High School	820	18.07%	753	16.22%	784	16.33%

## 5.4 The Expenditure for Environmental Protection

Any losses suffered by the company in the most recent fiscal year and up to the annual report publication date due to environmental pollution incidents (including any compensation paid and any violations of environmental protection laws or regulations found in environmental inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, and the content of the dispositions), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided:

### 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, by No. 1080045552 on May 2, 2019, had recalculated the fee from the 3rd quarter of 2013 to the 2nd quarter of 2018 in accordance with Article 75 of the Air Pollution Control Act and requested the Company to pay double the amount of the fee rates for pollution source emissions, which was in total NTD\$ 125,869,455 (has been recognized in the 2nd quarter financial report of 2019). The Company has initiated administrative proceedings against the Taichung High Administrative Court on November 1, 2019, and the suit is still pending. Regarding the above-mentioned lack of environmental safety, the Company has completed the improvement after the event.



Due to the above incidents, the prosecutor from the Taiwan Taichung District Prosecutor's Office institutes a public prosecution in 19 people including the Company for violating the Air Pollution Control Act and the Offenses of Fraudulence of Criminal Code of the Republic of China, and requested them to pay NTD\$ 77,298,948 (has been recognized in the 3rd quarter financial report of 2019). The content contained in the indictment of the Taichung District Procuratorate Office is partly different from the facts. In addition, there may exist doubt about double payment between the above-mentioned payment and the amount of NTD\$ 125,869,455 for the air pollution fee from the 3rd quarter of 2013 to the 2nd quarter of 2018 paid by the Company to the Environmental Protection Bureau; the company has appointed lawyers to undertake relevant research and assist in the subsequent defense. The whole case (No. 2479 in 2019) is pending in the Taiwan Taichung District Court.

#### **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 the Environmental Protection Bureau invites scholars and experts of Industrial Technology Research Institute to conduct tutoring and evaluation of stationary pollution source.
3. Purchased related control equipment. In 2019, the Company has planned to invest NTD\$ 56.44 million in changing VOCs 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. In order to demonstrate determination to continuously improve and promote environmental protection, the Company has purchased label UV flexo printing machines from Germany, which have a number of advantages, such as no need to add solvent, no VOCs (volatile organic compounds) emissions, no residual ink to reduce waste, accurate color, automatic plate change, and so on. The equipment is able to provide environmental, safe, and high texture label products, thoroughly solving the problem of air pollution emissions, hope to actively contribute to environmental protection.
5. 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.
  - (1) Hold two waste management courses and 48 contact people of waste treatment from each department joined the courses; to sort waste correctly and authorize qualified companies to dispose of it, the Company comprehensively monitors waste creates and revises relevant permission. In addition, revise and enlarge contracts of waste treatment to keep the aisle of waste cleaning clear.
  - (2) To ensure proper waste treatment and fulfill our responsibility of waste source, the Company sets up check procedure for waste treatment companies, conducts field research in companies before signing contracts, and conducts random inspection of cleaning process.
2. Conduct drain improvement, prevent sewage pollution
  - (1) Inspect sewage disposal in plants, improve rain and sewer pipe to manage sewage comprehensively and prevent polluted surface water.
  - (2) In order to monitor sewage disposal in plants, the Company will finish equipment installation of flow meter which controls sewage disposal automatically, which is expected to be finished in 2020.
  - (3) Finish permit document of Water Pollution Control Measures and conduct declaration of regular monitoring, and so on.
3. Conduct regulations identification, self-examinations of non-conforming items
  - (1) To prevent violating the law from changes in legislations, the Company monitors activities in plants regularly and how much they are in conformity with various environmental regulations, keep ourselves updated of new regulations every month.
  - (2) Set up inspection system of pollution in plants and irregularly check waste management every week, conduct inspection and examination of the air pollution, waste disposal and waste storage in plants every month.
4. Actively decrease Occupational 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, the 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, and the total hours of safety and health education and training are 5569 hours in 2019, so the employees will have the awareness for safety and health operation procedures in order to reduce the occurrence of occupational hazards.
- (5) The Company implements, according to the “fire protection program” formulated by the Company, the actions required for fire management, 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 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.
5. 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; awarded of “Taichung Veterans General Hospital On-site service Excellent Cooperation Enterprise Quality Partner “ in 2019.
- (1) Implement 6S competition activities inside the plant to promote a clean environment in the plant to improve working environment, and set up the Safety and Health Committee meetings to improve working environment to effectively enhance the working environment safety inside the plant.
  - (2) The Company, surpassing the Labor Health Protection Rules, regardless of workers’ age, conducts physical examinations every year; in addition, according to laws and regulations, for work of special nature, the Company follows the related provisions of the Labor Health Protection Rules to conduct special physical examinations annually (such as: implementation of special hearing tests for noise operations).
  - (3) The 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, and announce result of work environment monitoring to staff in accordance with laws.
  - (4) The Company, in accordance with the laws and regulations, periodically commissions occupational medicine specialist for in-plant inquiry services and assessment of working environment, once a month, to care for the employees’ physical and mental health.
6. 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.

7. 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, and continually transform ISO45001 in 2019 and 2020, 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) Safety and Health Certificate and 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.

Certificate	Person-time
Occupational safety and health management personnel(Including Class A, C affair managers)	16
Organic solvent operation supervisor	23
Fire prevention management personnel	4
First aid personnel	74
Specific chemicals operation supervisor	20
Forklift operation certificate	344
Above 3 tons fixed type crane certificate	22
Small, B-level boilers operators	12
Category I pressure vessels operators	6
Dust operation supervisor	1
Construction frame assembly operation supervisor	1
Oxygen deficiency supervisor	18
Occupational safety and health nurses	3
Total	544

- (5) According to Occupational Safety and Health Act, the Company has established the Labor Safety and Health Department on March 6, 2012.
- (6) Revise the name of department to Occupational Safety and Health Center in March 4, 2020.

## 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. The Company 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, the Company 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 "Hon Chuan Academy" 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.

In 2019, education training of the Company includes topic such as food safety, quality management, occupational safety and health, ethical management, internal control and regulation compliance. The total training courses are 29,938 hours.

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 List any losses suffered by the company in the most recent 2 fiscal years and up to the annual report publication date due to labor disputes (including any violations of the Labor Standards Act found in labor inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, the substance of the legal violations, and the content of the dispositions), and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided:**

On November 18, 2019, the Export Processing Zone Administration came to the Company for labor inspection, finding that the Company had violated Article 24, paragraph 1, and Article 39 of the Labor Standards Act in the calculation of wage payment during the attendance time of a single case, for which it imposed a total NT\$40,000 fine on the Company (No. 1080102085). The payment has been made by the deadline.

Countermeasures: Due to the absence of the above case, the Company completed the improvement on February 1, 2020, in compliance with the Labor Standards Law.

## 5.6 Major Contracts

March 31, 2020

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 strengthen operating 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
Long-term Loan Contract	The Export-Import Bank of the Republic of China	2020.01.03 ~2025.01.03	Overseas investment funds	None
Long-term Loan Contract	E.SUN Bank	2019.07.15 ~2026.07.15	To support investment plans and strengthen operating capital	None
Long-term Loan Contract	Hua Nan Bank	2019.10.31 ~2024.10.31	To support investment plans and strengthen operating capital	None
Long-term Loan Contract	Taipei Fubon Bank	2019.10.31 ~2024.10.31	To support investment plans and strengthen operating capital	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, 2020 (Note 1)
		2015	2016	2017	2018	2019	
Current Assets		8,067,666	7,757,428	8,866,914	10,441,913	11,097,170	10,990,552
Property, Plant and Equipment		18,796,260	17,991,011	17,501,552	16,793,643	16,146,473	15,488,939
Intangible Assets		76,484	388,673	356,763	370,713	370,046	371,711
Other Assets		2,177,210	1,254,194	1,559,298	1,809,665	3,910,352	4,415,253
Total Assets		29,117,620	27,391,306	28,284,527	29,415,934	31,524,041	31,266,455
Current Liabilities	Before Distribution	10,448,772	9,649,899	7,030,797	7,229,766	8,325,948	9,138,439
	After Distribution	11,034,530	10,382,096	7,762,994	7,903,387	9,204,585	Note 2
Non-current Liabilities		5,665,851	5,065,234	8,090,967	9,107,003	9,469,956	9,822,597
Total Liabilities	Before Distribution	16,114,623	14,715,133	15,121,764	16,336,769	17,795,904	18,961,036
	After Distribution	16,700,381	15,447,330	15,853,961	17,010,390	18,674,541	Note 2
Shareholders' Equity (Before Distribution)		11,945,505	11,755,680	12,480,831	12,446,743	12,941,728	11,495,407
Capital Stock		3,098,479	2,928,789	2,928,789	2,928,789	2,928,789	2,928,789
Additional Paid-in Capital		5,412,868	5,127,397	5,507,513	5,485,872	5,485,872	5,485,872
Retained Earnings	Before Distribution	4,713,939	4,920,100	5,412,733	5,777,383	6,482,105	5,869,412
	After Distribution	4,128,181	4,187,903	4,680,536	5,103,762	5,603,468	Note 2
Other Equity		(444,446)	(1,220,606)	(1,368,204)	(1,745,301)	(1,955,038)	(2,788,666)
Treasury Stock		(835,335)	—	—	—	—	—
Non-controlling Equity		1,057,492	920,493	681,932	632,422	786,409	810,012
Total Equity	Before Distribution	13,002,997	12,676,173	13,162,763	13,079,165	13,728,137	12,305,419
	After Distribution	12,417,239	11,943,976	12,430,566	12,405,544	12,849,500	Note 2

Note 1: The Company has adopted IFRS since 2012. For above data, except the consolidated financial data for the period as of the quarter preceding the date of publication of the annual report was reviewed by CPA, others were all audited by CPA.

Note 2: Proposal for Distribution of 2019 Profits has not yet to be resolved in the shareholders' meeting.

### 6.1.1.2 Condensed Consolidated Comprehensive Income Statement – IFRS

Unit: NTD\$ Thousand

Item \ Year	Financial Data Within The Last 5 Years					As of March 31, 2020 (Note 1)
	2015	2016	2017	2018	2019	
Operating Income	16,578,377	16,510,678	17,519,458	19,929,717	21,527,348	4,419,480
Gross Profit	3,065,672	3,402,415	3,320,581	3,522,881	4,282,310	811,996
Operating Profit or Loss	1,264,115	1,671,197	1,510,380	1,576,410	2,255,948	375,132
Non-Operating Income and Expense	(233,032)	(173,374)	36,614	(94,457)	(257,099)	(21,578)
Net Income Before Tax	1,031,083	1,497,823	1,546,994	1,481,953	1,998,849	353,554
Net Income from Continuing Operations	886,141	1,190,294	1,261,983	1,102,204	1,466,602	291,971
Income (or Loss) from Discontinued Operations	—	—	—	—	—	—
Net Income (Loss)	886,141	1,190,294	1,261,983	1,102,204	1,466,602	291,971
Other Comprehensive Income (Loss) (After-tax)	(869,561)	(969,372)	(89,321)	(408,017)	(223,071)	(836,052)
Total Comprehensive Income (Loss)	16,580	220,922	1,172,662	694,187	1,243,531	(544,081)
Net Income Attributable to the Parent	948,965	1,178,224	1,230,861	1,092,531	1,381,036	265,944
Net Income Attributable to Non-Controlling Interests	(62,824)	12,070	31,122	9,673	85,566	26,027
Total Comprehensive Income Attributable to the Parent	210,024	395,933	1,077,232	722,687	1,168,606	(567,684)
Total Comprehensive Income Attributable to Non-Controlling Interests	(193,444)	(175,011)	95,430	(28,500)	74,925	23,603
Earnings Per Share (NTD\$)	3.26	4.02	4.20	3.73	4.72	0.91

Note 1: The Company has adopted IFRS since 2012. For above data, except the consolidated financial data for the period as of the quarter preceding the date of publication of the annual report was reviewed by CPA, others were all audited by CPA.



## 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)				
		2015	2016	2017	2018	2019
Current Assets		2,741,611	2,383,278	2,514,309	2,807,277	2,573,858
Property, Plant and Equipment		4,750,140	4,609,382	4,924,787	5,092,779	4,822,395
Intangible Assets		5,654	1,992	1,340	533	1,618
Other Assets		10,084,786	10,415,111	12,401,509	14,001,765	18,283,433
Total Assets		17,582,191	17,409,763	19,841,945	21,902,354	25,681,304
Current Liabilities	Before Distribution	2,488,911	3,193,278	2,411,190	2,628,740	5,560,761
	After Distribution	3,074,669	3,925,475	3,143,387	3,302,361	Note 2
Non-current Liabilities		3,147,775	2,460,805	4,949,924	6,826,871	7,178,815
Total Liabilities	Before Distribution	5,636,686	5,654,083	7,361,114	9,455,611	12,739,576
	After Distribution	6,222,444	6,386,280	8,093,311	10,129,232	Note 2
Shareholders' Equity(Before Distribution)		11,945,505	11,755,680	12,480,831	12,446,743	12,941,728
Capital Stock		3,098,479	2,928,789	2,928,789	2,928,789	2,928,789
Additional Paid-in Capital		5,412,868	5,127,397	5,507,513	5,485,872	5,485,872
Retained Earnings	Before Distribution	4,713,939	4,920,100	5,412,733	5,777,383	6,482,105
	After Distribution	4,128,181	4,187,903	4,680,536	5,103,762	Note 2
Other Equity		(444,446)	(1,220,606)	(1,368,204)	(1,745,301)	(1,955,038)
Treasury Stock		(835,335)	—	—	—	—
Non-controlling Equity		—	—	—	—	—
Total Equity	Before Distribution	11,945,505	11,755,680	12,480,831	12,446,743	12,941,728
	After Distribution	11,359,747	11,023,483	11,748,634	11,773,122	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 2019 Profits has not yet to be resolved in the shareholders' meeting.

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

Unit: NTD\$ Thousand

Item \ Year	Financial Data Within The Last 5 Years				
	2015	2016	2017	2018	2019
Operating Income	7,167,803	7,133,662	7,456,868	8,474,763	8,628,937
Gross Profit	1,670,918	1,782,171	1,887,073	1,882,926	1,963,618
Operating Profit or Loss	842,112	952,558	986,457	975,546	1,004,065
Non-Operating Income and Expense	254,487	378,001	382,603	328,581	583,710
Net Income Before Tax	1,096,599	1,330,559	1,369,060	1,304,127	1,587,775
Net Income from Continuing Operations	948,965	1,178,224	1,230,861	1,092,531	1,381,036
Income (or Loss) from Discontinued Operations	—	—	—	—	—
Net Income (Loss)	948,965	1,178,224	1,230,861	1,092,531	1,381,036
Other Comprehensive Income (Loss) (After-tax)	(738,941)	(782,291)	(153,629)	(369,844)	(212,430)
Total Comprehensive Income (Loss)	210,024	395,933	1,077,232	722,687	1,168,606
Net Income Attributable to the Parent	948,965	1,178,224	1,230,861	1,092,531	1,381,036
Net Income Attributable to Non-Controlling Interests	—	—	—	—	—
Total Comprehensive Income Attributable to the Parent	210,024	395,933	1,077,232	722,687	1,168,606
Total Comprehensive Income Attributable to Non-Controlling Interests	—	—	—	—	—
Earnings Per Share (NTD\$)	3.26	4.02	4.20	3.73	4.72

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

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

Year	Name of CPAs	Auditor's opinions
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 1)	Unqualified Opinion and other matters
2018	Deloitte & Touche Tseng, Done-Yuin, Wu, Li-Dong	Unqualified Opinion and other matters
2019	Deloitte & Touche Tseng, Done-Yuin, Yen, Hsiao-Fang	Unqualified Opinion and other matters

Note 1: 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.

Note 2: Change of certified public accountant (CPA) from Tseng, Done-Yuin and Wu, Li-Dong to Tseng, Done-Yuin and Yen, Hsiao-Fang 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, 2020 (Note 1)
		2015	2016	2017	2018	2019	
Finance Structure	Debt to Asset Ratio (%)	55.34	53.72	53.46	55.54	56.45	60.64
	Long-term Capital to Property, Plant and Equipment Ratio (%)	98.75	98.13	120.92	131.32	140.31	139.35
Solvency	Current Ratio (%)	77.21	80.39	126.12	144.43	133.28	120.21
	Quick Ratio (%)	51.22	52.97	78.22	90.11	89.24	78.08
	Interest Coverage	5.34	7.46	7.86	6.96	8.64	8.04
Operating Ability	Accounts Receivable Turnover (Times)	6.72	6.55	6.62	6.48	6.4	5.12
	Average Collection Days	54	56	55	56	57	71
	Inventory Turnover (Times)	7.22	7.5	6.95	6.76	6.89	5.77
	Accounts Payable Turnover (Times)	18.92	17.69	16.35	16.56	16.55	13.25
	Average Inventory Turnover Days	51	49	53	54	53	63
	Fixed Asset, Machinery and Facility Turnover (Times)	0.88	0.92	1	1.19	1.33	1.14
	Total Asset Turnover (Times)	0.57	0.6	0.62	0.68	0.68	0.57
Profitability	Return on Asset (%)	3.85	5.03	5.34	4.68	5.67	1.09
	Return on Equity (%)	7.18	9.27	9.77	8.4	10.94	2.24
	Pre-tax Profit to Paid-in Capital Ratio (%)	33.28	51.14	52.82	50.6	68.25	12.81
	Net Margin (%)	5.35	7.21	7.2	5.53	6.81	6.61
	Earnings Per Share (NTD\$)	3.26	4.02	4.2	3.73	4.72	0.91
Cash Flow	Cash Flow Ratio (%)	30.3	44.79	31.73	40.55	49.93	3.79
	Cash Flow Adequacy Ratio (%)	61.49	76.64	73.11	89.22	105.23	97.75
	Cash Flow Re-investment Ratio (%)	7.57	11.45	3.91	5.57	8.18	0.84
Leverage	Operating Leverage	2.6	2.29	2.42	2.40	2.02	2.51
	Financial Leverage	1.23	1.16	1.18	1.19	1.13	1.15

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

1. The increase of Interest Coverage: Due to the rise of consolidated income before tax in 2019.
2. The increase of Return on Asset: Due to the rise of consolidated income after tax in 2019.
3. The increase of Return on Equity: Due to the rise of consolidated income after tax in 2019.
4. The increase of Pre-tax Profit to Paid-in Capital Ratio: Due to the rise of consolidated income before tax in 2019.
5. The increase of Net Margin: Due to the rise of consolidated sales, the decline in the price of bulk materials, and the reduction of expenses caused by the promotion of lean management reduced the cost in 2019, and thus consolidated income after tax increases.
6. The increase of Earnings Per Share: Due to the rise of consolidated sales, the decline in the price of bulk materials, and the reduction of expenses caused by the promotion of lean management reduced the cost in 2019, and thus consolidated income after tax increases.
7. The increase of Cash Flow Ratio: Due to the rise of net cash provided by operating activities in 2019.
8. The increase of Cash Flow Re-investment Ratio: Due to the rise of net cash provided by operating activities in 2019.

Note 1: The Company has adopted IFRS since 2012. For above data, except the consolidated financial data for the period as of the quarter preceding the date of publication of the annual report 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)				
			2015	2016	2017	2018	2019
Finance Structure	Debt to Asset Ratio (%)		32.06	32.48	37.10	43.17	49.61
	Long-term Capital to Fixed Asset Ratio (%)		316.38	307.11	352.72	377.34	410.06
Solvency	Current Ratio (%)		110.15	74.63	104.28	106.79	46.29
	Quick Ratio (%)		72.89	45.93	55.63	58.00	26.03
	Interest Coverage		18.39	25.35	26.94	20.43	17.69
Operating Ability	Accounts Receivable Turnover (Times)		7.79	7.63	7.67	7.75	7.22
	Average Collection Days		47	48	48	47	51
	Inventory Turnover (Times)		7.55	7.87	7.10	7.47	7.97
	Accounts Payable Turnover (Times)		11.38	9.93	9.25	10.05	9.64
	Average Inventory Turnover Days		48	46	51	49	46
	Property, Plant and Equipment Turnover (Times)		1.51	1.55	1.51	1.66	1.79
	Total Asset Turnover (Times)		0.41	0.41	0.38	0.39	0.34
Profitability	Return on Asset (%)		5.81	6.99	6.84	5.49	6.12
	Return on Equity (%)		8.41	9.94	10.16	8.77	10.88
	Pre-tax Profit to Paid-in Capital Ratio (%)		35.39	45.43	46.74	44.53	54.21
	Net Margin (%)		13.24	16.52	16.51	12.89	16.00
	Earnings Per Share (NTD\$)		3.26	4.02	4.20	3.73	4.72
Cash Flow	Cash Flow Ratio (%)		54.12	46.01	45.08	44.63	23.53
	Cash Flow Adequacy Ratio (%)		47.21	51.90	49.60	54.30	44.88
	Cash Flow Re-investment Ratio (%)		3.40	4.60	1.55	1.75	2.38
Leverage	Operating Leverage		4.30	3.82	3.85	4.63	4.60
	Financial Leverage		1.08	1.06	1.06	1.07	1.10

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

1. The decrease of Current Ratio: Mainly due to the rise of short-term notes payable and current portion of long-term loans payable, which increases current liabilities and thus reduces the current ratio.
2. The decrease of Quick Ratio: Mainly due to the rise of short-term notes payable and current portion of long-term loans payable, which increases current liabilities and thus reduces the quick ratio.
3. The increase of Return on Equity: Mainly due to the rise of 2019 investment income recognized under equity method, which increases the net income, and thus the return on equity increases.
4. The increase of Pre-tax Profit to Paid-in Capital Ratio: Mainly due to the rise of 2019 investment income recognized under equity method, which increases the net income in 2019, and thus the pre-tax profit to paid-in capital ratio increases.
5. The increase of Net Margin: Mainly due to the rise of 2019 investment income recognized under equity method, which increases the income before tax, and thus the net margin increases.
6. The increase of Earnings Per Share: Mainly due to the rise of 2019 investment income recognized under equity method, which increases the net income, and thus the earnings per share increases.
7. The decrease of Cash Flow Ratio: Mainly due to the rise of short-term notes payable and current portion of long-term loans payable, which increases current liabilities and thus reduces the cash flow ratio.
8. The increase of Cash Flow Re-investment Ratio: Mainly due to the rise of net cash provided by operating activities in 2019 and the decrease of cash dividend in 2019, and thus the cash flow re-investment ratio increases.

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

## **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 2019 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 Yen, Hsiao-Fang 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

2020 Annual Shareholders' Meeting of Taiwan Hon Chuan Enterprise Co., Ltd.

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

Audit Committee      Chairman: Hung, Chao-Nan

Commissioner: Huang, Hsiang-Ying

Commissioner: Kung, Yi-Lu

March 23, 2020

## 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 (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “consolidated financial statements”).

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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### Basis for Opinion

We conducted our audit of the consolidated financial statements for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission of the Republic of China on February 25, 2020, and auditing standards generally accepted in the Republic of China. We conducted our audit of the consolidated financial statements for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



The key audit matters identified in the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows :

#### Revenue recognition

The Group manufactures and sells plastic caps and PET bottles, PET preforms and provides beverage filling OEM services. Because revenue from the main products are significant to the Group's revenue and profit, we identified revenue recognition as a key audit matter. Refer to Note 4 to the consolidated financial statements for the accounting policies on revenue recognition.

The key audit procedures that we performed in respect of revenue recognition included the following:

1. We 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 orders to verify the reasonableness of the accrual of the sales revenue.
2. We verified the entries to the revenue subsidiary ledger by selecting sample entries from the main products and we checked the entries against the original order, delivery order, invoices and receipt vouchers. We also checked the entries against the documents acknowledged by customers for their receipts, deliveries 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. Refer to Notes 4, 5 and 10 to the consolidated financial statements for the information on inventory.

The key audit procedures that we performed in respect of the impairment of inventory included the following:

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

#### **Other Matter**

We did not audit the financial statements of Hon Chuan Vietnam Co., Ltd., Hon Chuan Malaysia SDN. BHD, Hon Chuan (Thailand) Co., Ltd. and Hon Chuan FD Packaging Co., Ltd., which are investees of the Group and are included in the consolidated financial statements as of and for the year ended December 31, 2019; we did not audit the financial statements of Hon Chuan Vietnam Co., Ltd., Hon Chuan Malaysia SDN. BHD and PT Hon Chuan Indonesia, which are investees of the Group and are included in the consolidated financial statements as of and for the year ended December 31, 2018, but such statements were audited by other auditors, whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included in the Group's consolidated financial statements for these investees, is based solely on the reports of the other auditors. The total assets of the aforementioned investees were NTD4,563,570 thousand and NTD4,715,348 thousand, respectively, representing 14.48% and 16.03%, respectively, of the Group's consolidated assets as of December 31, 2019 and 2018. The total sales of the aforementioned investees were NTD3,023,012 thousand and NTD2,238,171 thousand, respectively, representing 14.04% and 11.23%, respectively, of the Group's consolidated net sales for the years ended December 31, 2019 and 2018.

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, 2019 and 2018 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, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Done-Yuin Tseng and Hsiao-Feng Yen.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
March 23, 2020

#### Notice to Readers

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

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

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

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 3,938,285	13	\$ 2,979,711	10
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	71,675	-	98,782	-
Notes receivable from unrelated parties (Note 4)	142,808	-	148,293	1
Trade receivables from unrelated parties (Notes 4 and 9)	3,172,594	10	3,116,198	11
Trade receivables from related parties (Notes 4 and 27)	3,074	-	530	-
Inventories (Notes 4, 5 and 10)	2,484,629	8	2,516,054	9
Other current assets (Notes 15, 27 and 28)	<u>1,284,105</u>	<u>4</u>	<u>1,582,345</u>	<u>5</u>
Total current assets	<u>11,097,170</u>	<u>35</u>	<u>10,441,913</u>	<u>36</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	40,498	-	41,617	-
Long-term investments accounted for using the equity method (Notes 4 and 12)	16,393	-	20,135	-
Property, plant and equipment (Notes 4, 13, 28 and 29)	16,146,473	51	16,793,643	57
Right-of-use assets (Note 4)	1,115,903	4	-	-
Intangible assets (Note 4)	370,046	1	370,713	1
Deferred tax assets (Notes 4 and 22)	184,545	1	198,056	1
Prepayments for equipment	2,495,444	8	877,133	3
Other non-current assets (Note 15)	<u>57,569</u>	<u>-</u>	<u>672,724</u>	<u>2</u>
Total non-current assets	<u>20,426,871</u>	<u>65</u>	<u>18,974,021</u>	<u>64</u>
<b>TOTAL</b>	<u>\$ 31,524,041</u>	<u>100</u>	<u>\$ 29,415,934</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 16)	\$ 3,553,001	11	\$ 5,037,154	17
Short-term bills payable (Note 16)	1,375,000	4	-	-
Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	142	-	62	-
Notes payable to unrelated parties	4,842	-	3,037	-
Trade payables to unrelated parties	1,012,125	3	1,063,603	4
Current tax liabilities (Notes 4 and 22)	161,723	1	159,058	1
Lease liabilities - current (Notes 4 and 14)	52,571	-	-	-
Deferred revenue - current (Notes 4 and 24)	5,490	-	-	-
Current portion of long-term liabilities (Notes 4, 16 and 24)	1,000,000	3	-	-
Other current liabilities (Notes 18 and 27)	<u>1,161,054</u>	<u>4</u>	<u>966,852</u>	<u>3</u>
Total current liabilities	<u>8,325,948</u>	<u>26</u>	<u>7,229,766</u>	<u>25</u>
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 17)	2,996,308	10	2,995,224	10
Long-term borrowings (Notes 4, 16, 24 and 28)	5,931,187	19	5,978,897	21
Deferred tax liabilities (Notes 4 and 22)	69,066	-	55,628	-
Lease liabilities - non-current (Notes 4 and 14)	391,845	1	-	-
Deferred revenue - non-current (Notes 4 and 24)	35,470	-	7,793	-
Net defined benefit liabilities - non-current (Notes 4 and 19)	21,140	-	28,588	-
Other non-current liabilities (Note 18)	<u>24,940</u>	<u>-</u>	<u>40,873</u>	<u>-</u>
Total non-current liabilities	<u>9,469,956</u>	<u>30</u>	<u>9,107,003</u>	<u>31</u>
Total liabilities	<u>17,795,904</u>	<u>56</u>	<u>16,336,769</u>	<u>56</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>				
Ordinary shares	2,928,789	9	2,928,789	10
Capital surplus	5,485,872	17	5,485,872	19
Retained earnings				
Legal reserve	1,531,899	5	1,422,646	5
Special reserve	1,745,301	6	1,368,204	4
Unappropriated earnings	3,204,905	10	2,986,533	10
Other equity	<u>(1,955,038)</u>	<u>(6)</u>	<u>(1,745,301)</u>	<u>(6)</u>
Total equity attributable to owners of the parent	12,941,728	41	12,446,743	42
<b>NON-CONTROLLING INTERESTS</b>	<u>786,409</u>	<u>3</u>	<u>632,422</u>	<u>2</u>
Total equity	<u>13,728,137</u>	<u>44</u>	<u>13,079,165</u>	<u>44</u>
<b>TOTAL</b>	<u>\$ 31,524,041</u>	<u>100</u>	<u>\$ 29,415,934</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

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

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4 and 27)	\$ 21,527,348	100	\$ 19,929,717	100
COST OF GOODS SOLD (Notes 4, 10, 21 and 27)	<u>17,245,038</u>	<u>80</u>	<u>16,406,836</u>	<u>82</u>
GROSS PROFIT	<u>4,282,310</u>	<u>20</u>	<u>3,522,881</u>	<u>18</u>
OPERATING EXPENSES (Notes 21 and 27)				
Selling and marketing expenses	967,551	5	925,697	5
General and administrative expenses	972,754	5	952,804	5
Research and development expenses	<u>86,057</u>	<u>-</u>	<u>67,970</u>	<u>-</u>
Total operating expenses	<u>2,026,362</u>	<u>10</u>	<u>1,946,471</u>	<u>10</u>
PROFIT FROM OPERATIONS	<u>2,255,948</u>	<u>10</u>	<u>1,576,410</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Notes 4 and 21)	(261,702)	(1)	(248,581)	(2)
Other gains and losses (Notes 4, 21 and 31)	3,326	-	185,081	1
Net foreign exchange gain (loss) (Note 4)	<u>1,277</u>	<u>-</u>	<u>(30,957)</u>	<u>-</u>
Total non-operating income and expenses	<u>(257,099)</u>	<u>(1)</u>	<u>(94,457)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	1,998,849	9	1,481,953	7
INCOME TAX EXPENSE (Notes 4 and 22)	<u>532,247</u>	<u>2</u>	<u>379,749</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,466,602</u>	<u>7</u>	<u>1,102,204</u>	<u>5</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 19)	(3,037)	-	(2,391)	-
Unrealized (gain) loss on investments in equity instruments at fair value through other comprehensive income	2,842	-	(3,213)	-
Income tax expense relating to items that will not be reclassified subsequently to profit or loss (Note 22)	607	-	1,063	-

(Continued)

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

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (223,483)	(1)	\$ (403,476)	(2)
Other comprehensive loss for the year, net of income tax	(223,071)	(1)	(408,017)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,243,531	6	\$ 694,187	3
NET INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,381,036	7	\$ 1,092,531	6
Non-controlling interests	85,566	-	9,673	-
	\$ 1,466,602	7	\$ 1,102,204	6
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,168,606	6	\$ 722,687	3
Non-controlling interests	74,925	-	(28,500)	-
	\$ 1,243,531	6	\$ 694,187	3
EARNINGS PER SHARE (Note 23)				
Basic	\$ 4.72		\$ 3.73	
Diluted	\$ 4.71		\$ 3.72	

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

(Concluded)

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										
						Other Equity (Note 4)			Total	Non-controlling Interests	Total Equity
	Share Capital (Note 20)	Capital Surplus (Notes 4 and 20)	Retained Earnings (Notes 4, 19 and 20)			Exchange Differences on Translating the Financial Statements of 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, 2018	\$ 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 paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(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 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
Differences 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
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	113,153	113,153
Appropriation of 2018 earnings											
Legal reserve	-	-	109,253	-	(109,253)	-	-	-	-	-	-
Special reserve	-	-	-	377,097	(377,097)	-	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(673,621)	-	-	-	(673,621)	-	(673,621)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(34,091)	(34,091)
Net profit for the year ended December 31, 2019	-	-	-	-	1,381,036	-	-	-	1,381,036	85,566	1,466,602
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	(2,430)	(212,842)	-	2,842	(212,430)	(10,641)	(223,071)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	1,378,606	(212,842)	-	2,842	1,168,606	74,925	1,243,531
Differences between consideration received or paid and the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	-	-	-	(263)	-	-	263	-	-	-
BALANCE AT DECEMBER 31, 2019	\$ 2,928,789	\$ 5,485,872	\$ 1,531,899	\$ 1,745,301	\$ 3,204,905	\$ (1,943,166)	\$ -	\$ (11,872)	\$ 12,941,728	\$ 786,409	\$ 13,728,137

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

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

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 1,998,849	\$ 1,481,953
Adjustments for:		
Depreciation and amortization expenses	2,295,375	2,208,094
Expected credit loss recognized on trade receivables	831	23,666
Net loss (gain) on fair value changes of financial assets and liabilities at fair value through profit or loss	2,926	(6,547)
Finance costs	261,702	248,581
Interest income	(58,039)	(31,709)
Share of loss of associates accounted for using the equity method	3,361	3,349
Loss (gain) on disposal of property, plant and equipment	(31,686)	4,733
Impairment loss recognized (reversed) on non-financial assets	15,765	16,218
Unrealized net loss (gain) on foreign currency exchange	(202)	44,814
Reversal of deferred revenue	(3,777)	(3,232)
Net changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	23,549	280,954
Notes receivable	5,698	41,189
Trade receivables	(52,295)	(527,493)
Inventories	13,769	(179,418)
Other current assets	289,117	(415,603)
Notes payable	1,786	(790)
Trade payables	(55,891)	130,700
Other current liabilities	168,077	88,955
Net defined benefit liabilities	(10,485)	(9,444)
Cash generated from operations	4,868,430	3,398,970
Interest received	58,073	31,675
Interest paid	(263,521)	(222,579)
Income tax paid	(505,890)	(276,573)
Net cash generated from operating activities	<u>4,157,092</u>	<u>2,931,493</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of financial assets at fair value through other comprehensive income	129	-
Return of capital from financial assets at fair value through other comprehensive income	4,000	-
Payments for property, plant and equipment	(624,958)	(735,002)
Proceeds from disposal of property, plant and equipment	116,044	75,056
Increase (decrease) in refundable deposits	2,488	(11,264)
Payments for intangible assets	(13,133)	(4,612)
Payments for right-of-use assets	(67,365)	-
Increase in other assets	(13,081)	(19,737)

(Continued)



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

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Increase in prepayments for equipment	\$ (2,777,733)	\$ (1,128,701)
Increase in other prepayments	<u>-</u>	<u>(128,042)</u>
Net cash used in investing activities	<u>(3,373,609)</u>	<u>(1,952,302)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of short-term borrowings	(1,470,959)	(263,293)
Proceeds from short-term bills payable	1,375,000	-
Proceeds from corporate bonds	-	2,994,500
Proceeds from long-term borrowings	2,789,567	1,162,517
Repayments of long-term borrowings	(1,749,023)	(3,260,851)
Repayment of the principal portion of lease liabilities	(56,260)	-
Dividends paid to owners of the Corporation	(673,621)	(732,197)
Dividends paid to non-controlling interests	(34,091)	(12,761)
Changes in non-controlling interests	<u>113,153</u>	<u>(29,890)</u>
Net cash generated from (used in) financing activities	<u>293,766</u>	<u>(141,975)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(118,675)</u>	<u>(69,404)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	958,574	767,812
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>2,979,711</u>	<u>2,211,899</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 3,938,285</u>	<u>\$ 2,979,711</u>

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

(With Deloitte & Touche auditors' report dated March 23, 2020)

(Concluded)

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

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

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### 1. ORGANIZATION AND OPERATIONS

Taiwan Hon Chuan Enterprise Co., Ltd. (the “Corporation”) was incorporated in 1969. It manufactures and sells various 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 (collectively referred to 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 23, 2020.

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

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

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

#### IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### Definition of a lease

The Group elects 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 are not be reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

### The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were 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 are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 2.2%. The difference between the lease liabilities recognized and operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 363,105
Less: Recognition exemption for short-term leases	<u>(81,117)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 281,988</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 272,086
Add: Adjustments as a result of a different treatment of extension	<u>213,692</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 485,778</u>

Anticipated impact on assets, liabilities and equity

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on 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>
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>

- b. The IFRSs endorsed by the FSC for application starting from 2020

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

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

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note )
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a. Statement of compliance**

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

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

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments 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.

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 11, 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 its 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

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 26.

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.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

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.

b) Impairment of financial assets

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 (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.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information shows that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 90 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

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

c) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. 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, any gains or losses on such financial liabilities are recognized in other gains or losses; any remeasurement gains or losses on such financial liabilities are recognized in other gains or losses.

Fair value is determined in the manner described in Note 26.

#### 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.

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

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.

o. Leases

2019

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

The Group as lessee

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

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

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

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognized as 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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

The benefit of a government loan received at a below-market rate of interest is treated as a government grant measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

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.

### Key Sources of Estimation Uncertainty

#### 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	
	2019	2018
Cash on hand and petty cash	\$ 10,536	\$ 10,710
Checking accounts and demand deposits	3,847,536	2,830,783
Cash equivalent (investments with original maturities of less than 3 months)		
Time deposits	<u>80,213</u>	<u>138,218</u>
	<u>\$ 3,938,285</u>	<u>\$ 2,979,711</u>

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

	December 31	
	2019	2018
Bank balance	0%-13%	0%-13%
Time deposit	2.03%-4.30%	2.20%

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

Financial Assets at Fair Value through Profit or Loss - Current	December 31	
	2019	2018
<u>Financial assets mandatorily classified as at FVTPL</u>		
Non-derivative financial assets		
Domestic convertible bonds	\$ 58,998	\$ 85,507
Domestic listed shares	12,652	13,275
Derivative financial assets		
Foreign exchange forward contracts	<u>25</u>	<u>-</u>
	<u>\$ 71,675</u>	<u>\$ 98,782</u>

### Financial Liabilities at Fair Value through Profit or Loss - Current

#### Financial liabilities mandatorily classified as at FVTPL

Derivative financial liabilities		
Foreign exchange forward contracts	<u>\$ 142</u>	<u>\$ 62</u>

Outstanding foreign exchange forward contracts were as follows:

	Currency	Maturity Date	Notional Amount
<u>December 31, 2019</u>			
Buy	EUR/NTD	2020.02.06-2020.06.15	ERU546/NTD18,605
<u>December 31, 2018</u>			
Buy	USD/NTD	2019.01.16-2019.04.16	USD4,291/NTD131,112

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

	December 31	
	2019	2018
<u>Domestic investments</u>		
Unlisted shares	<u>\$ 26,754</u>	<u>\$ 30,131</u>
<u>Foreign investments</u>		
Listed shares and emerging market shares	5,099	2,841
Unlisted shares	<u>8,645</u>	<u>8,645</u>
	<u>13,744</u>	<u>11,486</u>
	<u>\$ 40,498</u>	<u>\$ 41,617</u>

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.

## 9. TRADE RECEIVABLES - NET

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Trade receivables from unrelated parties	\$ 3,237,618	\$ 3,186,132
Less: Allowance for impairment loss	<u>(65,024)</u>	<u>(69,934)</u>
	<u><b>\$ 3,172,594</b></u>	<u><b>\$ 3,116,198</b></u>

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 measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. 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.

	<b>Not Past Due</b>	<b>Less than 90 Days</b>	<b>91 to 180 Days</b>	<b>181 to 360 Days</b>	<b>Over 1 Year</b>	<b>Total</b>
Expected credit loss rate	0.001%	0.5%-2%	3%-5%	10%	50%-100%	
<b><u>December 31, 2019</u></b>						
Gross carrying amount	\$ 2,862,810	\$ 276,653	\$ 31,336	\$ 13,822	\$ 52,997	\$ 3,237,618
Loss allowance (Lifetime ECL)	<u>(14,261)</u>	<u>(1,625)</u>	<u>(1,057)</u>	<u>(1,314)</u>	<u>(46,767)</u>	<u>(65,024)</u>
Amortized cost	<u><b>\$ 2,848,549</b></u>	<u><b>\$ 275,028</b></u>	<u><b>\$ 30,279</b></u>	<u><b>\$ 12,508</b></u>	<u><b>\$ 6,230</b></u>	<u><b>\$ 3,172,594</b></u>

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 360 Days	Over 1 Year	Total
<u>December 31, 2018</u>						
Gross carrying amount	\$ 2,682,281	\$ 404,310	\$ 24,787	\$ 22,668	\$ 52,086	\$ 3,186,132
Loss allowance (Lifetime ECL)	<u>(9,234)</u>	<u>(3,705)</u>	<u>(1,272)</u>	<u>(6,756)</u>	<u>(48,967)</u>	<u>(69,934)</u>
Amortized cost	<u>\$ 2,673,047</u>	<u>\$ 400,605</u>	<u>\$ 23,515</u>	<u>\$ 15,912</u>	<u>\$ 3,119</u>	<u>\$ 3,116,198</u>

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

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 69,934	\$ 44,702
Add: Impairment loss	831	23,666
Less: Amounts written off	(7,596)	-
Foreign exchange gains and losses	<u>1,855</u>	<u>1,566</u>
Balance at December 31	<u>\$ 65,024</u>	<u>\$ 69,934</u>

## 10. INVENTORIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Finished goods	\$ 965,885	\$ 939,028
Work in progress	53,846	57,099
Raw materials and supplies	1,433,913	1,485,866
Inventories in transit	<u>30,985</u>	<u>34,061</u>
	<u>\$ 2,484,629</u>	<u>\$ 2,516,054</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$17,245,038 thousand and \$16,406,836 thousand, respectively.

The cost of goods sold for the years ended December 31, 2019 and 2018 included inventory write-downs of \$15,765 thousand and \$16,218 thousand, respectively.

## 11. SUBSIDIARIES

### Subsidiaries included in the consolidated financial statements

Investor	Investee	Main Businesses	<u>% of Ownership</u>	
			<u>December 31</u>	
			<u>2019</u>	<u>2018</u>
The Corporation	Hon Chuan Holding Limited ("Samoa Hon Chuan")	Overseas reinvested holding company and international trade	100	100
	Bon Trust International Trade Co., Ltd. ("Bon Trust")	Overseas reinvested holding company and international trade	99.9	-
	Hon Chuan (Cambodia) Co., Ltd. ("Hon Chuan Cambodia")	Manufacture and sale of PET bottles	100	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership December 31	
			2019	2018
Samoa Hon Chuan	Hon Chuan (China) Holdings Co., Ltd. (“Hon Chuan China”)	Overseas reinvested holding company	94.17	94.17
	HC (Asia) Holdings Co., Ltd. (“Hon Chuan Asia”)	Overseas reinvested holding company and international trade	100	100
	Hon Chuan (Africa) Holdings 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	95.94
	Honly International Co., Ltd. (“Honly”)	Overseas reinvested holding company and international trade	49	49
	Hon Hua (Samoa) Holdings Limited (“Honhua”)	Overseas reinvested holding company and international trade	60	60
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 (Luoch) Co., Ltd. (“Luoch 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

(Continued)

Investor	Investee	Main Businesses	% of Ownership	
			December 31	
			2019	2018
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	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)

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.

## 12. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2019	2018
<u>Associates</u>		
Unlisted company		
Paeon International Co., Ltd ("Paeon Company")	\$ 16,393	\$ 20,135

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	
	2019	2018
<u>Name of Associates</u>		
Paeon Company	23.08%	23.08%

## Aggregate information of associates

**For the Year Ended December 31**  
**2019                      2018**

The Group's share of:

Loss from continuing operations                      \$ (3,361)                      \$ (3,349)

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.

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Reclassified Amount</b>	<b>Effects of foreign currency exchange differences</b>	<b>Ending Balance</b>
<u>For the Year Ended</u> <u>December 31, 2019</u>						
Cost						
Freehold Land	\$ 772,557	\$ -	\$ -	\$ -	\$ 6,784	\$ 779,341
Buildings	5,986,895	12,184	-	711,575	(61,896)	6,648,758
Equipment	20,070,951	162,270	(294,213)	924,955	(330,782)	20,533,181
Other Equipment	7,182,442	148,641	(95,237)	277,850	(54,011)	7,459,685
Property in Construction	728,617	318,643	-	(746,655)	(252)	300,353
	<u>34,741,462</u>	<u>\$ 641,738</u>	<u>\$ (389,450)</u>	<u>\$ 1,167,725</u>	<u>\$ (440,157)</u>	<u>35,721,318</u>
Accumulated depreciation						
Buildings	1,808,781	\$ 253,272	\$ -	\$ -	\$ (30,997)	2,031,056
Equipment	11,752,003	1,381,066	(225,823)	-	(209,211)	12,698,035
Other Equipment	4,387,035	582,824	(79,269)	-	(44,836)	4,845,754
	<u>17,947,819</u>	<u>\$ 2,217,162</u>	<u>\$ (305,092)</u>	<u>\$ -</u>	<u>\$ (285,044)</u>	<u>19,574,845</u>
	<u>\$16,793,643</u>					<u>\$16,146,473</u>
<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	749,396	403,649	-	(422,684)	(1,744)	728,617
	<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	3,892,532	587,782	(71,192)	-	(22,087)	4,387,035
	<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>

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	3-22 years
Other assets	2-25 years

Refer to Note 28 for the carrying amount of property, plant and equipment pledged by the Group to secure borrowings granted to the Group.

#### 14. LEASE ARRANGEMENTS

##### a. Right-of-use assets - 2019

	<b>December 31, 2019</b>
<u>Carrying amounts</u>	
Land	\$ 959,773
Buildings	154,832
Other equipment	<u>1,298</u>
	<u>\$ 1,115,903</u>
	<b>For the Year Ended December 31, 2019</b>
Additions to right-of-use assets	<u>\$ 67,365</u>
Depreciation charge for right-of-use assets	
Land	\$ 24,246
Buildings	33,870
Other equipment	<u>703</u>
	<u>\$ 58,819</u>

##### b. Lease liabilities - 2019

	<b>December 31, 2019</b>
<u>Carrying amounts</u>	
Current	<u>\$ 52,571</u>
Non-current	<u>\$ 391,845</u>



Range of discount rate for lease liabilities was as follows:

	<b>December 31, 2019</b>
Land	1.18%
Buildings	3.83%
Other equipment	3.83%

c. Material lease-in activities and terms

The Group leases land for the use of plants, office spaces and warehouses with a lease terms of 10 years at the Export Processing Zone Administration, MOEA in the ROC. The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease term. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

	<b>For the Year Ended December 31, 2019</b>
Expenses relating to short-term leases	<u>\$ 115,038</u>
Total cash outflow for leases	<u>\$ (181,513)</u>

The Group leases certain office equipment and transportation equipment which qualify as short-term leases. The Group has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

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

	<b>December 31, 2018</b>
Not later than 1 year	\$ 54,809
Later than 1 year and not later than 5 years	199,766
Later than 5 years	<u>108,530</u>
	<u>\$ 363,105</u>

## 15. OTHER ASSETS

	December 31	
	2019	2018
Office supplies	\$ 548,155	\$ 536,497
Prepaid expenses and prepayment for purchases	261,252	556,001
Other receivables	54,537	76,981
Refundable deposits	51,423	53,879
Tax refund receivable	30,011	47,944
Restricted assets (Note 28)	5,009	9,090
Prepayments for lease	-	622,373
Others	<u>391,287</u>	<u>352,304</u>
	<u>\$ 1,341,674</u>	<u>\$ 2,255,069</u>
Current	\$ 1,284,105	\$ 1,582,345
Non-current	<u>57,569</u>	<u>672,724</u>
	<u>\$ 1,341,674</u>	<u>\$ 2,255,069</u>

As of December 31, 2019 and 2018, 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 28.

## 16. BORROWINGS

### a. Short-term borrowings

	December 31	
	2019	2018
<u>Unsecured borrowings</u>		
Bank loans for working capital	\$ 3,484,521	\$ 5,037,154
Loans for purchasing raw materials	<u>68,480</u>	<u>-</u>
	<u>\$ 3,553,001</u>	<u>\$ 5,037,154</u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.79-3.20	0.69-4.40
Loans for purchasing raw materials	0.95-1.33	-

b. Short-term bills payable

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Commercial paper	<u>\$ 1,375,000</u>	<u>\$ -</u>
<u>Rate of interest per annum (%)</u>		
Commercial paper	0.74-0.82	-

c. Long-term borrowings

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Bank loans for working capital - September 2020 to July 2026	\$ 6,966,965	\$ 5,978,897
Less: Current portions	(1,000,000)	-
Discounts on government grants (Note 24)	<u>(35,778)</u>	<u>-</u>
	<u>\$ 5,931,187</u>	<u>\$ 5,978,897</u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.10-2.96	1.01-4.00

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, 2019, the loan facilities have not yet been drawn down.

## 17. BONDS PAYABLE

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Unsecured domestic bonds	\$ 3,000,000	\$ 3,000,000
Less: Bonds discount	<u>(3,692)</u>	<u>(4,776)</u>
	<u>\$ 2,996,308</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).

## 18. OTHER LIABILITIES

	December 31	
	2019	2018
Payable for salaries	\$ 241,404	\$ 232,431
Advance receipts	144,434	78,188
Payable for purchase of equipment	138,255	110,661
Payable for bonus to employees	28,951	23,695
Payable for annual leave	23,531	22,059
Payable for remuneration of directors	12,429	9,833
Others	<u>596,990</u>	<u>530,858</u>
	<u>\$ 1,185,994</u>	<u>\$ 1,007,725</u>
Current	\$ 1,161,054	\$ 966,852
Non-current	<u>24,940</u>	<u>40,873</u>
	<u>\$ 1,185,994</u>	<u>\$ 1,007,725</u>

## 19. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

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

### b. Defined benefit plans

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

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Present value of defined benefit obligation	\$ 139,598	\$ 137,732
Fair value of plan assets	<u>(118,458)</u>	<u>(109,144)</u>
Net defined benefit liability	<u>\$ 21,140</u>	<u>\$ 28,588</u>

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

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Balance at January 1, 2018	<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>
Service cost			
Current service cost	668	-	668
Net interest expense (income)	<u>1,550</u>	<u>(1,288)</u>	<u>262</u>
Recognized in profit or loss	<u>2,218</u>	<u>(1,288)</u>	<u>930</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,965)	(3,965)
Actuarial loss - changes in demographic assumptions	182	-	182
Actuarial loss - changes in financial assumptions	912	-	912
Actuarial loss - experience adjustments	<u>5,908</u>	<u>-</u>	<u>5,908</u>
Recognized in other comprehensive income	<u>7,002</u>	<u>(3,965)</u>	<u>3,037</u>
Contributions from the employer	-	(11,415)	(11,415)
Benefits paid	<u>(7,354)</u>	<u>7,354</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 139,598</u>	<u>\$ (118,458)</u>	<u>\$ 21,140</u>

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

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

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate	0.800%	1.125%
Expected rate of salary increase	1.125%	1.375%

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate(s)		
0.25% increase	\$ (2,559)	\$ (2,644)
0.25% decrease	\$ 2,639	\$ 2,729
Expected rate(s) of salary increase		
0.25% increase	\$ 2,536	\$ 2,623
0.25% decrease	\$ (2,472)	\$ (2,554)

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Expected contributions to the plans for the next year	\$ 9,938	\$ 10,777
Average duration of the defined benefit obligation	9 years	10 years

## 20. EQUITY

### a. Share capital

	December 31	
	2019	2018
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	
	2019	2018
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	358,475
Other (2)	<u>200,270</u>	<u>200,270</u>
	<u>\$ 5,485,872</u>	<u>\$ 5,485,872</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 after tax in a fiscal year, the profit shall be first utilized for offsetting cumulative losses, setting aside as a legal reserve 10% of the remaining profit until the accumulated legal capital reserve equals the Corporation's paid-in capital, 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 of directors after the amendment, please refer to d. Employee benefits expense, depreciation and amortization expenses in Note 21-4.

The dividends and bonuses, capital surplus, or legal reserve can be distributed in the whole or in part by cash after a resolution has been adopted by a majority of directors present at a meeting of the board of directors attended by two-thirds of the total number of directors; in addition, a report of such distribution shall be submitted to the shareholder's meeting.

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' dividends shall be distributed in the form of cash dividends or share dividends. More than (or equal to) 50% of the total amount of shareholders' dividends 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 2018 and 2017 approved in the shareholders' meetings on June 2019 and 2018, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Legal reserve	\$ 109,253	\$ 123,086		
Special reserve	377,097	147,598		
Cash dividends	673,621	732,197	\$2.3	\$2.5

The appropriation of earnings for 2019 had been proposed by the Corporation's board of directors on March 23, 2020. The appropriation and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 138,104	
Special reserve	209,737	
Cash dividends	878,637	\$ 3

The appropriation of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 19, 2020.

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.



## 21. NET PROFIT FROM CONTINUING OPERATIONS

### a. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest income	\$ 58,039	\$ 31,709
Gain (loss) on disposal of property, plant and equipment	31,686	(4,733)
Gain (loss) on valuation of financial assets	(11,406)	33,986
Loss recognized on associates under equity method	(3,361)	(3,349)
Miscellaneous expense	(246,635)	(30,637)
Miscellaneous income	<u>175,003</u>	<u>158,105</u>
	<u>\$ 3,326</u>	<u>\$ 185,081</u>

### b. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest on bank	\$ 216,949	\$ 226,100
Interest on convertible bonds	33,184	22,481
Interest on lease liabilities	10,215	-
Other finance costs	<u>1,354</u>	<u>-</u>
	<u>\$ 261,702</u>	<u>\$ 248,581</u>

Information about capitalized interest is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Capitalized interest	\$ -	\$ 8,116
Capitalization rate	-	0.96%

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

	<b>For the Year Ended December 31</b>					
	<b>2019</b>			<b>2018</b>		
	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>	<b>Operating Costs</b>	<b>Operating Expenses</b>	<b>Total</b>
Employee benefits expense						
Payroll expense	\$ 1,294,738	\$ 544,578	\$ 1,839,316	\$ 1,220,295	\$ 488,118	\$ 1,708,413
Labor and health insurance expense	54,881	20,941	75,822	49,150	19,859	69,009
Pension expense	22,505	54,932	77,437	21,012	60,849	81,861
Other employee benefits expense	26,474	49,674	76,148	35,672	50,295	85,967
Depreciation expenses	2,048,324	227,657	2,275,981	2,008,081	168,722	2,176,803
Amortization expenses	12,946	6,448	19,394	17,490	13,801	31,291

d. Employees' compensation and remuneration of directors

The Corporation accrued employees' compensation and remuneration of 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 of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018 which have been approved by the Corporation's board of directors on March 23, 2020 and March 26, 2019, respectively, were as follows:

	<b>For the Year Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>%</b>	<b>Cash</b>	<b>%</b>	<b>Cash</b>
Employees' compensation	1.78%	\$ 28,951	1.77%	\$ 23,695
Remuneration of directors	0.76%	12,429	0.74%	9,833

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 of directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 22. TAXES

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax		
In respect of the current year	\$ 481,538	\$ 350,414
Income tax expense of unappropriated earnings	-	22,195
Adjustment for prior periods	23,152	10,397
Deferred tax		
In respect of the current year	27,557	(2,153)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	(1,104)
Income tax expense recognized in profit or loss	<u>\$ 532,247</u>	<u>\$ 379,749</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Income tax expense calculated at the statutory rate	\$ 626,466	\$ 352,689
Nondeductible expenses in determining taxable income	43,198	2,554
Deductible items in determining taxable income	(373)	(618)
Tax-exempt income	(869)	(598)
Unrecognized loss carryforwards	21,398	25,478
Unrecognized deductible temporary differences	(180,725)	(31,244)
Additional income tax on unappropriated earnings	-	22,195
Effect of tax rate changes	-	(1,104)
Adjustments for prior year's tax	<u>23,152</u>	<u>10,397</u>
Income tax expense recognized in profit or loss	<u>\$ 532,247</u>	<u>\$ 379,749</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. 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.

b. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax		
In respect of current period		
- Remeasurement of defined benefit plans	\$ 607	\$ 478
Effect of change in tax rate	<u>-</u>	<u>585</u>
Total income tax recognized in other comprehensive income	<u>\$ 607</u>	<u>\$ 1,063</u>

c. Deferred tax assets and liabilities

	<b>For the Year Ended December 31, 2019</b>			
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred Tax Assets</u>				
Temporary differences				
Tax losses	\$ 172,882	\$ (15,891)	\$ -	\$ 156,991
Defined benefit obligation	5,718	1,301	607	7,626
Inventories	10,768	(4,104)	-	6,664
Other	<u>8,688</u>	<u>4,575</u>	<u>-</u>	<u>13,263</u>
	<u>\$ 198,056</u>	<u>\$ (14,119)</u>	<u>\$ 607</u>	<u>\$ 184,544</u>

<b>For the Year Ended December 31, 2019</b>				
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>31,345</u>	<u>13,438</u>	<u>-</u>	<u>44,783</u>
	<u>\$ 55,628</u>	<u>\$ 13,438</u>	<u>\$ -</u>	<u>\$ 69,066</u>

<b>For the Year Ended December 31, 2018</b>				
	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<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>

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

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$445,469 thousand and \$316,887 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:

<b>Expansion Projects</b>		<b>Tax-exempt Period</b>
Capitalization of earnings (share dividends) in 2008 and cash funded expansion in 2009		December 2013 to December 2017
<b>Investee</b>	<b>Unused Amount</b>	<b>Expiry Year</b>
Suzhou Honxin	\$ 496,437	2020-2024
Suzhou Hon Chuan	70,679	2020-2024
Zhangzhou Hon Chuan	84,174	2023-2024
Luoch Hon Chuan	<u>4,434</u>	2023
	<u>\$ 665,724</u>	

As of December 31, 2019 under the local regulations of Suzhou Hon Chuan, Suzhou Honxin, Zhangzhou Hon Chuan and Luoch Hon Chuan, their loss carryforwards may offset against future taxable income.

f. Income tax assessments

Income tax returns of the Corporation through 2017 have been examined and cleared by the tax authorities.

## 23. EARNINGS PER SHARE

	<b>Net Profit Attributable to Owners of the Corporation</b>	<b>Number of Shares (In Thousands)</b>	<b>Earnings Per Share (NT\$)</b>
<u>For the year ended December 31, 2019</u>			
Basic	\$ 1,381,036	292,879	<u>\$ 4.72</u>
Dilutive effects - employees' compensation or bonus issue to employees	<u>-</u>	<u>577</u>	
Dilutive	<u>\$ 1,381,036</u>	<u>293,456</u>	<u>\$ 4.71</u>
<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>

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.

## **24. GOVERNMENT GRANTS**

According to the “Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan” made by the government, the Corporation borrowed \$602,502 thousand from the National Development Fund with an preferential interest rate for its operation and purchase of equipment. The loan is expected to be settled within 5 to 7 years in equal installments. Using the prevailing market interest rates of 1.10%-1.60% for an equivalent loan, the fair value of the loan was estimated at \$565,371 thousand on initial recognition. The difference of \$37,131 thousand between the proceeds and the fair value of the loan is viewed as a government grants derived from an interest-free loan and is recognized as deferred revenue, which will be subsequently transferred to profit or loss over time. For the year ended December 31, 2019, the amount recognized in other revenue was \$1,002 thousand, and interest expense recognized on this loan was \$1,354 thousand.

If the Corporation fails to comply the loan regulations, and the National Development Fund terminates the grants, the Corporation will pay the loan with the original agreed interest rate plus the annual interest rate.

Jinan Hon Chuan, Qingxin Hon Chuan, and Chuzhou Hon Chuan acquired land use rights, invested in equipment, and constructed electronic projects, respectively, and received a government grant of RMB 6,028 thousand in total. The amount was recognized as deferred revenue and was subsequently transferred to profit or loss over the useful lives of the related assets.

## **25. 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.

## 26. FINANCIAL INSTRUMENTS

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

#### 1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2019</u>				
Financial assets at fair value through profit or loss (FVTPL)				
Domestic convertible bonds	\$ 29,775	\$ -	\$ -	\$ 29,775
Shares of publicly quoted entity	12,652	-	-	12,652
Foreign corporate bonds	29,223	-	-	29,223
Foreign exchange forward contracts	-	25	-	25
	<u>\$ 71,650</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 71,675</u>
Financial liabilities at fair value through profit or loss (FVTPL)				
Foreign exchange forward contracts	\$ -	\$ 142	\$ -	\$ 142
Financial assets at fair value through other comprehensive income				
Equity investments				
Overseas shares of publicly quoted entity	\$ 5,099	\$ -	\$ -	\$ 5,099
Unlisted shares	-	-	35,399	35,399
	<u>\$ 5,099</u>	<u>\$ -</u>	<u>\$ 35,399</u>	<u>\$ 40,498</u>
<u>December 31, 2018</u>				
Financial assets at fair value through profit or loss (FVTPL)				
Domestic convertible bonds	\$ 55,075	\$ -	\$ -	\$ 55,075
Shares of publicly quoted entity	13,275	-	-	13,275
Foreign corporate bonds	30,432	-	-	30,432
	<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	\$ -	\$ 62	\$ -	\$ 62
Financial assets at fair value through other comprehensive income				
Equity investments				
Overseas shares of publicly quoted entity	\$ 2,841	\$ -	\$ -	\$ 2,841
Unlisted shares	-	-	38,776	38,776
	<u>\$ 2,841</u>	<u>\$ -</u>	<u>\$ 38,776</u>	<u>\$ 41,617</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 shares, 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 instruments

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 38,776	\$ -
Reclassification	-	36,155
Recognized in other comprehensive income (included in unrealized gain (loss) on financial assets at FVTOCI)	752	2,621
Proceeds from sale of equity instruments at fair value through other comprehensive income	(129)	-
Return of capital due to capital reduction of invested companies	<u>(4,000)</u>	<u>-</u>
Balance at December 31	<u>\$ 35,399</u>	<u>\$ 38,776</u>

b. Categories of financial instruments

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Financial assets</u>		
FVTPL	\$ 71,675	\$ 98,782
Financial assets at amortized cost		
Cash and cash equivalents	3,938,285	2,979,711
Notes receivable and trade receivable	3,318,476	3,265,021
Financial assets at fair value through other comprehensive income - equity investments	40,498	41,617
Other receivable	54,537	76,981
Refundable deposits	51,423	53,879



	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Financial liabilities</u>		
FVTPL	\$ 142	\$ 62
Amortized cost		
Short-term borrowings	3,553,001	5,037,154
Short-term bill payable	1,375,000	-
Notes payable and trade payable	1,016,967	1,066,640
Bonds payable	2,996,308	2,995,224
Long-term borrowing (including current portion)	6,931,187	5,978,897
Other payable	710,304	600,646
Guarantee deposits received	24,941	40,873

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 preference shares. 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 30.

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% strengthening in the levels of the NTD against the USD, the pre-tax profit for the years ended December 31, 2019 and 2018 would have changed by increasing \$4,278 thousand and \$4,621 thousand, respectively. Assuming a 1% strengthening in the levels of the NTD against the EUR, the pre-tax profit for the years ended December 31, 2019 and 2018 would have changed by increasing \$726 thousand and \$745 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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Fair value interest rate risk		
Financial liabilities	\$ 4,815,724	\$ 2,995,224
Cash flow interest rate risk		
Financial liabilities	10,484,188	11,016,051

#### 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, 2019 and 2018 would decrease by \$13,105 thousand and \$13,770 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 28% and 35% in total trade receivables as of December 31, 2019 and 2018, 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, 2019 and 2018, the Corporation had available unutilized short-term bank loan facilities of \$14,628,646 thousand and \$10,606,521 thousand, respectively.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay.

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>	<b>Total</b>
<u>December 31, 2019</u>				
Non-derivative financial liabilities				
Borrowings	\$ 4,553,001	\$ 5,729,238	\$ 237,727	\$10,519,966
Short-term bills payable	1,375,000	-	-	1,375,000
Non-interest bearing liabilities	1,016,967	-	-	1,016,967
Bonds payable	-	2,996,308	-	2,996,308
Lease liabilities	<u>61,185</u>	<u>178,408</u>	<u>268,242</u>	<u>507,835</u>
	<u>\$ 7,006,153</u>	<u>\$ 8,903,954</u>	<u>\$ 505,969</u>	<u>\$16,416,076</u>
Derivative financial liabilities				
Foreign exchange forward contracts	<u>\$ 142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142</u>

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>	<b>Total</b>
<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>-</u>	<u>2,995,224</u>
	<u>\$ 6,103,794</u>	<u>\$ 8,974,121</u>	<u>\$ -</u>	<u>\$15,077,915</u>
Derivative financial liabilities				
Foreign exchange forward contracts	\$ <u>62</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>62</u>

Additional information about the maturity analysis for lease liabilities

	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>5-10 Years</b>	<b>10-15 Years</b>	<b>15-20 Years</b>	<b>20+ Years</b>
Lease liabilities	<u>\$ 61,185</u>	<u>\$ 178,408</u>	<u>\$ 87,730</u>	<u>\$ 46,912</u>	<u>\$ 41,805</u>	<u>\$ 91,795</u>

## 27. 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

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

b. Sales of goods

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Net sales		
Others	<u>\$ 10,253</u>	<u>\$ 8,363</u>
Rental expenses (recorded under manufacturing or operation expenses)		
Others	<u>\$ 3,770</u>	<u>\$ 293</u>

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

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Accounts receivable		
Others	\$ <u>3,074</u>	\$ <u>530</u>
Other receivable (recorded under current assets)		
Others	\$ <u>-</u>	\$ <u>12,932</u>
Other payables (recorded under other current liabilities)		
Others	\$ <u>-</u>	\$ <u>7,152</u>

c. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Short-term benefits	\$ 79,309	\$ 72,247
Post-employment benefits	<u>239</u>	<u>282</u>
	<u>\$ 79,548</u>	<u>\$ 72,529</u>

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

## 28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Property, plant and equipment	\$ 136,630	\$ 492,186
Restricted assets (recorded under other current assets)	<u>5,009</u>	<u>9,090</u>
	<u>\$ 141,639</u>	<u>\$ 501,276</u>

## 29. 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, 2019 and 2018 were as follows:

- a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to approximately \$242,099 thousand and \$403,805 thousand, respectively.
- b. Unrecognized commitments are as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Acquisition of property, plant and equipment	\$ <u>933,510</u>	\$ <u>168,567</u>

### 30. 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								
		2019			2018					
	Foreign Currencies	Exchange Rate	New Taiwan Dollars		Foreign Currencies	Exchange Rate	New Taiwan Dollars			
<u>Financial assets of monetary items</u>										
USD	\$	16,346	29.98	\$	490,053	\$	17,074	30.72	\$	524,513
EUR		1,869	33.59		62,780		1,695	35.20		59,664
<u>Financial liabilities of monetary items</u>										
USD		30,616	29.98		917,868		32,116	30.72		986,604
EUR		4,031	33.59		135,401		3,812	35.20		134,182

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				
2019			2018	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1	\$ 4,440	1	\$ 13,043
USD	30.912	322	30.15	5,319
RMB	4.49	<u>(7,226)</u>	4.55	<u>(30,728)</u>
		<u>\$ (2,464)</u>		<u>\$ (12,366)</u>

### 31. OTHER ITEMS

Environmental Protection Bureau of Taichung City Government (“Environmental Protection Bureau”), Environmental Protection Administration Executive Yuan, R.O.C. (Taiwan), and Taichung District Prosecutors Office (“Taichung Prosecutors Office”) collectively inspected the label factories of the Corporation and discovered that the air pollution control equipment was not functioning properly. As a result, Environmental Protection Bureau issued Letter No. 1070126655 with fine notifications No. 20-107-110002 and No. 20-107-110003 which amounted to \$20,200 thousand fine. The Corporation paid the fine and recognized the amount as other losses under non-operating income and expenses in the current year. The Corporation appointed a lawyer to appeal for an administrative remedy to the Supreme Administrative Court, and the case is currently under appeal.

Because of the abovementioned event, Environmental Protection Bureau issued Letter No. 1080045552 on May 2, 2019 for the air pollution charge of \$125,869 thousand from the third quarter of 2013 through the second quarter of 2018. The Corporation paid the fine and recognized the amount as other losses under non-operating income and expenses in the first half of 2019. The Corporation appointed a lawyer to appeal to

Taichung High Administrative Court for administrative litigation. The investigation of the case was closed by Taichung Prosecutors Office. In addition to ordering the Corporation to pay the unlawful income of \$77,299 thousand, which was the air pollution charge from the fourth quarter of 2010 through the second quarter of 2018, the prosecutors charged 19 persons, including the Corporation, for indictable offense due to violation of Air Pollution Control Act. The case underwent a trial in the Taichung District Court. The Corporation paid the aforementioned unlawful income and recognized the amount as other losses under non-operating income and expenses in 2019 as well as appointed a lawyer to appeal for a legal relief.

## 32. 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. (None)

- b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (None)
- c) The amount of property transactions and the amount of the resultant gains or losses. (None)
- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (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. (None)

### 33. 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, 2019</u>				
Revenue from external customers	\$ 8,574,895	\$ 12,952,453	\$ -	\$ 21,527,348
Inter-segment revenue	<u>77,982</u>	<u>145,545</u>	<u>(223,527)</u>	<u>-</u>
Segment revenue	<u>\$ 8,652,877</u>	<u>\$ 13,097,998</u>	<u>\$ (223,527)</u>	<u>\$ 21,527,348</u>
Segment income	<u>\$ 1,004,681</u>	<u>\$ 1,251,267</u>		\$ 2,255,948
Financial costs				(261,702)
Foreign exchange loss				1,277
Other gains and losses				<u>3,326</u>
Profit before tax				<u>\$ 1,998,849</u>
<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>



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

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

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

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Packaging materials	\$ 13,607,228	\$ 12,738,475
Beverages (included bottle filling and OEM)	6,641,507	5,700,995
Others	<u>1,278,613</u>	<u>1,490,247</u>
	<u><b>\$ 21,527,348</b></u>	<u><b>\$ 19,929,717</b></u>

- d. Geographical information

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

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

	<b>Revenue from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Taiwan	\$ 8,574,895	\$ 8,378,986	\$ 6,031,570	\$ 5,332,413
China	6,661,662	6,743,102	6,831,791	7,540,583
Southeast Asia	6,033,220	4,621,556	6,937,396	5,440,575
Others	<u>257,571</u>	<u>186,073</u>	<u>384,678</u>	<u>400,642</u>
	<u><b>\$ 21,527,348</b></u>	<u><b>\$ 19,929,717</b></u>	<u><b>\$ 20,185,435</b></u>	<u><b>\$ 18,714,213</b></u>

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

- e. Information on major customers

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

	<b>For the Year Ended December 31</b>	
<b>Names</b>	<b>2019</b>	<b>2018</b>
Customer A	\$ 1,874,970	\$ 2,017,100

**TABLE 1**

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

**FINANCING PROVIDED TO RELATED ENTITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(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	\$ 661 (US\$ 22)	\$ -	\$ -	-	Business transaction	\$ -	-	\$ -	-	\$ -	\$ -	\$ 5,227,816
1	Samoa Hon Chuan	Hon Chuan China	Receivable from related parties	Yes	2,535,784 (US\$ 84,583)	2,535,784 (US\$ 84,583)	2,535,784 (US\$ 84,583)	3.40%-4.39%	Short-term financing	-	Operating Capital	-	-	-	6,242,249	6,242,249
		Hon Chuan Asia	Receivable from related parties	Yes	15,572 (US\$ 519)	15,572 (US\$ 519)	15,572 (US\$ 519)	3.40%	Short-term financing	-	Operating Capital	-	-	-	6,242,249	6,242,249
		Shimada	Other receivable - related parties	Yes	13,989 (US\$ 467)	-	-	-	Business transaction	13,989 (US\$ 467)	Capital	-	-	-	13,989	6,242,249
2	Kai Gang	Hon Chuan China	Receivable from related parties	Yes	129,214 (US\$ 4,310)	129,214 (US\$ 4,310)	129,214 (US\$ 4,310)	3.40%-4.39%	Short-term financing	-	Operating Capital	-	-	-	2,095,234	2,095,234
3	Hon Chuan Asia	Hon Chuan Indonesia	Other receivable - related parties	Yes	46,228 (EUR 1,376)	-	-	-	Business transaction	-	-	-	-	-	-	3,337,164
		Samoa Honly	Receivable from related parties	Yes	128,914 (US\$ 4,300)	128,914 (US\$ 4,300)	128,914 (US\$ 4,300)	3.90%-4.89%	Short-term financing	-	Operating Capital	-	-	-	3,337,164	3,337,164
		Hon Chuan Myanmar	Receivable from related parties	Yes	23,942 (US\$ 799)	-	-	4.52%-4.88%	Short-term financing	-	Operating Capital	-	-	-	3,337,164	3,337,164
			Other receivable - related parties	Yes	68,481 (US\$ 2,115)	-	-	-	Business transaction	31,787 (US\$ 1,060)	Capital	-	-	-	31,787	3,337,164
		Hon Chuan Vietnam	Receivable from related parties	Yes	59,960 (US\$ 2,000)	-	-	4.04%-4.89%	Short-term financing	-	Operating Capital	-	-	-	3,337,164	3,337,164
		Cambodia Honly	Other receivable - related parties	Yes	4,131 (US\$ 138)	-	-	-	Business transaction	4,131 (US\$ 138)	-	-	-	-	4,131	3,337,164
			Receivable from related parties	Yes	6,296 (US\$ 210)	6,296 (US\$ 210)	6,296 (US\$ 210)	3.90%-4.06%	Short-term financing	-	Operating Capital	-	-	-	3,337,164	3,337,164
4	Suzhou Hon Chuan	Chuzhou Hon Chuan	Receivable from related parties	Yes	83,801 (RMB 19,500)	19,339 (RMB 4,500)	19,339 (RMB 4,500)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	396,737	396,737
		Xiantao Hon Chuan	Receivable from related parties	Yes	15,041 (RMB 3,500)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	396,737	396,737
		Luoch Hon Chuan	Receivable from related parties	Yes	53,718 (RMB 12,500)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	396,737	396,737
		Qingxin Hon Chuan	Receivable from related parties	Yes	47,272 (RMB 11,000)	-	-	3.90%	Short-term financing	-	Operating Capital	-	-	-	396,737	396,737
5	Changsha Hon Chuan	Chuzhou Hon Chuan	Receivable from related parties	Yes	79,503 (RMB 18,500)	70,908 (RMB 16,500)	70,908 (RMB 16,500)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	412,981	412,981
		Xiantao Hon Chuan	Receivable from related parties	Yes	107,437 (RMB 25,000)	73,057 (RMB 17,000)	73,057 (RMB 17,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	412,981	412,981
		Suzhou Hongxin	Receivable from related parties	Yes	49,421 (RMB 11,500)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	412,981	412,981
		Luoch Hon Chuan	Receivable from related parties	Yes	25,785 (RMB 6,000)	12,892 (RMB 3,000)	12,892 (RMB 3,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	412,981	412,981

(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	Jinan Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	\$ 81,652 (RMB 19,000)	\$ -	\$ -	3.70%-3.90%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 583,841	\$ 583,841
		Xiantao Hon Chuan	Receivable from related parties	Yes	17,190 (RMB 4,000)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	583,841	583,841
		Chuzhou Hon Chuan	Receivable from related parties	Yes	17,190 (RMB 4,000)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	583,841	583,841
		Suzhou Hon Chung	Receivable from related parties	Yes	42,975 (RMB 10,000)	17,190 (RMB 4,000)	17,190 (RMB 4,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	583,841	583,841
		Luoch Hon Chuan	Receivable from related parties	Yes	141,816 (RMB 33,000)	141,816 (RMB 33,000)	141,816 (RMB 33,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	583,841	583,841
7	Taiyuan Hon Chuan	Xiantao Hon Chuan	Receivable from related parties	Yes	85,949 (RMB 20,000)	21,487 (RMB 5,000)	21,487 (RMB 5,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	605,577	605,577
		Qingxin Hon Chuan	Receivable from related parties	Yes	21,487 (RMB 5,000)	-	-	3.90%	Short-term financing	-	Operating Capital	-	-	-	605,577	605,577
		Chuzhou Hon Chuan	Receivable from related parties	Yes	73,057 (RMB 17,000)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	605,577	605,577
		Suzhou Hon Hsing	Receivable from related parties	Yes	42,975 (RMB 10,000)	21,487 (RMB 5,000)	21,487 (RMB 5,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	605,577	605,577
		Luoch Hon Chuan	Receivable from related parties	Yes	25,785 (RMB 6,000)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	605,577	605,577
8	Zhongzhou Hon Chung	Xiantao Hon Chuan	Receivable from related parties	Yes	55,867 (RMB 13,000)	-	-	3.90%	Short-term financing	-	Operating Capital	-	-	-	441,984	441,984
		Chuzhou Hon Chuan	Receivable from related parties	Yes	45,123 (RMB 10,500)	38,677 (RMB 9,000)	38,677 (RMB 9,000)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	441,984	441,984
		Suzhou Honxin	Receivable from related parties	Yes	64,462 (RMB 15,000)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	441,984	441,984
		Luoch Hon Chuan	Receivable from related parties	Yes	70,908 (RMB 16,500)	66,611 (RMB 15,500)	66,611 (RMB 15,500)	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	441,984	441,984
		Qingxin Hon Chuan	Receivable from related parties	Yes	25,785 (RMB 6,000)	-	-	3.70%-3.90%	Short-term financing	-	Operating Capital	-	-	-	441,984	441,984

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, 2019.

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, 2019  
(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	Hon Chuan Indonesia	(Note 4)	\$ 6,534,771	\$ 717,721 (US\$ 23,940)	\$ 717,721 (US\$ 23,940)	\$ 95,445 (US\$ 3,184)	\$ -	5	\$ 13,069,541	Y	-	-
		Samoa Hon Chuan	(Note 4)	6,534,771	2,068,620 (US\$ 69,000)	2,068,620 (US\$ 69,000)	299,800 (US\$ 10,000)	-	16	13,069,541	Y	-	-
		Hon Chuan China	(Note 4)	6,534,771	3,747,500 (US\$ 125,000)	3,147,900 (US\$ 105,000)	2,130,079 (US\$ 71,050)	-	24	13,069,541	Y	-	-
		Hon Chuan Asia	(Note 4)	6,534,771	1,199,200 (US\$ 40,000)	659,560 (US\$ 22,000)	137,908 (US\$ 4,600)	-	5	13,069,541	Y	-	-
		Luoch Hon Chuan	(Note 4)	6,534,771	359,760 (US\$ 12,000)	359,760 (US\$ 12,000)	299,800 (US\$ 10,000)	-	3	13,069,541	Y	-	Y
		Myanmar Hon Chuan	(Note 4)	6,534,771	149,900 (US\$ 5,000)	149,900 (US\$ 5,000)	148,281 (US\$ 4,946)	-	1	13,069,541	Y	-	-
		Samoa Hon Hsing	(Note 4)	6,534,771	569,620 (US\$ 19,000)	569,620 (US\$ 19,000)	284,810 (US\$ 9,500)	-	4	13,069,541	Y	-	-
		Qingxin Hon Chuan	(Note 4)	6,534,771	584,010 (US\$ 19,480)	389,740 (US\$ 13,000)	149,900 (US\$ 5,000)	-	3	13,069,541	Y	-	Y
		Suzhou Hongxin	(Note 4)	6,534,771	149,900 (US\$ 5,000)	-	-	-	-	13,069,541	Y	-	Y
		Xiantao Hon Chuan	(Note 4)	6,534,771	104,930 (US\$ 3,500)	29,980 (US\$ 1,000)	-	-	-	13,069,541	Y	-	Y
		Chuzhou Hon Chuan	(Note 4)	6,534,771	102,532 (US\$ 3,420)	59,960 (US\$ 2,000)	-	-	-	13,069,541	Y	-	Y
		Bon Trust	(Note 4)	6,534,771	203,564 (US\$ 6,790)	203,564 (US\$ 6,790)	3,000 (US\$ 100)	-	2	13,069,541	Y	-	-
1	Hon Chuan Thailand	Hon Fu Thailand	(Note 4)	1,108,910	50,490 (THB 50,000)	30,294 (THB 30,000)	2,020 (THB 2,000)	-	-	2,217,820	-	-	-

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, 2019.

**TABLE 3****TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2019****(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, 2019			
				Shares	Carrying Value (Note 1)	Percentage of Ownership	Fair Value (Note 1)
The Corporation	<u>Share Capital</u> CDIB CME Fund Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	2,600,000	\$ 26,754	2	\$ 26,754
	Lightel Technologies Inc.	-	Financial assets at fair value through other comprehensive income - non-current	551,051	8,645	2.8	8,645
	Bizlink holdings Inc.	-	Financial assets at fair value through profit or loss - current	40,000	9,020	-	9,020
	Hon Hai Precision Industry Co., Ltd.	-	Financial assets at fair value through profit or loss - current	40,000	3,632	-	3,632
	<u>Corporate Bonds</u> Adimmune Corporation	-	Financial assets at fair value through profit or loss - current	100,000	11,695	-	11,695
	TCI CO., Ltd.	-	Financial assets at fair value through profit or loss - current	160,000	18,080	-	18,080
Samoa Hon Chuan	<u>Corporate Bonds</u> Garden Fresh (HK) Fruit & Vegetable Co., Limited	-	Financial instruments at fair value through profit or loss - current	-	29,223 ( US\$ 975 )	-	29,223 ( US\$ 975 )
Hon Chuan Thailand	<u>Share Capital</u> Ichitan Group Public Company Limited	-	Financial assets at fair value through other comprehensive income - non-current	1,000,000	5,099 ( THB 5,050 )	0.08	5,099 ( THB 5,050 )

Note 1: The information about fair value please see Note 26.

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, 2019.

**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, 2019  
(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 (Notes 1 and 3)
The Corporation	Samoa Hon Chuan	Investments accounted for using equity method	-	Parent - subsidiary	395,643,793	\$ 13,716,075	85,300,000	\$ 2,622,270	480,943,793	\$ 16,983,695
Samoa Hon Chuan	Hon Chuan Asia	Investments accounted for using equity method	-	Parent - subsidiary	205,863,480	7,220,323	30,934,880	927,431	236,798,360	9,038,221
						(US\$ 240,838)		(US\$ 30,935)		(US\$ 301,475)
Hon Chuan Asia	Hon Chuan Indonesia	Investments accounted for using equity method	-	Parent - subsidiary	91,641,304	2,336,072	6,934,479	923,834	98,575,783	3,644,009
						(US\$ 77,921)		(US\$ 30,815)		(US\$ 121,548)

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, 2019.

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, 2019  
(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)	\$ 2,535,784 (US\$ 84,583)	-	\$ -	Depend on the operation	\$ 184,752 (US\$ 6,163)	\$ -
Kai Gang	Hon Chuan China	(Note 1)	129,214 (US\$ 4,310)	-	-	Depend on the operation	39,274 (US\$ 1,310)	-
Jinan Hon Chuan	Luoch Hon Chuan	(Note 1)	141,816 (RMB 33,000)	-	-	Depend on the operation	-	-
Hon Chuan Asia	Samoa Honly	(Note 1)	128,914 (US\$ 4,300)	-	-	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, 2019  
(In Thousands)**

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details (Note 3)			
				Financial Statement Account	Amount	Payment Terms	% to Total Sales or Assets
1	Samoa Hon Chuan	Hon Chuan China	3	Receivable from related parties	\$ 2,535,784	Depend on working capital sufficiency	8

Note 1: Relationship of counterparty; (1) parent company to subsidiary; (2) subsidiary to parent company; (3) subsidiary to subsidiary.

Note 2: The transaction with each subsidiary account for more than or equal to 0.5% of total sales or assets of the consolidated financial statements.

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



TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 4)	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount (Note 4)			
The Corporation	Samoa Hon Chuan	Samoa	Overseas reinvested holding company and international trade	\$ 14,753,912	\$ 12,131,642	480,943,793	100	\$ 16,983,695	\$ 854,676	\$ 854,676	Subsidiary
	Bon Trust	Taichung	Overseas reinvested holding company and international trade	9,990	-	999,000	99.99	10,615	625	625	Subsidiary
	Hon Chuan Cambodia	Cambodia	Manufacture and sale of PET bottles	46,427	-	600	100	43,991	(1,010)	(1,010)	Subsidiary
Samoa Hon Chuan	Hon Chuan China	Cayman Island	Overseas reinvested holding company	4,936,687 (US\$ 164,666)	3,917,367 (US\$ 130,666)	111,802,005	94.17	5,144,988 (US\$ 171,614)	198,239 (US\$ 6,413)	(Note 1)	Indirect subsidiary
	Hon Chuan Asia	Cayman Island	Overseas reinvested holding company and international trade	7,150,620 (US\$ 238,513)	6,223,188 (US\$ 207,578)	236,798,360	100	9,038,221 (US\$ 301,475)	576,354 (US\$ 18,645)	(Note 1)	Indirect subsidiary
	Hon Chuan Africa	Samoa	Overseas reinvested holding company and international trade	391,059 (US\$ 13,044)	391,059 (US\$ 13,044)	13,044,118	100	461,662 (US\$ 15,399)	28,068 (US\$ 908)	(Note 1)	Indirect subsidiary
	Paean Company	Seychelles	Overseas reinvested holding company	28,121 (US\$ 938)	28,121 (US\$ 938)	-	23.08	16,393 (US\$ 547)	(14,560) (US\$ 471)	(Note 1)	Investments accounted for using equity method
Hon Chuan China	Kai Gang	Hong Kong	Overseas reinvested holding company	4,570,751 (US\$ 152,460)	4,570,751 (US\$ 152,460)	1,201,561,003	100	5,366,360 (US\$ 178,998)	200,990 (US\$ 6,502)	(Note 1)	Indirect subsidiary
	Samoa Hon Hsing	Samoa	Overseas reinvested holding company	3,777,660 (US\$ 126,006)	3,777,660 (US\$ 126,006)	126,006,000	100	4,532,137 (US\$ 151,172)	236,786 (US\$ 7,660)	(Note 1)	Indirect subsidiary
Hon Chuan Asia	Hon Chuan Thailand	Thailand	Manufacture and sale of plastic caps and PET bottles	1,244,110 (US\$ 41,498)	1,244,110 (US\$ 41,498)	137,000,000	100	2,168,903 (US\$ 72,345)	179,073 (US\$ 5,793)	(Note 1)	Indirect subsidiary
	Hon Chuan Indonesia	Indonesia	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	3,672,790 (US\$ 122,508)	2,748,956 (US\$ 91,693)	98,575,783	100	3,644,009 (US\$ 121,548)	224,205 (US\$ 7,253)	(Note 1)	Indirect subsidiary
	Hon Chuan Vietnam	Vietnam	Manufacture and sale of plastic caps and PET bottles	959,360 (US\$ 32,000)	899,400 (US\$ 30,000)	-	100	1,253,764 (US\$ 41,820)	94,127 (US\$ 3,045)	(Note 1)	Indirect subsidiary
	Hon Chuan Malaysia	Malaysia	Manufacture and sale of plastic caps and PET bottles	782,448 (US\$ 26,099)	782,448 (US\$ 26,099)	81,259,900	100	777,951 (US\$ 25,949)	53,818 (US\$ 1,741)	(Note 1)	Indirect subsidiary
	Hon Chuan Myanmar	Myanmar	Manufacture and sale of plastic caps, PET bottles and LDPE film	713,104 (US\$ 23,786)	713,104 (US\$ 23,786)	89,524,394	70	659,440 (US\$ 21,996)	85,224 (US\$ 2,757)	(Note 1)	Indirect subsidiary
	Samoa Honly	Samoa	Overseas reinvested holding company and international trade	267,422 (US\$ 8,920)	267,422 (US\$ 8,920)	13,819,780	95.94	82,265 (US\$ 2,744)	(75,734) (US\$ 2,450)	(Note 1)	Indirect subsidiary
	Honly	Cambodia	Overseas reinvested holding company and international trade	54,084 (US\$ 1,804)	54,084 (US\$ 1,804)	1,002	49	54,923 (US\$ 1,832)	3,555 (US\$ 115)	(Note 1)	Indirect subsidiary
	Hon Hua	Samoa	Overseas reinvested holding company and international trade	242,838 (US\$ 8,100)	173,884 (US\$ 5,800)	8,100,000	60	292,185 (US\$ 9,746)	58,918 (US\$ 1,906)	(Note 1)	Indirect subsidiary
Hon Chuan Thailand	Hon Fu Thailand	Thailand	Manufacture and sale of plastic caps, labels, pp bottles and PET bottles	127,902 (THB 126,662)	127,902 (THB 126,662)	12,666,225	65	189,884 (THB 188,044)	23,153 (THB 23,134)	(Note 1)	Indirect subsidiary
Samoa Honly	Cambodia Honly	Cambodia	Manufacture and sale of plastic caps and PET bottles	452,308 (US\$ 15,087)	271,319 (US\$ 9,050)	15,086,569	100	158,774 (US\$ 5,296)	(64,977) (US\$ 2,102)	(Note 1)	Indirect subsidiary
Hon Chuan Africa	Hon Shi Samoa	Samoa	Overseas reinvested holding company and international trade	391,059 (US\$ 13,044)	391,059 (US\$ 13,044)	3,138,790	60	429,074 (US\$ 14,312)	44,421 (US\$ 1,437)	(Note 1)	Indirect subsidiary
Hon Shi Samoa	Shimada	Mozambique	Manufacture and sales of plastic caps PET bottles and LDPE membrane	27,252 (US\$ 909)	27,252 (US\$ 909)	-	100	119,950 (US\$ 4,001)	32,736 (US\$ 1,059)	(Note 1)	Indirect subsidiary
	Hon Shi Mozambique	Mozambique	Manufacture and sales of plastic caps	72,612 (US\$ 2,422)	72,612 (US\$ 2,422)	-	100	93,328 (US\$ 3,113)	13,509 (US\$ 437)	(Note 1)	Indirect subsidiary
Hon Hua	Uni Tun	Myanmar	Bottled water filling	4,137 (US\$ 138)	4,137 (US\$ 138)	-	100	63,857 (US\$ 2,130)	57,836 (US\$ 1,871)	(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, 2019.

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, 2019

(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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	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, 2019 (Notes 2 and 5)	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward						
Suzhou Hon Chuan	Manufacture and sale of various plastic caps, labels and aluminum closures	\$ 614,290 (US\$ 20,490)	(Note 1)	\$ 577,415 (US\$ 19,260)	\$ -	\$ -	\$ 577,415 (US\$ 19,260)	\$ (12,550)	94.17%	\$ (11,808)	\$ 922,712	\$ -
Qingxin Hon Chuan	Manufacture and sale of various plastic caps, labels, PET bottles and beverage filling OEM service	1,588,940 (US\$ 53,000)	(Note 1)	363,927 (US\$ 12,139)	-	-	363,927 (US\$ 12,139)	193,478	94.17%	182,195	1,989,154	-
Zhangzhou Hon Chuan	Manufacture and sale of PET bottles and beverage filling OEM service	1,199,200 (US\$ 40,000)	(Note 1)	191,932 (US\$ 6,402)	-	-	191,932 (US\$ 6,402)	(33,169)	94.17%	(31,252)	1,023,472	-
Suzhou Hongxin	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	1,379,080 (US\$ 46,000)	(Note 1)	735,289 (US\$ 24,526)	-	-	735,289 (US\$ 24,526)	(53,354)	94.17%	(50,232)	738,441	-
Jinan Hon Chuan	Manufacture and sale of plastic caps and PET bottles and beverage filling OEM service	599,600 (US\$ 20,000)	(Note 1)	222,512 (US\$ 7,422)	-	-	222,512 (US\$ 7,422)	155,055	94.17%	145,997	1,259,804	-
Changsha Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	554,630 (US\$ 18,500)	(Note 1)	294,673 (US\$ 9,829)	-	-	294,673 (US\$ 9,829)	64,606	94.17%	60,866	1,030,531	-
Taiyuan Hon Chuan	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	989,340 (US\$ 33,000)	(Note 1)	342,731 (US\$ 11,432)	-	-	342,731 (US\$ 11,432)	87,326	94.17%	82,226	1,504,436	-
Chuzhou Hon Chuan	Manufacture and sale of various plastic caps and PET bottles	299,800 (US\$ 10,000)	(Note 1)	13,911 (US\$ 464)	-	-	13,911 (US\$ 464)	24,791	94.17%	23,339	259,567	-
Xiantao Hon Chuan	Manufacture and sale of various plastic caps and PET bottles and beverage filling OEM service	449,700 (US\$ 15,000)	(Note 1)	23,264 (US\$ 776)	-	-	23,264 (US\$ 776)	17,558	94.17%	16,507	371,168	-
Luoch Hon Chuan	Manufacture and sale of various plastic caps, PET bottles and beverage filling OEM service	359,760 (US\$ 12,000)	(Note 1)	-	-	-	-	5,873	94.17%	5,533	317,245	-
Anyang Hon Chuan	Sale of packaging materials for new type of PE/PP and for food	34,380 (RMB 8,000)	(Note 1)	-	-	-	-	6,306	94.17%	5,935	38,932	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 2,816,381 ( USD 93,942 )	\$ 7,488,974 ( USD 249,799 )	(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, 2019.

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	2019	2018	Increase (Decrease) Amount	Change Ratio (%)	Change Analysis
Current Assets	11,097,170	10,441,913	655,257	6.28	
Property, Plant and Equipment	16,146,473	16,793,643	(647,170)	(3.85)	
Intangible Assets	370,046	370,713	(667)	(0.18)	
Other Assets	3,910,352	1,809,665	2,100,687	116.08	1
Total Assets	31,524,041	29,415,934	2,108,107	7.17	
Current Liabilities	8,325,948	7,229,766	1,096,182	15.16	
Non-current Liabilities	9,469,956	9,107,003	362,953	3.99	
Total Liabilities	17,795,904	16,336,769	1,459,135	8.93	
Capital Stock	2,928,789	2,928,789	0	0.00	
Additional Paid-in Capital	5,485,872	5,485,872	0	0.00	
Retained Earning	6,482,105	5,777,383	704,722	12.20	
Non-controlling Equity	786,409	632,422	153,987	24.35	2
Other Equity	(1,955,038)	(1,745,301)	(209,737)	12.02	
Treasury Shares	0	0	0		
Total Equity	13,728,137	13,079,165	648,972	4.96	

Please explain the variation reason for which exceeding 20%:

1. The increase of Other Assets: Mainly due to the rise of prepayments for business facilities.
2. The increase of Non-controlling Equity: Mainly due to the cash capital increase of subsidiaries.

## 7.2 Analysis of Financial Performance

### 7.2.1 Financial performance analysis

Unit: NTD\$ Thousand

Year Item	2019	2018	Increase (Decrease) Amount	Change Ratio (%)	Change Analysis
Net Sales	21,527,348	19,929,717	1,597,631	8.02	
Cost of Goods Sold	17,245,038	16,406,836	838,202	5.11	
Gross Profit	4,282,310	3,522,881	759,429	21.56	1
Operating Expense	2,026,362	1,946,471	79,891	4.10	
Profit From Operation	2,255,948	1,576,410	679,538	43.11	2
Non-operating Income and Expense	(257,099)	(94,457)	(162,642)	172.19	3
Profit Before Income Tax	1,998,849	1,481,953	516,896	34.88	4
Income Tax Fee	532,247	379,749	152,498	40.16	5
Net Income	1,466,602	1,102,204	364,398	33.06	
Other Comprehensive Income	(223,071)	(408,017)	184,946	(45.33)	6
Total Comprehensive Income of This Year	1,243,531	694,187	549,344	79.13	

Please explain the variation reason for which exceeding 20%:

1. The increase of Gross Profit: Due to the rise of consolidated sales this year, the decline in the price of bulk materials, and the reduction of expenses caused by the promotion of lean management reduced the cost.
2. The increase of Profit From Operation: Due to the rise of consolidated sales this year, the decline in the price of bulk materials, and the reduction of expenses caused by the promotion of lean management reduced the cost.
3. The decrease of Non-operating Income and Expense: Due to the rise of air pollution fee this year.
4. The increase of Profit Before Income Tax: Due to the rise of consolidated sales this year, the decline in the price of bulk materials, and the reduction of expenses caused by the promotion of lean management reduced the cost.
5. The increase of Income Tax Fee: Due to the rise of consolidated income before tax.
6. The increase 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 "2020 Projected sales volume and its reference".

## 7.3 Analysis of Cash Flow

### 7.3.1 Liquidity Analysis within the last 2 years

Item \ Year	2019	2018	Different (%)
Cash Flow Ratio (%)	49.93	40.55	23.12
Cash Flow Adequacy Ratio (%)	105.23	89.22	17.94
Cash Re-investment Ratio (%)	8.18	5.57	46.86
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 in 2019. 2. Cash Re-investment Ratio: Due to the rise of net cash provided by operating activities in 2019.			

### 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	
3,938,285	4,161,834	3,779,367	4,320,752	Investment Plan	Financial Plan
				-	-
1. Cash liquidity analysis for next year: (1) Operating activities: Mainly arising from expected profits of 2020 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 borrow the banks' loan, which causes the inflow of net cash. 2. Contingency plans for insufficient cash and liquidity analysis: Not applicable.					

## 7.4 The impact of material capital expenditure on financial business in the most recent year

### 7.4.1 Major Capital Expenditure and its Source of Capital

Unit: NTD\$ Thousand

Project	Actual or Planned Source of Capital	Actual or Planned Date of Completion	Total Capital	Actual Capital Expenditure	
				2019	2020
Hon Chuan	Equity fund & Bank loan	Finished before the 4th quarter of 2020	4,976,731	3,402,691	1,574,040

## 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	16,115,952	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 2019.	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, 2020.

## **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 the beginning of this year (2020), although the United States and China signed phase one of new trade deal, and Brexit has also entered a transition period, a serious outbreak of COVID-19 pandemic has occurred in mainland China, continuing its spread across the world and having severe impacts on the real economy. Therefore, major economies have adopted easing monetary policies and launched expansionary fiscal policies to diminish the significant negative economic impacts from the coronavirus outbreak. In addition to the threat posed by the outbreak of the disease, the global economic outlook still faces risks from trade negotiations, geopolitics and extreme climate. Given that COVID-19 outbreak leads to the rapid deterioration of the global economic outlook and the dramatically volatile international financial market, in order to facilitate the normal operation of enterprises and to consider that a large amount of capital movement affects financial stability, our country's the Central Bank of the Republic of China decided to cut the interest rate by 0.25 percentage at the joint meeting on March 19 this year, which means the financial market at home and abroad are expected to remain in a low interest rate environment for some time. 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, to moderate the threat brought from inflation to the profit and loss of the Company.

The following information is provided as a reference and comparison for the above-mentioned risks:

Unit: NTD\$ Thousand

Item / Year	2019	2018
Net foreign exchange gain (loss)	1,277	(30,957)
Net Sales	21,527,348	19,929,717
Profit from Operations	2,255,948	1,576,410
Profit before Income Tax	1,998,849	1,481,953
Interest revenue	58,039	31,709
Interest expense (Note 1)	261,702	248,581

Note 1: The interest expenses for 2019 include the interest expenses of NTD\$ 33,184 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 Loaning 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	2019	2018
Gain (or Loss) on valuation of financial asset	(11,406)	33,986



### **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 2020, 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 77.

### **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:

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, by No. 1080045552 on May 2, 2019, had recalculated the fee from the 3rd quarter of 2013 to the 2nd quarter of 2018 in accordance with Article 75 of the Air Pollution Control Act and requested the Company to pay double the amount of the fee rates for pollution source emissions, which was in total NTD\$ 125,869,455 (has been recognized in the 2nd quarter financial report of 2019). The Company has initiated administrative proceedings against the Taichung High Administrative Court on November 1, 2019, and the suit is still pending. Regarding the above-mentioned lack of environmental safety, the Company has completed the improvement after the event.

Due to the above incidents, the prosecutor from the Taiwan Taichung District Prosecutor's Office institutes a public prosecution in 19 people including the Company for violating the Air Pollution Control Act and the Offenses of Fraudulence of Criminal Code of the Republic of China, and requested them to pay NTD\$ 77,298,948 (has been recognized in the 3rd quarter financial report of 2019). The content contained in the indictment of the Taichung District Procuratorate Office is partly different from the facts. In addition, there may exist doubt about double payment of the above-mentioned payment and the amount of NT \$ 125,869,455 for the air pollution fee from the 3rd quarter of 2013 to the 2nd quarter of 2018 paid by the Company to the Environmental Protection Bureau; the company has appointed lawyers to undertake relevant research and assist in the subsequent defense. The whole case (No. 2479 in 2019) is pending in the Taiwan Taichung District Court. The Company has paid the aforementioned illegal benefits and recognized them as non-operating expenses - other losses for the year 2019, and has appointed a lawyer to request the Taichung District Court to return them, which has not been ruled as of the date of publication of the annual report.

#### **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.**

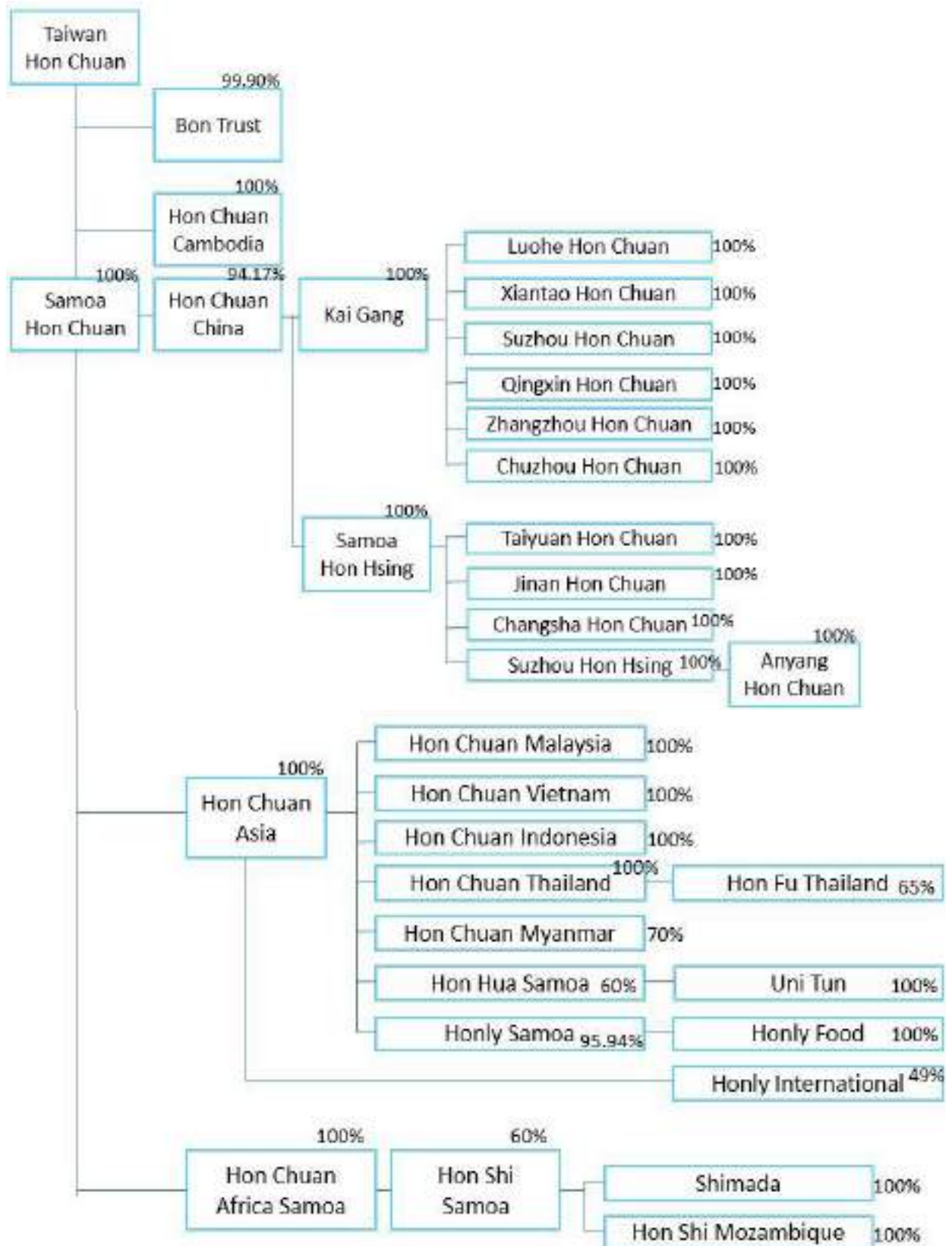
## 8. Special Disclosures

### 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, 2019





### 8.1.1.2 Summary of Affiliated Companies

Unit: NTD\$ Dollar

Company Name	Date of Establishment	Address	Paid-in Capital	Major Business / Production Items
Bon Trust International Trade Co., Ltd.	April 9, 2019	24F.-1, No. 218, Sec. 1, Wenxin Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.)	TWD\$10,000,000	International Equity Investment and Trade Business
Hon Chuan Holding Limited	March 15, 2002	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 480,943,793	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\$ 20,000,000	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\$ 236,798,359	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\$ 1,515,491,665,389	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\$ 672,613,500,000	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
Hon Hua (Samoa) Holdings Limited	October 17, 2016	Portcullis Chambers, P.O.Box 1225, Apia, Samoa	USD\$ 13,191,767	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\$ 3,681,000	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\$ 15,086,569	Beverage filling OEM
Hon Chuan (Cambodia) Co., Ltd.	July 16, 2019	House #44, Street National Road 4, Group5, Trapeang Kol Village, Kantouk Commune, Po Sen Chey District, Phnom Penh, Cambodia	USD\$ 1,500,000	Manufacture and sale of PET bottles
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	14,418,695	17,311,138	327,443	16,983,695	72,305	(6,476)	854,676
Bon Trust International Trade Co., Ltd.	10,000	27,387	16,762	10,625	23,940	616	626
Hon Chuan (Cambodia) Co., Ltd.	44,970	81,740	37,749	43,991	0	(1,012)	(1,010)
Hon Chuan (China) Holding Co., Ltd.	355,928	9,906,427	4,506,017	5,400,410	(23,630)	(44,790)	198,237
Kai Gang Industries Limited	4,600,803	5,323,015	0	5,323,015	1,603	(156)	200,988
Hon Hsing (Samoa) Holding Limited	3,777,660	4,817,253	285,112	4,532,141	0	(31)	236,777
Hon Chuan (Africa) Holdings Co., Ltd.	391,063	461,665	0	461,665	1,491	1,418	28,078
Hon Shi (Samoa) Holding Limited	156,835	226,364	6,200	220,164	0	(1,818)	44,431
Hon Chuan Enterprise (Suzhou) Company Limited	614,290	1,048,327	68,495	979,832	518,677	(16,192)	(12,544)
Suzhou Hongxin Food Packing Co., Ltd.	1,379,080	840,612	56,445	784,167	730,989	(49,389)	(53,340)
Hon Chuan Enterprise (Changsha) Co., Ltd.	554,630	1,144,072	49,732	1,094,340	417,825	59,942	64,621
Hon Chuan Food Packing (Jinan) Co., Ltd.	599,600	1,390,428	52,624	1,337,804	1,036,051	188,251	155,047
Hon Chuan Food Packing (Taiyuan) Co., Ltd.	989,340	1,683,549	85,985	1,597,564	975,887	100,465	87,312
Hon Chuan Food Packing (Qingxin) Co., Ltd.	1,588,940	2,437,610	325,300	2,112,310	1,666,867	223,338	193,482
Hon Chuan Food Packing (Zhangzhou) Co., Ltd.	1,199,200	1,124,910	38,086	1,086,824	213,322	(56,475)	(33,182)
Hon Chuan Food Packing (Chuzhou) Co., Ltd.	299,800	520,133	244,490	275,643	526,119	43,148	24,790

Hon Chuan Food Packing (Xiantao) Co., Ltd.	449,700	633,681	239,546	394,135	264,961	38,552	17,544
Hon Chuan Food Packing (Luohe) Co., Ltd.	359,760	881,308	544,410	336,898	415,357	19,569	5,883
HC (Asia) Holdings Co.,Ltd.	7,099,215	9,187,126	164,467	9,022,659	102,554	(4,760)	576,341
Hon Chuan (Thailand) Co., Ltd.	1,383,407	2,355,983	181,229	2,174,754	1,612,651	167,188	179,070
Hon Chuan FD Packaging Co., Ltd.	196,772	325,539	33,410	292,129	338,813	26,728	23,153
PT Hon Chuan Indonesia	3,317,411	4,034,947	386,146	3,648,801	1,986,685	271,105	224,238
Hon Chuan Vietnam Co., Ltd.	786,285	1,310,195	44,178	1,266,017	814,919	111,486	94,148
Hon Chuan Malaysia Sdn. Bhd.	571,502	846,048	65,446	780,602	547,352	62,346	53,827
Hon Chuan (Myanmar) Co., Ltd.	654,157	976,523	200,299	776,224	758,503	77,086	85,211
Hon Hua(Samoa) Holdings Limited	395,489	511,850	34,113	477,737	0	(27,645)	58,914
Uni Tun Co., Ltd.	3,788	75,417	11,553	63,864	152,743	61,471	57,825
Honly Holding Co., Ltd.	43,186	234,637	148,894	85,743	12,970	(6,127)	(75,749)
Honly International Co., Ltd.	110,356	114,483	2,391	112,092	0	(297)	3,553
Honly Food & Beverage Co., Ltd.	452,295	265,631	106,619	159,012	79,163	(64,863)	(64,966)
Shimada International Limitada	176	167,969	48,029	119,940	158,136	32,981	32,743
Hon Shi Mozambique Co., Ltd.	78,812	130,687	31,164	99,523	100,986	10,945	13,500

(Note 1) Foreign exchange rates (to NTD) for balance sheet amounts are as follows: USD: 29.98, RMB: 4.297483, THB: 1.009786, RP: 0.002189, VND: 0.001169, MYR: 7.033008, MMK: 0.020266, MZN: 0.487745

(Note 2) Foreign exchange rates (average in 2019, to NTD) for income statement amounts are as follows: USD: 30.912, RMB: 4.487464, THB: 1.000807, RP: 0.002195, VND: 0.001206, MYR: 7.176004, MMK: 0.020309, MZN: 0.494252

#### 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)	%
Bon Trust International Trade Co., Ltd.	Director	Wang, Mei-Ying	1,000	0.1%
	Supervisor	Hsieh, I-Fang		
Hon Chuan Holding Limited	Director	Lin, Chuan-Nui, Dai, Hung-Chuan, Tsao, Hsieh-Chung (Representative of Taiwan Hon Chuan Enterprise Co., Ltd.)	480,943,793	100%
Hon Chuan (China) Holding Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsieh-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, Hsieh-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, Hsieh-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, Hsieh-Chung (Representative of Hon Chuan Holding Limited)	236,798,360	100%
Hon Chuan (Thailand) Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsieh-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	137,000,000	100%
Hon Chuan FD Packaging Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsieh-Chung, Pai, Wen-Pin, Lai, Shen-Yuan (Representative of Hon Chuan (Thailand) Co., Ltd.)	12,666,225	65%
		● Kasem Deemaitree, Mrs.Chintana Assodmritee (Representative of F&D)	6,820,275	35%
PT Hon Chuan Indonesia	Director	Dai, Hung-Chuan, Tsao, Hsieh-Chung, Pai, Wen-Pin, Lai, Shen-Yuan, Li, Cho-Pin (Representative of HC (Asia) Holdings Co., Ltd.)	98,577,783	100%
	Supervisor	Liu, Yun-Chang		
Hon Chuan Vietnam Co., Ltd.	Director	Dai, Hung-Chuan, Tsao, Hsieh-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, Hsieh-Chung, Pai, Wen-Pin, Lai, Shen-Yuan, Ting, Chih-Hao (Representative of HC (Asia) Holdings Co., Ltd.)	81,259,900	100%
Hon Chuan (Myanmar) Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsieh-Chung, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)	89,524,394	70%
		● Daw Zin Mar Cho, Daw Aye Mya Aung (Representative of Pack Master Co., Ltd.)	38,367,597	30%
Honly Holding Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsieh-Chung (Representative of HC (Asia) Holdings Co., Ltd.)	13,819,780	95.94%
		● Chiu, Hsien-Tsai	585,000	4.06%
Honly International Co., Ltd.	Director	● Dai, Hung-Chuan, Tsao, Hsieh-Chung, Cheng, Ya-Wen, Dai, Hung-I, Tsao, Hung-Yu (Representative of HC (Asia) Holdings Co., Ltd.)	1,002	49%
		● Chuang, Savy	1,043	51%
Honly Food & Beverage Co., Ltd.	Director	● Tsao, Hsieh-Chung, Dai, Hung-Chuan, Yen, Ching-Chuan, Chang, Yu-Hung (Representative of HC (Asia) Holdings Co., Ltd.)	14,474,054	95.94%
		● Chuang, Savy	612,515	4.06%

Hon Chuan (Cambodia) Co., Ltd.	Director	Pai, Wen-Pin, Chang, Yu-Hung (Representative of Taiwan Hon Chuan Enterprise Co., Ltd.)	600	100%
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"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.)</li> <li>● Roy Debabrata, Huang, Yu-Hwa</li> </ul>	3,138,790 2,092,526	60% 40%
Shimada International Limitada	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.)</li> <li>● Roy Debabrata, Huang, Yu-Hwa</li> </ul>	- -	60% 40%
Hon Shi Mozambique Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Fang, Yu-Lung (Representative of Hon Chuan (Africa) Holdings Co., Ltd.)</li> <li>● Roy Debabrata, Huang, Yu-Hwa</li> </ul>	- -	60% 40%
Hon Hua (Samoa) Holdings Limited	Director	<ul style="list-style-type: none"> <li>● Dai, Hung-Chuan, Tsao, Hsih-Chung, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)</li> <li>● Chia, Hsin-Hua, Yang, Cheng-Lin</li> </ul>	8,100,000 5,091,767	60% 40%
Uni Tun Co., Ltd.	Director	<ul style="list-style-type: none"> <li>● DAW MYA THAZIN KYAWE, DAW WIN WIN KHAING, Lai, Shen-Yuan (Representative of HC (Asia) Holdings Co., Ltd.)</li> </ul>	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, 2019, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial 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 23, 2020

**8.1.4 Relationship report:** Not applicable.

**8.2 The status of issuing private placement securities in the most recent year and up to the publication of the annual report:** None.

**8.3 Acquisition or disposal of the Company's stock shares by subsidiaries in the most recent year and up to the publication of the annual report:** None.

**8.4 Other necessary supplementary notes:** None.

**9. The occurrence of any events as stated in Section 3 Paragraph 2 in Article 36 of the Securities Exchange Act that had significant impact on shareholders' equity or securities prices in the most recent year and up to the publication of the annual report:** None.

Taiwan Hon Chuan Enterprise Co., Ltd.

Chairman: Dai, Hung-Chuan





## TAIWAN HON CHUAN GROUP

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