

**Taiwan Hon Chuan Enterprise Co., Ltd.  
and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2018 and 2017 and  
Independent Auditors' Report**

## DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

TAIWAN HON CHUAN ENTERPRISE CO., LTD.

By:

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Hung-Chuan Dai  
President

March 26, 2019

## INDEPENDENT AUDITORS' REPORT

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

### Opinion

We have audited the accompanying consolidated financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matters of the Group's consolidated financial statements for the year ended December 31, 2018 are stated as follows :

#### Revenue recognition

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

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

1. We have understood and tested the design and operating effectiveness of the key controls over revenue recognition and we sampled and inspected the original purchase orders and delivery order to verify the reasonableness of the accrual of the sale revenue.
2. We verified the entries to the revenue subsidiary ledger by selecting sample entries for the main products and we checked the entries against the original order, delivery order, invoice and receipt voucher. We also checked the entries against the documents acknowledged by customers for their receipt, delivery and order.

#### Evaluation of impairment of inventory

The Group's inventory is measured at the lower of cost or net realizable value. The determination of net realizable value involved the use of significant judgments and estimates by the management. Thus, the evaluation of impairment of inventory is identified as a key audit matter. Please refer to Notes 4, 5 and 13 to the consolidated financial statements for the information about inventory.

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

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

#### **Other Matter**

We did not audit the financial statements of PT Hon Chuan Indonesia, Hon Chuan Vietnam Co., Ltd. and Hon Chuan Malaysia Sdn. Bhd. as of and for the years ended December 31, 2018 and 2017. The total assets of these consolidated subsidiaries were 16.03% (NT\$4,715,348 thousand) and 15.60% (NT\$4,412,758 thousand) of the consolidated assets as of December 31, 2018 and 2017, respectively. The net sales of these subsidiaries were 11.23% (NT\$2,238,171 thousand) and 10.42% (NT\$1,825,164 thousand) of the consolidated net sales in 2018 and 2017, respectively. These investees' financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of other auditors.



We have also audited the parent company only financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified report with other matter paragraph.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee, are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to



the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

#### Notice to Readers

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

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

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

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

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

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

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

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|   | For the Year Ended December 31 |            |                   |           |
|---|--------------------------------|------------|-------------------|-----------|
|   | 2018                           |            | 2017              |           |
|   | Amount                         | %          | Amount            | %         |
| SALES (Notes 4 and 30)  | \$ 19,929,717                  | 100        | \$ 17,519,458     | 100       |
| COST OF GOODS SOLD (Notes 4, 13, 24 and 30)   | <u>16,406,836</u>              | <u>82</u>  | <u>14,198,877</u> | <u>81</u> |
| GROSS PROFIT  | <u>3,522,881</u>               | <u>18</u>  | <u>3,320,581</u>  | <u>19</u> |
| OPERATING EXPENSES (Notes 24 and 30)  |                                |            |                   |           |
| Selling and marketing expenses  | 925,697                        | 5          | 902,855           | 5         |
| General and administrative expenses   | 952,804                        | 5          | 838,303           | 5         |
| Research and development expenses   | <u>67,970</u>                  | <u>-</u>   | <u>69,043</u>     | <u>-</u>  |
| Total operating expenses  | <u>1,946,471</u>               | <u>10</u>  | <u>1,810,201</u>  | <u>10</u> |
| PROFIT FROM OPERATIONS  | <u>1,576,410</u>               | <u>8</u>   | <u>1,510,380</u>  | <u>9</u>  |
| NON-OPERATING INCOME AND EXPENSES   |                                |            |                   |           |
| Finance costs (Notes 4, 20 and 24)  | (248,581)                      | (2)        | (225,642)         | (1)       |
| Other gains and losses (Notes 4 and 24)   | 185,081                        | 1          | 240,427           | 1         |
| Net foreign exchange gain (loss) (Note 4)   | <u>(30,957)</u>                | <u>-</u>   | <u>21,829</u>     | <u>-</u>  |
| Total non-operating income and expenses   | <u>(94,457)</u>                | <u>(1)</u> | <u>36,614</u>     | <u>-</u>  |
| PROFIT BEFORE INCOME TAX  | 1,481,953                      | 7          | 1,546,994         | 9         |
| INCOME TAX EXPENSE (Notes 4 and 25)   | <u>379,749</u>                 | <u>2</u>   | <u>285,011</u>    | <u>2</u>  |
| NET PROFIT FOR THE YEAR   | <u>1,102,204</u>               | <u>5</u>   | <u>1,261,983</u>  | <u>7</u>  |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)  |                                |            |                   |           |
| Items that will not be reclassified subsequently to profit or loss:                                   |                                |            |                   |           |
| Remeasurement of defined benefit plans (Note 22)  | (2,391)                        | -          | (7,266)           | -         |
| Unrealized loss on investments in equity instruments at fair value through other comprehensive income | (3,213)                        | -          | -                 | -         |
| Income tax expense related to items that may be reclassified subsequently (Note 25)                   | 1,063                          | -          | 1,235             | -         |

(Continued)



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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

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

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

(Concluded)

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

|  | Equity Attributable to Owners of the Parent |                                  |  |                 |                         |  |   |  |               |                                     |               |
|--|---|----------------------------------|--|-----------------|-------------------------|--|---|--|---------------|-------------------------------------|---------------|
|  |   |                                  |  |                 |                         | Other Equity (Note 4)                                  |   |  | Total         | Non-controlling Interests (Note 14) | Total Equity  |
|  |   |                                  |  |                 |                         | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Unrealized Gain (Loss) on Investments in Equity Instruments at Fair Value Through Other Comprehensive Income |               |                                     |               |
|  | Share Capital (Note 23)                     | Capital Surplus (Notes 4 and 23) | Retained Earnings (Notes 4, 22 and 23) |                 |                         |  |   |  |               |                                     |               |
|  |   |                                  | Legal Reserve                          | Special Reserve | Unappropriated Earnings |  |   |  |               |                                     |               |
| BALANCE AT JANUARY 1, 2017   | \$ 2,928,789                                | \$ 5,127,397                     | \$ 1,181,738                           | \$ 444,446      | \$ 3,293,916            | \$ (1,218,432)   | \$ (2,174)  | \$ -   | \$ 11,755,680 | \$ 920,493                          | \$ 12,676,173 |
| Increase in non-controlling interests  | -   | -                                | -                                      | -               | -                       | -  | -   | -  | -             | 64,300                              | 64,300        |
| Appropriation of 2016 earnings   |   |                                  |  |                 |                         |  |   |  |               |                                     |               |
| Legal reserve  | -   | -                                | 117,822                                | -               | (117,822)               | -  | -   | -  | -             | -                                   | -             |
| Special reserve  | -   | -                                | -                                      | 776,160         | (776,160)               | -  | -   | -  | -             | -                                   | -             |
| Cash dividends distributed by the Corporation  | -   | -                                | -                                      | -               | (732,197)               | -  | -   | -  | (732,197)     | -                                   | (732,197)     |
| Cash dividends distributed by subsidiaries   | -   | -                                | -                                      | -               | -                       | -  | -   | -  | -             | (18,175)                            | (18,175)      |
| Net profit for the year ended December 31, 2017  | -   | -                                | -                                      | -               | 1,230,861               | -  | -   | -  | 1,230,861     | 31,122                              | 1,261,983     |
| Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax  | -   | -                                | -                                      | -               | (6,031)                 | (146,589)  | (1,009)   | -  | (153,629)     | 64,308                              | (89,321)      |
| Total comprehensive income (loss) for the year ended December 31, 2017   | -   | -                                | -                                      | -               | 1,224,830               | (146,589)  | (1,009)   | -  | 1,077,232     | 95,430                              | 1,172,662     |
| The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during disposal or acquisition | -   | 380,116                          | -                                      | -               | -                       | -  | -   | -  | 380,116       | (380,116)                           | -             |
| BALANCE AT DECEMBER 31, 2017   | 2,928,789                                   | 5,507,513                        | 1,299,560                              | 1,220,606       | 2,892,567               | (1,365,021)  | (3,183)   | -  | 12,480,831    | 681,932                             | 13,162,763    |
| Effect of retrospective application and retrospective restatement  | -   | -                                | -                                      | -               | 5,644                   | -  | 3,183   | (11,764)   | (2,937)       | -                                   | (2,937)       |
| BALANCE AT JANUARY 1, 2018 AS RESTATED   | 2,928,789                                   | 5,507,513                        | 1,299,560                              | 1,220,606       | 2,898,211               | (1,365,021)  | -   | (11,764)   | 12,477,894    | 681,932                             | 13,159,826    |
| Increase in non-controlling interests  | -   | -                                | -                                      | -               | -                       | -  | -   | -  | -             | 51,154                              | 51,154        |
| Appropriation of 2017 earnings   |   |                                  |  |                 |                         |  |   |  |               |                                     |               |
| Legal reserve  | -   | -                                | 123,086                                | -               | (123,086)               | -  | -   | -  | -             | -                                   | -             |
| Special reserve  | -   | -                                | -                                      | 147,598         | (147,598)               | -  | -   | -  | -             | -                                   | -             |
| Cash dividends distributed by the Corporation  | -   | -                                | -                                      | -               | (732,197)               | -  | -   | -  | (732,197)     | -                                   | (732,197)     |
| Cash dividends distributed by subsidiaries   | -   | -                                | -                                      | -               | -                       | -  | -   | -  | -             | (12,761)                            | (12,761)      |
| Net profit for the year ended December 31, 2018  | -   | -                                | -                                      | -               | 1,092,531               | -  | -   | -  | 1,092,531     | 9,673                               | 1,102,204     |
| Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax  | -   | -                                | -                                      | -               | (1,328)                 | (365,303)  | -   | (3,213)  | (369,844)     | (38,173)                            | (408,017)     |
| Total comprehensive income (loss) for the year ended December 31, 2018   | -   | -                                | -                                      | -               | 1,091,203               | (365,303)  | -   | (3,213)  | 722,687       | (28,500)                            | 694,187       |
| The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during disposal or acquisition | -   | (21,641)                         | -                                      | -               | -                       | -  | -   | -  | (21,641)      | (59,403)                            | (81,044)      |
| BALANCE AT DECEMBER 31, 2018   | \$ 2,928,789                                | \$ 5,485,872                     | \$ 1,422,646                           | \$ 1,368,204    | \$ 2,986,533            | \$ (1,730,324)   | \$ -  | \$ (14,977)  | \$ 12,446,743 | \$ 632,422                          | \$ 13,079,165 |

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

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

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

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

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

(Continued)



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

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

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

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

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

(Concluded)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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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 (referred to collectively as “the Group”) are presented in the Corporation’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 26, 2019.

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendments

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

#### Classification, measurement and impairment of financial assets

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

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

| Financial Assets   | Measurement Category  |                        |  | Carrying Amount   |   | Remark   |        |
|--|---|------------------------|--|---|---|--|--------|
|  | IAS 39  |                        | IFRS 9   | IAS 39  | IFRS 9  |  |        |
| Cash and cash equivalents  | Loans and receivables                                       |                        | Amortized cost   | \$ 2,211,899  | \$ 2,211,899  | -  |        |
| Notes receivables and trade receivables  | Loans and receivables                                       |                        | Amortized cost   | 2,767,079   | 2,767,079   | (c)  |        |
| Debt securities  | Investments in debt securities with no active market        |                        | Fair value through profit or loss (i.e. FVTPL)                                   | 352,063   | 352,063   | (b)  |        |
| Equity securities  | Available for sale financial assets                         |                        | Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments | 8,350   | 8,350   | (a)  |        |
|  | Financial asses measured at cost                            |                        | FVTOCI - equity instruments  | 39,092  | 39,092  | (a)  |        |
| Financial Assets   | IAS 39<br>Carrying<br>Amount<br>as of<br>January 1,<br>2018 | Reclassifi-<br>cations | Remea-<br>surements  | IFRS 9<br>Carrying<br>Amount as<br>of<br>January 1,<br>2018 | Retained<br>Earnings<br>Effect on<br>January 1,<br>2018 | Other<br>Equity<br>Effect on<br>January 1,<br>2018 | Remark |
| <u>FVTPL</u>   | \$ 31,935   | \$ -                   | \$ -   | \$ 31,935   | \$ -  | \$ -   |        |
| Add: Reclassification from investments in debt securities with no active market (IAS 39) |   |                        |  |   |   |  |        |
| Required reclassification  |   |                        |  |   |   |  |        |
| Fair value option elected at January 1, 2018   | -   | 352,063                | -  | 352,063   | -   | -  | (b)    |
|  | 31,935  | 352,063                | -  | 383,998   | -   | -  |        |
| <u>FVTOCI</u>  |   |                        |  |   |   |  |        |
| Equity instruments   |   |                        |  |   |   |  |        |
| Add: Reclassification from available-for-sale (IAS 39)                                   | -   | 8,350                  | -  | 8,350   | -   | -  | (a)    |
| Add: Reclassification from measured at cost (IAS 39)                                     | -   | 39,092                 | (2,937)  | 36,155  | 5,644   | (8,581)  | (a)    |
|  | -   | 47,442                 | (2,937)  | 44,505  | 5,644   | (8,581)  |        |
| <u>Amortized cost</u>  |   |                        |  |   |   |  |        |
| Add: Reclassification from loans and receivables (IAS 39)                                | -   | 4,978,978              | -  | 4,978,978   | -   | -  | (c)    |
|  | \$ 31,935   | \$5,378,483            | \$ (2,937)   | \$5,407,481   | \$ 5,644  | \$ (8,581)   |        |

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

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

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



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

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

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

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

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

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

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

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

### IFRS 16 “Leases”

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

### Definition of a lease

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

### The Group as lessee

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

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

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

The Group expects to apply the following practical expedients:

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

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

### Anticipated impact on assets, liabilities and equity

|                        | <b>Carrying<br/>Amount as of<br/>December 31,<br/>2018</b> | <b>Adjustments<br/>Arising from<br/>Initial<br/>Application</b> | <b>Adjusted<br/>Carrying<br/>Amount as of<br/>January 1, 2019</b> |
|------------------------|--|---|---|
| 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>   |

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

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

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

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

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

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

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

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

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



b. Basis of preparation

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

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

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

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

See Note 14, Table 7 and Table 8 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

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

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

f. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

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

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

g. Inventories

Inventories consist of raw materials, supplies, finished goods and work in progress and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

h. Investments in associates

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

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

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

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

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

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

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

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

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

i. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized on goodwill is not reversed in subsequent periods.

k. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

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

l. Impairment of tangible and intangible assets other than goodwill

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

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.



m. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

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

a) Measurement categories

2018

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

i. Financial assets at FVTPL

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

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

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

ii. Financial assets at amortized cost

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

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

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

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

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

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

iii. Investments in equity instruments at FVTOCI

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

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

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

2017

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

i. Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset.

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

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

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

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented as a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

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

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

b) Impairment of financial assets

2018

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

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

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

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

## 2017

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

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

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

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

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

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

The repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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



### Financial liabilities at FVTPL

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividends paid on such financial liability.

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

#### b) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

#### 4) Derivative financial instruments

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

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

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

#### n. Revenue recognition

##### 2018

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

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

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

## 2017

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

### 1) Sale of goods

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

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

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

### 2) Rendering of services

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

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

### 3) Dividend and interest income

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

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

### o. Leasing

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

### The Group as lessee

Operating lease payments are recognized as an expenses on a straight-line basis over the lease term; contingent rents arising are recognized as an expense in the period in which they are incurred.

#### p. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than the which is above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### q. Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

#### r. Employee benefits

##### 1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

##### 2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

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

## s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided in the year the shareholders approve to retain the earnings.

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

### 2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively. Where current taxes or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and the historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

## 6. CASH AND CASH EQUIVALENTS

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

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

|              | <b>December 31</b> |             |
|--------------|--------------------|-------------|
|              | <b>2018</b>        | <b>2017</b> |
| Bank balance | 0%-13%             | 0%-13%      |
| Time deposit | 2.20%              | 4.20%       |

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

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



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

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

Outstanding foreign exchange forward contracts were as follows:

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

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

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

|  | <b>December 31,<br/>2018</b> |
|--|------------------------------|
| <u>Domestic investments</u>                            |                              |
| Unlisted share   |                              |
| CDIB CME Fund Ltd.                                     | \$ 30,002                    |
| Globaltec Technology Partner Venture Capital Corp.     | <u>129</u>                   |
|  | <u>30,131</u>                |
| <u>Foreign investments</u>                             |                              |
| Listed share and emerging market share                 |                              |
| Ichitan Group Public Company Limited (Ichitan Company) | 2,841                        |
| Unlisted share   |                              |
| Lightel Technologies Inc. (Lightel Inc.)               | <u>8,645</u>                 |
|  | <u>11,486</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. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3, Note 9 and Note 10 for information relating to their reclassification and comparative information for 2017.

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

|  | <b>December 31,<br/>2017</b> |
|--|------------------------------|
| Overseas stock of publicly quoted entity | \$ <u>8,350</u>              |

#### **10. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT - 2017**

|                                    | <b>December 31,<br/>2017</b> |
|------------------------------------|------------------------------|
| Domestic unlisted common shares    | \$ 30,447                    |
| Overseas unlisted preferred shares | <u>8,645</u>                 |
|                                    | <u>\$ 39,092</u>             |

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

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

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

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

## 12. TRADE RECEIVABLES - NET

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

### In 2018

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

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

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

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

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

### December 31, 2018

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

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

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

#### In 2017

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

The aging of receivables was as follows:

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

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

The Group's did not have past due but not impaired account receivable on December 31, 2018 and 2017.

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

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

### 13. INVENTORIES

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

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

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

### 14. SUBSIDIARIES

#### a. Subsidiaries included in the consolidated financial statements

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

(Continued)

| Investor           | Investee   | Main Businesses  | % of Ownership<br>December 31 |      |
|--------------------|--|--|-------------------------------|------|
|                    |  |  | 2018                          | 2017 |
| Kai Gang           | Hon Chuan Enterprise (Suzhou) Company Limited (“Suzhou Hon Chuan”)   | Manufacture and sale of various plastic caps, labels and aluminum closures                         | 100                           | 100  |
|                    | Hon Chuan Food Packing (Qingxin) Co., Ltd. (“Qingxin Hon Chuan”)     | Manufacture and sale of various plastic caps, labels, PET bottles and beverage filling OEM service | 100                           | 100  |
|                    | Hon Chuan Food Packing (Zhangzhou) Co., Ltd. (“Zhangzhou Hon Chuan”) | Manufacture and sale of PET bottles and beverage filling OEM service                               | 100                           | 100  |
|                    | Hon Chuan Food Packing (Chuzhou) Co., Ltd. (“Chuzhou Hon Chuan”)     | Manufacture and sale of various plastic caps and PET bottles                                       | 100                           | 100  |
|                    | Hon Chuan Food Packing (Xiantao) Co., Ltd. (“Xiantao Hon Chuan”)     | Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service                 | 100                           | 100  |
|                    | Hon Chuan Enterprise Packing (Luocho) Co., Ltd. (“Luocho Hon Chuan”) | Manufacture and sale of PET bottles and beverage filling OEM service                               | 100                           | 100  |
| Samoa Hon Hsing    | Suzhou Hongxin Food Packing Co., Ltd. (“Suzhou Hongxin”)             | Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service                 | 100                           | 100  |
|                    | Hon Chuan Food Packing (Taiyuan) Co., Ltd. (“Taiyuan Hon Chuan”)     | Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service                 | 100                           | 100  |
|                    | Hon Chuan Enterprise (Changsha) Co., Ltd. (“Changsha Hon Chuan”)     | Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service                 | 100                           | 100  |
|                    | Hon Chuan Food Packing (Jinan) Co., Ltd. (“Jinan Hon Chuan”)         | Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service                 | 100                           | 100  |
| Hon Chuan Thailand | Hon Chuan FD Packaging Co., Ltd. (“Hon Fu Thailand”)                 | Manufacture and sale of plastic caps, labels and PET bottles                                       | 65                            | 65   |
| Samoa Honly        | Honly Food & Beverage Co., Ltd. (“Cambodia Honly”)                   | Beverage packing service   | 100                           | 100  |
| Suzhou Hongxin     | Quanhe Investment (Suzhou) Co., Ltd. (“Quanhe”)                      | Equity investment  | -                             | 100  |
|                    | Hon Chuan Food Packing (Anyang) Co., Ltd. (“Anyang Hon Chuan”)       | Sale of PE/PET packaging, food packaging   | 100                           | 100  |
| Hon Chuan Africa   | Hon Shi Mozambique Limitada (“Hon Shi Samoa”)                        | Overseas reinvested holding company and international trade  | 60                            | 60   |
| Hon Shi Samoa      | Shimada International Limitada (“Shimada”)                           | Manufacture and sales of plastic caps PET bottles and LDPE membrane                                | 100                           | 100  |
|                    | Hon Shi Mozambique Co., Ltd. (“Hon Shi Mozambique”)                  | Manufacture and sales of plastic caps  | 100                           | 100  |
| Hon Hua            | Uni Tun Co., Ltd. (Uni Tun)  | Water filling  | 100                           | 100  |

(Concluded)

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

Quanhe Investment has been liquidated in January, 2018.



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

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

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

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

| Name of Subsidiary | Proportion of Ownership and<br>Voting Rights Held by<br>Non-controlling Interests |       |
|--------------------|---|-------|
|                    | December 31   |       |
|                    | 2018  | 2017  |
| Hon Chuan China    | 5.83%   | 5.83% |

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

| Name of Subsidiary | Income by Subsidiaries |           | Non-Controlling Interests |            |
|--------------------|------------------------|-----------|---------------------------|------------|
|                    | December 31            |           | December 31               |            |
|                    | 2018                   | 2017      | 2018                      | 2017       |
| Hon Chuan China    | \$ 2,445               | \$ 43,198 | \$ 260,227                | \$ 278,638 |

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

Hon Chuan China and Hon Chuan China's subsidiaries:

|  | December 31  |              |
|--|--------------|--------------|
|  | 2018         | 2017         |
| Current assets                               | \$ 4,275,997 | \$ 3,621,264 |
| Non-current assets                           | 7,723,060    | 8,163,254    |
| Current liabilities                          | (5,648,002)  | (5,506,015)  |
| Non-current liabilities                      | (1,887,477)  | (1,498,741)  |
| Equity                                       | \$ 4,463,578 | \$ 4,779,762 |
| Equity attributable to:                      |              |              |
| Owners of Hon Chuan China                    | \$ 4,203,351 | \$ 4,501,111 |
| Non-controlling interests of Hon Chuan China | 260,227      | 278,651      |
|  | \$ 4,463,578 | \$ 4,779,762 |

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

## 15. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

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

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

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

## Aggregate information of associates

**For the Year Ended December 31**  
**2018                      2017**

The Group's share of:

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

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

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

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

|   | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Disposals</b>      | <b>Reclassified<br/>Amount</b> | <b>Effects of<br/>foreign<br/>currency<br/>exchange<br/>differences</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|---------------------|-----------------------|--------------------------------|---|---------------------------|
| <u>For the Year Ended</u><br><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                                       | <u>3,892,532</u>             | <u>587,782</u>      | <u>(71,192)</u>       | <u>-</u>                       | <u>(22,087)</u>   | <u>4,387,035</u>          |
|   | <u>16,180,369</u>            | <u>\$ 2,176,803</u> | <u>\$ (298,089)</u>   | <u>\$ -</u>                    | <u>\$ (111,264)</u>   | <u>17,947,819</u>         |
|   | <u>\$17,501,552</u>          |                     |                       |                                |   | <u>\$16,793,643</u>       |
| <u>For the Year Ended</u><br><u>December 31, 2017</u> |                              |                     |                       |                                |   |                           |
| Cost  |                              |                     |                       |                                |   |                           |
| Freehold Land   | \$ 769,054                   | \$ -                | \$ -                  | \$ 238,108                     | \$ (11,587)   | \$ 995,575                |
| Buildings   | 5,749,096                    | 24,958              | (158)                 | 26,292                         | (79,325)  | 5,720,863                 |
| Equipment   | 20,067,683                   | 221,044             | (931,812)             | 636,742                        | (453,676)   | 19,539,981                |
| Other Equipment                                       | 6,386,817                    | 196,604             | (169,912)             | 361,592                        | (98,995)  | 6,676,106                 |
| Property in Construction                              | 389,328                      | 676,418             | -                     | (292,543)                      | (23,807)  | 749,396                   |
|   | <u>33,361,978</u>            | <u>\$ 1,119,024</u> | <u>\$ (1,101,882)</u> | <u>\$ 970,191</u>              | <u>\$ (667,390)</u>   | <u>33,681,921</u>         |
| Accumulated depreciation                              |                              |                     |                       |                                |   |                           |
| Buildings   | 1,397,860                    | \$ 217,279          | \$ (83)               | \$ -                           | \$ (15,738)   | 1,599,318                 |
| Equipment   | 10,437,937                   | 1,347,597           | (916,529)             | -                              | (180,486)   | 10,688,519                |
| Other Equipment                                       | <u>3,535,170</u>             | <u>553,123</u>      | <u>(162,759)</u>      | <u>-</u>                       | <u>(33,002)</u>   | <u>3,892,532</u>          |
|   | <u>15,370,967</u>            | <u>\$ 2,117,999</u> | <u>\$ (1,079,371)</u> | <u>\$ -</u>                    | <u>\$ (229,226)</u>   | <u>16,180,369</u>         |
|   | <u>\$17,991,011</u>          |                     |                       |                                |   | <u>\$17,501,552</u>       |

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life of the asset:

|                            |             |
|----------------------------|-------------|
| Building                   |             |
| Main buildings             | 20-60 years |
| Electrical power equipment | 10-50 years |
| Other                      | 10-50 years |
| Machinery equipment        | 3-20 years  |
| Other assets               | 2-25 years  |

Refer to Note 31 for the carrying amount of property, plant and equipment pledged by the Group to secure borrowings granted to the Group.

## 17. OTHER ASSETS

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

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

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

## 18. BORROWINGS

### a. Short-term borrowings

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

### b. Long-term borrowings

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

The Corporation provided endorsement and guarantee to Samoa Hon Chuan, which facilitate a secured loan agreement with a syndicate of banks led by Land Bank of Taiwan Co., Ltd. The purpose of the loan is for repayment of short-term bank loans, procuring fund for future investment and increasing operating fund. Under the agreement, the Corporation should maintain certain financial ratios, as listed below, based on the numbers in the Corporation's annual financial statements.

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

If the Corporation could not maintain certain financial ratios, it must improve financial ratios and provide documents certified by the Corporation's auditor within five months of next year starting April 1. If the Corporation improved these financial ratios within the grace period, there will be no violation of the agreement. However, the Corporation should pay interest at annual rate plus 0.2% from April 1 next year to the date it actually completed the improvement, Until December 31, 2018, the loan facilities have not yet been drawn down.

## 19. BONDS PAYABLE

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

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

## 20. LIABILITY COMPONENT OF PREFERRED STOCKS

Hon Chuan China issued participating preferred shares with subscription price of US\$18,500 thousand in August, 2007. As participating and cumulative shares, each preferred share has voting right equivalent to the number of ordinary share into which it is convertible. The preferred shares would convert into ordinary shares automatically before initial public offering (IPO) of Hon Chuan China or 10 years after the preferred shares were issued or, in certain period, should be redeemed by Hon Chuan China. The preferred shares expired in August 2017 and redeemed in November 2017.

Dividends on liability component of preferred stock were \$23,924 thousand for the year ended December 31, 2017 (Note 24).

## 21. OTHER LIABILITIES

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

## 22. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

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

### b. Defined benefit plans

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

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

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

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

|   | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan Assets</b> | <b>Net Defined<br/>Benefit<br/>Liabilities<br/>(Assets)</b> |
|---|--|--|---|
| Balance at January 1, 2017  | \$ 153,623   | \$ (117,101)                             | \$ 36,522   |
| Service cost  |  |  |   |
| Current service cost  | 1,152  | -  | 1,152   |
| Net interest expense (income)   | 2,112  | (1,701)                                  | 411   |
| Recognized in profit or loss  | 3,264  | (1,701)                                  | 1,563   |
| Remeasurement   |  |  |   |
| Return on plan assets (excluding amounts<br>included in net interest) | -  | 561                                      | 561   |
| Actuarial loss - changes in demographic<br>assumptions                | 297  | -  | 297   |
| Actuarial loss - changes in financial<br>assumptions                  | 1,483  | -  | 1,483   |
| Actuarial loss - experience adjustments                               | 4,925  | -  | 4,925   |
| Recognized in other comprehensive income                              | 6,705  | 561                                      | 7,266   |
| Contributions from the employer                                       | -  | (9,710)                                  | (9,710)   |
| Benefits paid   | (8,381)  | 8,381                                    | -   |
| Balance at December 31, 2017  | 155,211  | (119,570)                                | 35,641  |
| Service cost  |  |  |   |
| Current service cost  | 948  | -  | 948   |
| Net interest expense (income)   | 1,940  | (1,555)                                  | 385   |
| Recognized in profit or loss  | 2,888  | (1,555)                                  | 1,333   |
| Remeasurement   |  |  |   |
| Return on plan assets (excluding amounts<br>included in net interest) | -  | (3,224)                                  | (3,224)   |
| Actuarial loss - changes in demographic<br>assumptions                | 259  | -  | 259   |
| Actuarial loss - changes in financial<br>assumptions                  | 1,296  | -  | 1,296   |
| Actuarial loss - experience adjustments                               | 4,060  | -  | 4,060   |
| Recognized in other comprehensive income                              | 5,615  | (3,224)                                  | 2,391   |
| Contributions from the employer                                       | -  | (10,777)                                 | (10,777)  |
| Benefits paid   | (25,982)   | 25,982                                   | -   |
| Balance at December 31, 2018  | \$ 137,732   | \$ (109,144)                             | \$ 28,588   |

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>2018</b>        | <b>2017</b> |
| Discount rate                    | 1.125%             | 1.250%      |
| Expected rate of salary increase | 1.375%             | 1.375%      |

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

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

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

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

## 23. EQUITY

### a. Share capital

|   | <b>December 31</b> |              |
|---|--------------------|--------------|
|   | <b>2018</b>        | <b>2017</b>  |
| Number of shares authorized (in thousands)            | 350,000            | 350,000      |
| Shares authorized                                     | \$ 3,500,000       | \$ 3,500,000 |
| Number of shares issued and fully paid (in thousands) | 292,879            | 292,879      |
| Shares issued   | \$ 2,928,789       | \$ 2,928,789 |

b. Capital surplus

|   | <b>December 31</b>  |                     |
|---|---------------------|---------------------|
|   | <b>2018</b>         | <b>2017</b>         |
| Arising from issuance of common shares (1)  | \$ 4,927,127        | \$ 4,927,127        |
| The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition (1) | 358,475             | 380,116             |
| Other (2)   | <u>200,270</u>      | <u>200,270</u>      |
|   | <u>\$ 5,485,872</u> | <u>\$ 5,507,513</u> |

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

2) Such capital surplus may be used to offset a deficit.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration to directors before and after the amendment, please refer to d. Employee benefits expense, depreciation and amortization expenses in Note 24-4.

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

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

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

Items referred to under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

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

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

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

|                 | <b>Appropriation<br/>of Earnings</b> | <b>Dividends Per<br/>Share (NT\$)</b> |
|-----------------|--------------------------------------|---------------------------------------|
| Legal reserve   | \$ 109,253                           |                                       |
| Special reserve | 377,097                              |                                       |
| Cash dividends  | 673,621                              | \$ 2.3                                |

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

d. Special reserves

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

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

## 24. NET PROFIT FROM CONTINUING OPERATIONS

a. Other gains and losses

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

b. Finance costs

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

Information about capitalized interest is as follows:

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

d. Employees' compensation and remuneration of directors

The Corporation accrued employees' compensation and remuneration to directors at the rates of no less than 1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors. The employees' compensation and remuneration to directors for the years ended December 31, 2018 and 2017 which have been approved by the Corporation's board of directors on March 26, 2019 and March 27, 2018, respectively, were as follows:

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

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

There was no difference between the actual amounts of employees' compensation and remuneration to directors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2017 and 2016.

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

## 25. TAXES

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

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

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

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

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

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

b. Income tax recognized in other comprehensive income

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

c. Deferred tax assets and liabilities

| <b>For the Year Ended December 31, 2018</b> |                            |   |   |                            |
|---|----------------------------|---|---|----------------------------|
|   | <b>Opening<br/>Balance</b> | <b>Recognized in<br/>Profit or Loss</b> | <b>Recognized in<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Closing<br/>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<br>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>           |
| <b>For the Year Ended December 31, 2017</b> |                            |   |   |                            |
|   | <b>Opening<br/>Balance</b> | <b>Recognized in<br/>Profit or Loss</b> | <b>Recognized in<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Closing<br/>Balance</b> |
| <u>Deferred Tax Assets</u>                  |                            |   |   |                            |
| Temporary differences                       |                            |   |   |                            |
| Tax losses                                  | \$ 143,540                 | \$ 17,938                               | \$ -  | \$ 161,478                 |
| Defined benefit obligation                  | 7,764                      | (2,940)                                 | 1,235   | 6,059                      |
| Inventories                                 | 3,169                      | 2,353                                   | -   | 5,522                      |
| Other                                       | <u>11,232</u>              | <u>(2,054)</u>                          | <u>-</u>  | <u>9,178</u>               |
|   | <u>\$ 165,705</u>          | <u>\$ 15,297</u>                        | <u>\$ 1,235</u>   | <u>\$ 182,237</u>          |

| For the Year Ended December 31, 2017 |                  |                              |  |                  |
|--------------------------------------|------------------|------------------------------|--|------------------|
|                                      | Opening Balance  | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Closing Balance  |
| <u>Deferred tax liabilities</u>      |                  |                              |  |                  |
| Temporary differences                |                  |                              |  |                  |
| Reserve for land value increment tax | \$ 24,283        | \$ -                         | \$ -                                     | \$ 24,283        |
| Others                               | <u>11,822</u>    | <u>8,024</u>                 | <u>-</u>                                 | <u>19,846</u>    |
|                                      | <u>\$ 36,105</u> | <u>\$ 8,024</u>              | <u>\$ -</u>                              | <u>\$ 44,129</u> |

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

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

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

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

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

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

- f. Income tax assessments

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

## 26. EARNINGS PER SHARE

|   | Net Profit<br>Attributable to<br>Owners of the<br>Corporation | Number of<br>Shares<br>(In Thousands) | Earnings Per<br>Share<br>(NT\$) |
|---|---|---------------------------------------|---------------------------------|
| <u>For the year ended December 31, 2018</u>                               |   |                                       |                                 |
| Basic   | \$ 1,092,531  | 292,879                               | <u>\$ 3.73</u>                  |
| Dilutive effects - employees' compensation or<br>bonus issue to employees | <u>-</u>  | <u>601</u>                            |                                 |
| Dilutive  | <u>\$ 1,092,531</u>   | <u>293,480</u>                        | <u>\$ 3.72</u>                  |
| <u>For the year ended December 31, 2017</u>                               |   |                                       |                                 |
| Basic   | \$ 1,230,861  | 292,879                               | <u>\$ 4.20</u>                  |
| Dilutive effects - employees' compensation or<br>bonus issue to employees | <u>-</u>  | <u>507</u>                            |                                 |
| Dilutive  | <u>\$ 1,230,861</u>   | <u>293,386</u>                        | <u>\$ 4.20</u>                  |

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

## 27. OPERATING LEASE ARRANGEMENTS

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

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

|  | <u>December 31</u> |                   |
|--|--------------------|-------------------|
|  | <u>2018</u>        | <u>2017</u>       |
| Not later than 1 year                        | \$ 54,809          | \$ 33,501         |
| Later than 1 year and not later than 5 years | 199,766            | 116,641           |
| Later than 5 years                           | <u>108,530</u>     | <u>56,931</u>     |
|  | <u>\$ 363,105</u>  | <u>\$ 207,073</u> |

## 28. CAPITAL MANAGEMENT

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



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

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

## 29. FINANCIAL INSTRUMENTS

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

#### 1) Fair value hierarchy

|  | Level 1          | Level 2          | Level 3          | Total            |
|--|------------------|------------------|------------------|------------------|
| <u>December 31, 2018</u>   |                  |                  |                  |                  |
| Financial assets at fair value through profit or loss (FVTPL)      |                  |                  |                  |                  |
| Domestic convertible bonds   | \$ 55,075        | \$ -             | \$ -             | \$ 55,075        |
| Stock of publicly quoted entity                                    | 13,275           | -                | -                | 13,275           |
| Foreign corporate bonds  | <u>30,432</u>    | <u>-</u>         | <u>-</u>         | <u>30,432</u>    |
|  | <u>\$ 98,782</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 98,782</u> |
| Financial liabilities at fair value through profit or loss (FVTPL) |                  |                  |                  |                  |
| foreign exchange forward contracts                                 | <u>\$ -</u>      | <u>\$ 62</u>     | <u>\$ -</u>      | <u>\$ 62</u>     |
| Financial assets at fair value through other comprehensive income  |                  |                  |                  |                  |
| Equity investments   |                  |                  |                  |                  |
| Overseas stock of publicly quoted entity                           | \$ 2,841         | \$ -             | \$ -             | \$ 2,841         |
| Unlisted stock   | <u>-</u>         | <u>-</u>         | <u>38,776</u>    | <u>38,776</u>    |
|  | <u>\$ 2,841</u>  | <u>\$ -</u>      | <u>\$ 38,776</u> | <u>\$ 41,617</u> |
| <u>December 31, 2017</u>   |                  |                  |                  |                  |
| Financial assets at fair value through profit or loss (FVTPL)      |                  |                  |                  |                  |
| Domestic convertible bonds   | <u>\$ 31,935</u> | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 31,935</u> |
| Available-for-sale financial assets                                |                  |                  |                  |                  |
| overseas stock of publicly quoted entity                           | <u>\$ 8,350</u>  | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ 8,350</u>  |
| Financial liabilities at fair value through profit or loss (FVTPL) |                  |                  |                  |                  |
| foreign exchange forward contracts                                 | <u>\$ -</u>      | <u>\$ 15,955</u> | <u>\$ -</u>      | <u>\$ 15,955</u> |

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

2) Valuation techniques and assumptions applied for fair value measurement

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

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

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

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

b. Categories of financial instruments

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

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

c. Financial risk management objectives and policies

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

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

1) Market risk

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

Foreign currency risk

The Group and several subsidiaries of the Corporation have foreign currency sales and purchases, which exposes the Group to foreign currency risk. Exchange rate exposures are managed within approved policy parameters utilizing foreign exchange forward contracts. The use of financial derivatives would reduce the influence of foreign exchange risk but could not completely eliminate the risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Group is mainly exposed to the USD and EUR.

The Group's sensitivity to a 1% increase and decrease in NTD (the functional currency) against the relevant foreign currencies represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items. The sensitivity analysis included external borrowings as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. Assuming a 1% movement in the

levels of the NTD against the USD, the pre-tax profit for the years ended December 31, 2018 and 2017 would have changed by decreasing \$4,621 thousand and \$3,698 thousand, respectively. Assuming a 1% movement in the levels of the NTD against the EUR, losses before income tax for the years ended December 31, 2018 and 2017 would have changed by decreasing \$745 thousand and \$2,791 thousand, respectively.

#### Interest rate risk

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

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

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

#### Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year. A 0.125% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been raised by 0.125% higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2018 and 2017 would decrease by \$13,770 thousand and \$15,875 thousand, respectively.

## 2) Credit risk

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

- The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets; and
- The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable

amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for irrecoverable amounts. In this regard, the management believes the Group's credit risk has been significantly reduced.

Trade receivables consist of a large number of customers, which spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of trade receivables. The Group's concentrations of credit risk regarding top 5 customers were all 35% in total trade receivables as of December 31, 2018 and 2017, respectively. No other concentration of credit risk was observed.

### 3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Corporation had available unutilized short-term bank loan facilities of \$10,606,521 thousand and \$8,094,023 thousand, respectively.

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

|                                      | <b>Less Than<br/>1 Year</b> | <b>1-5 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>2,995,224</u>     |
|                                      | <u>\$ 6,103,794</u>         | <u>\$ 8,974,121</u> | <u>\$ 15,077,915</u> |
| <u>December 31, 2017</u>             |                             |                     |                      |
| Non-derivative financial liabilities |                             |                     |                      |
| Borrowings                           | \$ 5,156,313                | \$ 7,999,920        | \$ 13,156,233        |
| Non-interest bearing liabilities     | <u>914,467</u>              | <u>-</u>            | <u>914,467</u>       |
|                                      | <u>\$ 6,070,780</u>         | <u>\$ 7,999,920</u> | <u>\$ 14,070,700</u> |

## 30. TRANSACTIONS WITH RELATED PARTIES

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

a. Related Party Categories / Names

| <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>2018</u>                           | <u>2017</u>     |
| Net sales  |                                       |                 |
| Others   | <u>\$ 8,363</u>                       | <u>\$ 8,577</u> |
| Rental expenses (recorded under manufacturing or operation expenses) |                                       |                 |
| Others   | <u>\$ 293</u>                         | <u>\$ 3,263</u> |

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

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

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

c. Compensation of key management personnel

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

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

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

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

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

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2018 and 2017 were as follows:

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

|  | December 31       |                     |
|--|-------------------|---------------------|
|  | 2018              | 2017                |
| Acquisition of property, plant and equipment | <u>\$ 168,567</u> | <u>\$ 1,140,388</u> |

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

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

|  |    | December 31        |               |                    |                    |               |                    |
|--|----|--------------------|---------------|--------------------|--------------------|---------------|--------------------|
|  |    | 2018               |               |                    | 2017               |               |                    |
|  |    | Foreign Currencies | Exchange Rate | New Taiwan Dollars | Foreign Currencies | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets of monetary items</u>      |    |                    |               |                    |                    |               |                    |
| USD  | \$ | 17,074             | 30.72         | \$ 524,513         | \$                 | 14,834        | \$ 441,460         |
| EUR  |    | 1,695              | 35.20         | 59,664             |                    | 3,093         | 110,018            |
| <u>Financial liabilities of monetary items</u> |    |                    |               |                    |                    |               |                    |
| USD  |    | 32,116             | 30.72         | 986,604            |                    | 27,179        | 808,847            |
| EUR  |    | 3,812              | 35.20         | 134,182            |                    | 11,009        | 391,590            |

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

| For the Year Ended December 31 |               |  |               |  |
|--------------------------------|---------------|--|---------------|--|
| 2018                           |               |  | 2017          |  |
|                                | Exchange Rate | Net Foreign<br>Exchange Gain<br>(Loss) | Exchange Rate | Net Foreign<br>Exchange Gain<br>(Loss) |
| NTD                            | 1             | \$ 13,043                              | 1             | \$ (15,952)                            |
| USD                            | 30.15         | 5,319                                  | 30.43         | 2,926                                  |
| RMB                            | 4.55          | (30,728)                               | 4.50          | 30,359                                 |
| MMK                            | 0.0211        | (16,620)                               | 0.0224        | (1,789)                                |
| MZM                            | 0.4999        | (2,469)                                | 0.4783        | 10,333                                 |
| IDR                            | 0.0021        | (6,909)                                | 0.0023        | (335)                                  |
| THB                            | 0.94          | 3,982                                  | 0.90          | (2,397)                                |
|                                |               | <u>\$ (34,382)</u>                     |               | <u>\$ 23,145</u>                       |

### 34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities). (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)
- 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT \$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (None)
- 8) Receivables from related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (Table 5)
- 9) Trading in derivative instruments. (Note 7)
- 10) Intercompany relationships and significant intercompany transactions. (Table 6)
- 11) Information on investees. (Table 7)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)



- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
- The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 6)
  - The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 6)
  - The amount of property transactions and the amount of the resultant gains or losses. (Table 6)
  - The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (Table 2)
  - 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)
  - Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (Table 6)

### 35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

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

#### a. Segment revenues and results

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

|   | Domestic            | Asia                 | Adjustment and Elimination | Total                |
|---|---------------------|----------------------|----------------------------|----------------------|
| <u>For the Year ended December 31, 2018</u> |                     |                      |                            |                      |
| Revenue from external customers             | \$ 8,378,985        | \$ 11,550,732        | \$ -                       | \$ 19,929,717        |
| Inter-segment revenue                       | 95,778              | 38,225               | (134,003)                  | -                    |
| Segment revenue                             | <u>\$ 8,474,763</u> | <u>\$ 11,588,957</u> | <u>\$ (134,003)</u>        | <u>\$ 19,929,717</u> |
| Segment income                              | <u>\$ 975,546</u>   | <u>\$ 600,864</u>    |                            | \$ 1,576,410         |
| Financial costs                             |                     |                      |                            | (248,581)            |
| Foreign exchange loss                       |                     |                      |                            | (30,957)             |
| Other gains and losses                      |                     |                      |                            | <u>185,081</u>       |
| Profit before tax                           |                     |                      |                            | <u>\$ 1,481,953</u>  |

|   | Domestic            | Asia                 | Adjustment and Elimination | Total                |
|---|---------------------|----------------------|----------------------------|----------------------|
| <u>For the Year ended December 31, 2017</u> |                     |                      |                            |                      |
| Revenue from external customers             | \$ 7,386,706        | \$ 10,132,752        | \$ -                       | \$ 17,519,458        |
| Inter-segment revenue                       | <u>70,162</u>       | <u>37,464</u>        | <u>(107,626)</u>           | <u>-</u>             |
| Segment revenue                             | <u>\$ 7,456,868</u> | <u>\$ 10,170,216</u> | <u>\$ (107,626)</u>        | <u>\$ 17,519,458</u> |
| Segment income                              | <u>\$ 986,456</u>   | <u>\$ 523,924</u>    |                            | \$ 1,510,380         |
| Financial costs                             |                     |                      |                            | (225,642)            |
| Foreign exchange gain                       |                     |                      |                            | 21,829               |
| Other gains and losses                      |                     |                      |                            | <u>240,427</u>       |
| Profit before tax                           |                     |                      |                            | <u>\$ 1,546,994</u>  |

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

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

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

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

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

- d. Geographical information

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

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

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

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

e. Information on major customers

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

| Names      | <b><u>For the Year Ended December 31</u></b> |              |
|------------|--|--------------|
|            | <b>2018</b>                                  | <b>2017</b>  |
| Customer A | \$ 2,017,100                                 | \$ 2,575,465 |
| Customer B | 1,974,578                                    | 1,938,241    |

**TABLE 1**

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

**FINANCING PROVIDED TO RELATED ENTITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of Dollars, Unless Otherwise Specified)**

| No. | Lender           | Borrower            | Financial Statement Account        | Related Party | Highest Balance for the Period | Ending Balance             | Actual Borrowing Amount (Note 5) | Interest Rate | Nature of Financing  | Business Transaction Amounts | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral |       | Financing Limit for Each Borrower (Notes 1 and 3) | Aggregate Financing Limits (Notes 2 and 3) |
|-----|------------------|---------------------|------------------------------------|---------------|--------------------------------|----------------------------|----------------------------------|---------------|----------------------|------------------------------|----------------------------------|-------------------------------|------------|-------|---|--|
|     |                  |                     |                                    |               |                                |                            |                                  |               |                      |                              |                                  |                               | Item       | Value |   |  |
| 0   | The Corporation  | Honhua Holdings     | Account receivable-related parties | Yes           | \$ 627<br>(US\$ 22)            | \$ -                       | \$ -                             | -             | Business transaction | \$ 677<br>(US\$ 22)          | Operating Capital                | \$ -                          | -          | \$ -  | \$ 677  | \$ 4,925,747                               |
| 1   | Samoa Hon Chuan  | Hon Chuan China     | Receivable from related parties    | Yes           | 2,253,560<br>(US\$ 73,370)     | 2,150,664<br>(US\$ 70,020) | 2,150,664<br>(US\$ 70,020)       | 3.17%-4.39%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 5,333,877   | 5,333,877                                  |
|     |                  | Samoa Hon Hsing     | Receivable from related parties    | Yes           | 16,279<br>(US\$ 530)           | -                          | -                                | 3.17%-4.01%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 5,333,877   | 5,333,877                                  |
|     |                  | Xiantao Hon Chuan   | Receivable from related parties    | Yes           | 61,430<br>(US\$ 2,000)         | -                          | -                                | 3.67%-4.22%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 5,333,877   | 5,333,877                                  |
| 2   | Kai Gang         | Hon Chuan China     | Receivable from related parties    | Yes           | 422,331<br>(US\$ 13,750)       | 132,382<br>(US\$ 4,310)    | 132,382<br>(US\$ 4,310)          | 3.17%-4.39%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,283,519   | 2,283,519                                  |
|     |                  | Samoa Hon Chuan     | Receivable from related parties    | Yes           | 92,145<br>(US\$ 3,000)         | -                          | -                                | 3.17%-4.03%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,283,519   | 2,283,519                                  |
| 3   | Samoa Hon Hsing  | Hon Chuan China     | Receivable from related parties    | Yes           | 430,010<br>(US\$ 14,000)       | -                          | -                                | 3.17%-4.30%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,011,384   | 2,011,384                                  |
|     |                  | Samoa Hon Chuan     | Receivable from related parties    | Yes           | 122,860<br>(US\$ 4,000)        | -                          | -                                | 3.72%-4.30%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,011,384   | 2,011,384                                  |
| 4   | Hon Chuan Asia   | Hon Chuan Indonesia | Receivable from related parties    | Yes           | 122,860<br>(US\$ 4,000)        | -                          | -                                | 3.67%-4.60%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,920,886   | 2,920,886                                  |
|     |                  |                     | Account receivable-related parties | Yes           | 48,444<br>(EUR\$ 1,376)        | -                          | -                                | -             | Business transaction | 48,444<br>(EUR\$ 1,376)      | -                                | -                             | -          | -     | 48,444  | 2,920,886                                  |
|     |                  | Honlly              | Receivable from related parties    | Yes           | 28,333<br>(US\$ 922)           | -                          | -                                | 3.67%-4.51%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,920,886   | 2,920,886                                  |
|     |                  | Samoa Honlly        | Receivable from related parties    | Yes           | 92,145<br>(US\$ 3,000)         | 92,145<br>(US\$ 3,000)     | 92,145<br>(US\$ 3,000)           | 3.67%-4.89%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,920,886   | 2,920,886                                  |
|     |                  | Hon Chuan Myanmar   | Receivable from related parties    | Yes           | 66,880<br>(US\$ 2,177)         | -                          | -                                | 3.97%-4.89%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,920,886   | 2,920,886                                  |
|     |                  |                     | Account receivable-related parties | Yes           | 5,317<br>(EUR\$ 151)           | -                          | -                                | -             | Business transaction | 5,317<br>(EUR\$ 151)         | -                                | -                             | -          | -     | 5,317   | 2,920,886                                  |
|     |                  |                     | Account receivable-related parties | Yes           | 64,962<br>(US\$ 2,115)         | -                          | -                                | -             | Business transaction | 64,962<br>(US\$ 2,115)       | -                                | -                             | -          | -     | 64,962  | 2,920,886                                  |
|     |                  | Hon Chuan Vietnam   | Receivable from related parties    | Yes           | 61,430<br>(US\$ 2,000)         | 61,430<br>(US\$ 2,000)     | 61,430<br>(US\$ 2,000)           | 4.60%-4.89%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 2,920,886   | 2,920,886                                  |
|     |                  |                     | Account receivable-related parties | Yes           | 39,609<br>(EUR\$ 1,125)        | -                          | -                                | -             | Business transaction | -                            | -                                | -                             | -          | -     | -   | 2,920,886                                  |
|     |                  | Cambodia Honlly     | Account receivable-related parties | Yes           | 4,233<br>(US\$ 138)            | -                          | -                                | -             | Business transaction | 4,233<br>(US\$ 138)          | -                                | -                             | -          | -     | 4,233   | 2,920,886                                  |
| 5   | Suzhou Hon Chuan | Chuzhou Hon Chuan   | Receivable from related parties    | Yes           | 51,446<br>(RMB 11,500)         | 42,516<br>(RMB 9,500)      | 42,516<br>(RMB 9,500)            | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 419,177   | 419,177                                    |
|     |                  | Xiantao Hon Chuan   | Receivable from related parties    | Yes           | 22,377<br>(RMB 5,000)          | 8,951<br>(RMB 2,000)       | 8,951<br>(RMB 2,000)             | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 419,177   | 419,177                                    |
|     |                  | Luoch Hon Chuan     | Receivable from related parties    | Yes           | 73,395<br>(RMB 16,400)         | 31,327<br>(RMB 7,000)      | 31,327<br>(RMB 7,000)            | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 419,177   | 419,177                                    |
|     |                  | Suzhou Hongxin      | Receivable from related parties    | Yes           | 48,333<br>(RMB 10,800)         | -                          | -                                | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 419,177   | 419,177                                    |

(Continued)

| No. | Lender              | Borrower          | Financial Statement Account     | Related Party | Highest Balance for the Period | Ending Balance          | Actual Borrowing Amount (Note 5) | Interest Rate | Nature of Financing  | Business Transaction Amounts | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral |       | Financing Limit for Each Borrower (Notes 1 and 3) | Aggregate Financing Limits (Notes 2 and 3) |
|-----|---------------------|-------------------|---------------------------------|---------------|--------------------------------|-------------------------|----------------------------------|---------------|----------------------|------------------------------|----------------------------------|-------------------------------|------------|-------|---|--|
|     |                     |                   |                                 |               |                                |                         |                                  |               |                      |                              |                                  |                               | Item       | Value |   |  |
| 6   | Changsha Hon Chuan  | Qingxin Hon Chuan | Receivable from related parties | Yes           | \$ 11,188<br>(RMB 2,500)       | \$ -                    | \$ -                             | 3.90%-4.35%   | Short-term financing | \$ -                         | Operating Capital                | \$ -                          | -          | \$ -  | \$ 403,959  | \$ 403,959                                 |
|     |                     | Chuzhou Hon Chuan | Receivable from related parties | Yes           | 232,717<br>(RMB 52,000)        | 82,793<br>(RMB 18,500)  | 82,793<br>(RMB 18,500)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 403,959   | 403,959                                    |
|     |                     | Xiantao Hon Chuan | Receivable from related parties | Yes           | 116,358<br>(RMB 26,000)        | 111,883<br>(RMB 25,000) | 111,883<br>(RMB 25,000)          | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 403,959   | 403,959                                    |
|     |                     | Suzhou Hongxin    | Receivable from related parties | Yes           | 51,466<br>(RMB 11,500)         | 51,466<br>(RMB 11,500)  | 51,466<br>(RMB 11,500)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 403,959   | 403,959                                    |
| 7   | Zhongzhou Hon Chung | Qingxin Hon Chuan | Receivable from related parties | Yes           | 79,661<br>(RMB 17,800)         | -                       | -                                | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 474,732   | 474,732                                    |
|     |                     | Xiantao Hon Chuan | Receivable from related parties | Yes           | 58,179<br>(RMB 13,000)         | 58,179<br>(RMB 13,000)  | 58,179<br>(RMB 13,000)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 474,732   | 474,732                                    |
|     |                     | Suzhou Honxin     | Receivable from related parties | Yes           | 67,130<br>(RMB 15,000)         | 67,130<br>(RMB 15,000)  | 67,130<br>(RMB 15,000)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 474,732   | 474,732                                    |
|     |                     | Chuzhou Hon Chuan | Receivable from related parties | Yes           | 24,614<br>(RMB 5,500)          | 24,614<br>(RMB 5,500)   | 24,614<br>(RMB 5,500)            | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 474,732   | 474,732                                    |
|     |                     | Luoch Hon Chuan   | Receivable from related parties | Yes           | 67,130<br>(RMB 15,000)         | 67,130<br>(RMB 15,000)  | 67,130<br>(RMB 15,000)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 474,732   | 474,732                                    |
|     |                     |                   |                                 |               |                                |                         |                                  |               |                      |                              |                                  |                               |            |       |   |  |
| 8   | Jinan Hon Chuan     | Xiantao Hon Chuan | Receivable from related parties | Yes           | 24,614<br>(RMB 5,500)          | 8,951<br>(RMB 2,000)    | 8,951<br>(RMB 2,000)             | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 546,055   | 546,055                                    |
|     |                     | Chuzhou Hon Chuan | Receivable from related parties | Yes           | 26,852<br>(RMB 6,000)          | 26,852<br>(RMB 6,000)   | 26,852<br>(RMB 6,000)            | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 546,055   | 546,055                                    |
|     |                     | Suzhou Hon Chung  | Receivable from related parties | Yes           | 26,852<br>(RMB 6,000)          | 17,901<br>(RMB 4,000)   | 17,901<br>(RMB 4,000)            | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 546,055   | 546,055                                    |
|     |                     | Luoch Hon Chuan   | Receivable from related parties | Yes           | 35,803<br>(RMB 8,000)          | 35,803<br>(RMB 8,000)   | 35,803<br>(RMB 8,000)            | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 546,055   | 546,055                                    |
| 9   | Taiyuan Hon Chuan   | Xiantao Hon Chuan | Receivable from related parties | Yes           | 89,506<br>(RMB 20,000)         | 89,506<br>(RMB 20,000)  | 89,506<br>(RMB 20,000)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 613,483   | 613,483                                    |
|     |                     | Chuzhou Hon Chuan | Receivable from related parties | Yes           | 49,228<br>(RMB 11,000)         | 49,228<br>(RMB 11,000)  | 49,228<br>(RMB 11,000)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 613,483   | 613,483                                    |
|     |                     | Suzhou Hon Hsing  | Receivable from related parties | Yes           | 44,755<br>(RMB 10,000)         | 44,755<br>(RMB 10,000)  | 44,755<br>(RMB 10,000)           | 3.90%-4.35%   | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 613,483   | 613,483                                    |
|     |                     | Luoch Hon Chuan   | Receivable from related parties | Yes           | 26,852<br>(RMB 6,000)          | 26,852<br>(RMB 6,000)   | 26,852<br>(RMB 6,000)            | 3.90%         | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 613,483   | 613,483                                    |
| 10  | Samoa Honly         | Cambodia Honly    | Receivable from related parties | Yes           | 93,681<br>(US\$ 3,050)         | -                       | -                                | -             | Short-term financing | -                            | Operating Capital                | -                             | -          | -     | 107,975   | 107,975                                    |

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

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

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

Note 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2018.

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

(Concluded)

**TABLE 2**

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

**ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of Dollars, Unless Otherwise Specified)**

| No. | Endorser/Guarantor | Endorsee/Guarantee |              | Limits on<br>Endorsement/<br>Guarantee Given<br>on Behalf of Each<br>Party<br>(Notes 1 and 3) | Maximum Amount<br>Endorsed/<br>Guaranteed During<br>the Period | Outstanding<br>Endorsement/<br>Guarantee at the<br>End of the Period | Actual Borrowing<br>Amount  | Amount Endorsed/<br>Guaranteed by<br>Collaterals | Ratio of<br>Accumulated<br>Endorsement/<br>Guarantee to Net<br>Equity In Latest<br>Financial<br>Statements (%) | Aggregate<br>Endorsement/<br>Guarantee Limit<br>(Notes 2 and 3) | Endorsement/<br>Guarantee Given<br>by Parent on<br>Behalf of<br>Subsidiaries | Endorsement/<br>Guarantee Given<br>by Subsidiaries on<br>Behalf of Parent | Endorsement/<br>Guarantee Given<br>On behalf of<br>Companies in<br>Mainland China |
|-----|--------------------|--------------------|--------------|---|--|--|-----------------------------|--|--|---|--|---|---|
|     |                    | Name               | Relationship |   |  |  |                             |  |  |   |  |   |   |
| 0   | The Corporation    | Samoa Hon Chuan    | (Note 4)     | \$ 6,157,184  | \$ 3,010,070<br>(US\$ 98,000)                                  | \$ 2,119,335<br>(US\$ 69,000)  | \$ 614,300<br>(US\$ 20,000) | \$ -   | 17   | \$ 12,314,368   | Y  | -   | -   |
|     |                    | Hon Chuan China    | (Note 4)     | 6,157,184   | 3,839,375<br>(US\$ 125,000)                                    | 3,839,375<br>(US\$ 125,000)  | 3,480,010<br>(US\$ 113,300) | -  | 31   | 12,314,368  | Y  | -   | -   |
|     |                    | Hon Chuan Asia     | (Note 4)     | 6,157,184   | 1,228,600<br>(US\$ 40,000)                                     | 1,228,600<br>(US\$ 40,000)   | 214,907<br>(US\$ 6,997)     | -  | 10   | 12,314,368  | Y  | -   | -   |
|     |                    | Luoch Hon Chuan    | (Note 4)     | 6,157,184   | 368,580<br>(US\$ 12,000)                                       | 368,580<br>(US\$ 12,000)   | 307,150<br>(US\$ 10,000)    | -  | 3  | 12,314,368  | Y  | -   | Y   |
|     |                    | Myanmar Hon Chuan  | (Note 4)     | 6,157,184   | 92,145<br>(US\$ 3,000)   | 92,145<br>(US\$ 3,000)   | 57,302<br>(US\$ 1,866)      | -  | 1  | 12,314,368  | Y  | -   | -   |
|     |                    | Samoa Hon Hsing    | (Note 4)     | 6,157,184   | 583,585<br>(US\$ 19,000)                                       | 583,585<br>(US\$ 19,000)   | 552,870<br>(US\$ 18,000)    | -  | 5  | 12,314,368  | Y  | -   | -   |
|     |                    | Qingxin Hon Chuan  | (Note 4)     | 6,157,184   | 602,628<br>(US\$ 19,620)                                       | 598,328<br>(US\$ 19,480)   | 350,113<br>(US\$ 11,399)    | -  | 5  | 12,314,368  | Y  | -   | Y   |
|     |                    | Suzhou Hongxin     | (Note 4)     | 6,157,184   | 153,575<br>(US\$ 5,000)  | 153,575<br>(US\$ 5,000)  | -                           | -  | 1  | 12,314,368  | Y  | -   | Y   |
|     |                    | Xiantao Hon Chuan  | (Note 4)     | 6,157,184   | 137,910<br>(US\$ 4,490)  | 107,503<br>(US\$ 3,500)  | -                           | -  | 1  | 12,314,368  | Y  | -   | Y   |
|     |                    | Chuzhou Hon Chuan  | (Note 4)     | 6,157,184   | 93,988<br>(US\$ 3,060)   | 89,688<br>(US\$ 2,902)   | 26,852<br>(US\$ 874)        | -  | 1  | 12,314,368  | Y  | -   | Y   |
|     |                    |                    |              |   |  |  |                             |  |  |   |  |   |   |
| 1   | Hon Chuan Thailand | Hon Fu Thailand    | (Note 4)     | 6,157,184   | 47,660<br>(THB 50,000)   | 47,660<br>(THB 50,000)   | 5,481<br>(THB 5,750)        | -  | -  | 12,314,368  | -  | -   | -   |

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

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

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

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

Note 5: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2018.

**TABLE 3****TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2018****(In Thousands of Dollars, Unless Otherwise Specified)**

| Holding Company Name | Type and Name of Marketable Securities             | Relationship with the Holding Company | Financial Statement Account   | DECEMBER 31, 2018 |                         |                         |                        |
|----------------------|--|---------------------------------------|---|-------------------|-------------------------|-------------------------|------------------------|
|                      |  |                                       |   | Shares            | Carrying Value (Note 1) | Percentage of Ownership | Fair Value (Note 1)    |
| The Corporation      | <u>Capital Stock</u>                               |                                       |   |                   |                         |                         |                        |
|                      | Globaltec Technology Partner Venture Capital Corp. | -                                     | Financial assets at fair value through other comprehensive income - non-current | 39,143            | \$ 129                  | 2                       | \$ 129                 |
|                      | Lightel Technologies Inc.                          | -                                     | Financial assets at fair value through other comprehensive income - non-current | 551,051           | 8,645                   | 2                       | 8,645                  |
|                      | CDIB CME Fund Ltd.                                 | -                                     | Financial assets at fair value through other comprehensive income - non-current | 3,000,000         | 30,002                  | 2                       | 30,002                 |
|                      | Bizlink holdings Inc.                              | -                                     | Financial assets at fair value through profit or loss - non-current             | 40,000            | 8,960                   | -                       | 8,960                  |
|                      | Hon Hai Precision Industry Co., Ltd.               | -                                     | Financial assets at fair value through profit or loss - non-current             | 40,000            | 2,832                   | -                       | 2,832                  |
|                      | Ligitek electronics Co., Ltd.                      | -                                     | Financial assets at fair value through profit or loss - non-current             | 31,900            | 1,483                   | -                       | 1,483                  |
|                      | <u>Corporate Bonds</u>                             |                                       |   |                   |                         |                         |                        |
|                      | Adimmune Corporation                               | -                                     | Financial assets at fair value through profit or loss - current                 | 300,000           | 32,355                  | -                       | 32,355                 |
|                      | TCI CO., Ltd.                                      | -                                     | Financial assets at fair value through profit or loss - current                 | 160,000           | 22,720                  | -                       | 22,720                 |
| Samoa Hon Chuan      | <u>Corporate Bonds</u>                             |                                       |   |                   |                         |                         |                        |
|                      | Garden Fresh (HK) Fruit & Vegetable Co., Limited   | -                                     | Financial instruments at fair value through profit or loss - current            | -                 | 30,432<br>( US\$ 991 )  | -                       | 30,432<br>( US\$ 991 ) |
| Hon Chuan Thailand   | <u>Capital Stock</u>                               |                                       |   |                   |                         |                         |                        |
|                      | Ichitan Company                                    | -                                     | Financial assets at fair value through other comprehensive income - non-current | 1,000,000         | 2,841<br>( THB 2,980 )  | 0.08                    | 2,841<br>( THB 2,980 ) |

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

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

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

**TABLE 4**

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

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of Dollars, Unless Otherwise Specified)**

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

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

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

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



**TABLE 5**

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

**RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2018  
(In Thousands of Dollars, Unless Otherwise Specified)**

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

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

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

TABLE 6

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

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

| No. | Investee Company    | Counterparty                          | Relationship<br>(Note 1) | Transaction Details             |           |                                       |                                  |
|-----|---------------------|---------------------------------------|--------------------------|---------------------------------|-----------|---------------------------------------|----------------------------------|
|     |                     |                                       |                          | Financial Statement Account     | Amount    | Payment Terms                         | % to<br>Total Sales or<br>Assets |
| 0   | The Corporation     | Hon Chuan Asia and its subsidiaries   | 1                        | Sales                           | \$ 76,831 | T/T 180 days                          | -                                |
|     |                     | Hon Chuan Asia and its subsidiaries   | 1                        | Purchase                        | 29,865    | T/T 180 days                          | -                                |
|     |                     | Hon Chuan Asia and its subsidiaries   | 1                        | Accounts Receivable             | 15,238    | T/T 180 days                          | -                                |
|     |                     | Hon Chuan China and its subsidiaries  | 1                        | Sales                           | 5,541     | T/T 180 days                          | -                                |
|     |                     | Hon Chuan China and its subsidiaries  | 1                        | Purchase                        | 5,644     | T/T 180 days                          | -                                |
|     |                     | Hon Chuan Africa and its subsidiaries | 1                        | Sales                           | 13,406    | T/T 180 days                          | -                                |
| 1   | Samoa Hon Chuan     | Hon Chuan China and its subsidiaries  | 3                        | Receivable from related parties | 2,150,664 | Depend on working capital sufficiency | 7                                |
|     |                     | Hon Chuan China and its subsidiaries  | 3                        | Interest revenue                | 81,915    | Depend on working capital sufficiency | -                                |
|     |                     | Hon Chuan Africa and its subsidiaries | 3                        | Accounts Receivable             | 22,664    | T/T 180 days                          | -                                |
|     |                     | Hon Chuan Africa and its subsidiaries | 3                        | Sales                           | 29,140    | T/T 180 days                          | -                                |
| 2   | Hon Chuan Asia      | Among Hon Chuan Asia's subsidiaries   | 3                        | Receivable from related parties | 153,575   | Depend on working capital sufficiency | 1                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Accounts receivable             | 10,411    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Accounts Payable                | 18,615    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Purchase                        | 76,395    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Sales                           | 16,137    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Other receivables               | 122,980   | Depend on working capital sufficiency | -                                |
| 3   | Hon Chuan Thailand  | Among Hon Chuan Asia's subsidiaries   | 3                        | Accounts receivable             | 2,400     | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Sales                           | 4,934     | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Other receivables               | 10,463    | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Purchase                        | 58,895    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Accounts Payable                | 12,733    | T/T 180 days                          | -                                |
|     |                     | Hon Chuan China and its subsidiaries  | 3                        | Purchase                        | 2,085     | T/T 180 days                          | -                                |
| 4   | Hon Chuan Malaysia  | Among Hon Chuan Asia's subsidiaries   | 3                        | Sales                           | 15,486    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Purchase                        | 1,150     | T/T 180 days                          | -                                |
| 5   | Hon Chuan Indonesia | Among Hon Chuan Asia's subsidiaries   | 3                        | Sales                           | 219       | T/T 180 days                          | -                                |
| 6   | Hon Chuan Vietnam   | Among Hon Chuan Asia's subsidiaries   | 3                        | Sales                           | 8,739     | T/T 180 days                          | -                                |
| 7   | Honhua Holdings     | Among Hon Chuan Asia's subsidiaries   | 3                        | Other revenue                   | 12,858    | Depend on working capital sufficiency | -                                |
| 8   | Samoa Honly         | Among Hon Chuan Asia's subsidiaries   | 3                        | Accounts receivable             | 7,839     | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Sales                           | 14,917    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Other receivables               | 198,944   | Depend on working capital sufficiency | 1                                |
|     |                     | Among Hon Chuan Asia's subsidiaries   | 3                        | Purchase                        | 5,824     | T/T 180 days                          | -                                |

(Continued)

| No. | Investee Company    | Counterparty                          | Relationship<br>(Note 1) | Transaction Details                       |          |                                       |                                  |
|-----|---------------------|---------------------------------------|--------------------------|---|----------|---------------------------------------|----------------------------------|
|     |                     |                                       |                          | Financial Statement Account               | Amount   | Payment Terms                         | % to<br>Total Sales or<br>Assets |
| 9   | Cambodia Honly      | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | \$ 1,619 | T/T 180 days                          | -                                |
| 10  | Hon Shi Samoa       | Among Hon Chuan Africa's subsidiaries | 3                        | Other receivables                         | 41,039   | Depend on working capital sufficiency | -                                |
| 11  | Shimada             | Among Hon Chuan Africa's subsidiaries | 3                        | Sales                                     | 34,981   | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Africa's subsidiaries | 3                        | Purchase                                  | 113      | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan Africa's subsidiaries | 3                        | Accounts receivable                       | 15,884   | T/T 180 days                          | -                                |
| 12  | Hon Chuan China     | Among Hon Chuan China's subsidiaries  | 3                        | Payable to related parties                | 132,382  | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Interest expense                          | 29,239   | Depend on working capital sufficiency | -                                |
| 13  | Suzhou Hon Chuan    | Among Hon Chuan China's subsidiaries  | 3                        | Receivable from related parties           | 82,793   | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Accounts receivable                       | 12,253   | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Sales                                     | 113,249  | T/T 180 days                          | 1                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 1,392    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Purchase of property, plant and equipment | 17,418   | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Manufacturing expense                     | 22,267   | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Sales of property, plant and equipment    | 11,178   | Depend on working capital sufficiency | -                                |
| 14  | Suzhou Hongxin      | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 1,810    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Payable to related parties                | 181,251  | Depend on working capital sufficiency | 1                                |
| 15  | Jinan Hon Chuan     | Among Hon Chuan China's subsidiaries  | 3                        | Sales                                     | 18,929   | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 17,100   | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Receivable from related parties           | 71,605   | Depend on working capital sufficiency | -                                |
| 16  | Taiyuan Hon Chuan   | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 66       | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Sales                                     | 11,907   | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Sales of property, plant and equipment    | 51,282   | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Receivable from related parties           | 165,587  | Depend on working capital sufficiency | 1                                |
| 17  | Changsha Hon Chuan  | Among Hon Chuan China's subsidiaries  | 3                        | Receivable from related parties           | 194,677  | Depend on working capital sufficiency | 1                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 25       | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Interest revenue                          | 11,302   | Depend on working capital sufficiency | -                                |
| 18  | Qingxin Hon Chuan   | Among Hon Chuan China's subsidiaries  | 3                        | Sales of property, plant and equipment    | 10,528   | Depend on working capital sufficiency | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 3,798    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Sales                                     | 1,644    | T/T 180 days                          | -                                |
| 19  | Zhangzhou Hon Chuan | Among Hon Chuan China's subsidiaries  | 3                        | Purchase                                  | 3,986    | T/T 180 days                          | -                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Receivable from related parties           | 149,924  | Depend on working capital sufficiency | 1                                |
|     |                     | Among Hon Chuan China's subsidiaries  | 3                        | Sales                                     | 112      | T/T 180 days                          | -                                |

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

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

(Concluded)

TABLE 7

TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of Dollars, Unless Stated Otherwise)

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

Note 1: Not applicable.

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

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

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

**TABLE 8**

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

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2018  
(In Thousands of Dollars, Unless Otherwise Specified)**

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

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

Note 1: The Corporation invested in China through third parties.

Note 2: The Corporation recognized its equity in the investee’s net income on the basis of financial statements audited by the CPA member firm of the Corporation’s auditors.

Note 3: The regulation refers to “Regulations for Screening of Application to Engage in Technical Cooperation in Mainland China” issued by the Investment Commission of the Ministry of Economic Affairs.

Note 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2018.

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