

**TAIWAN HON CHUAN GROUP**

**Stock Code : 9939**

# **2018 Annual Shareholders' Meeting**

## **Meeting Agenda** (Translation)



-----DISCLAIMER-----

*This is a translation of the agenda for the 2018 annual shareholders' meeting. The translation is intended for reference only and no other purpose, and may subject to change if there is any change in the actual agenda handed out on the date of this meeting. Taiwan Hon Chuan Enterprise Co., Ltd. hereby disclaims any and all liabilities whatsoever for the translation. The Chinese text of the agenda shall govern any and all matters related to the interpretation of the subject matter stated herein.*

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## **1 、 Meeting Procedure :**

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

#### **Procedure for the 2018 Annual Meeting of Shareholders**

- 1. Call to Order**
- 2. Chairman's Opening remarks**
- 3. Report Items**
- 4. Approvals**
- 5. Other Business and Special Motion**
- 6. Meeting Adjourned**

## **2 、 Meeting Agenda :**

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

#### **2018 Annual Shareholders' Meeting Agenda**

(Translation)

Time : 9:00 a.m., June 15, 2018

Place : Hon Chuan Headquarters (International Convention Hall)

(3F, No.6, 2Rd. Taichung Industrial Park, Taichung City, Taiwan)

#### **Meeting Procedure :**

##### **1. Call to Order**

##### **2. Chairman's Opening remarks**

##### **3. Report Items**

- (1) 2017 Business Report
- (2) Audit Committee's Review Report on the 2017 Financial Statements
- (3) 2017 Employees' Compensation and Directors' Remuneration Report
- (4) Implementation Report of the Company's 1<sup>st</sup> Domestic Unsecured Corporate Bonds

##### **4. Approvals**

- (1) 2017 Financial Statements and Business Report
- (2) 2017 Profit Distribution Proposal

##### **5. Other Business and Special Motion**

##### **6. Meeting Adjourned**

## Report Items

**Item 1 :** 2017 Business Report. Please submit for review.

**Explanatory Notes :**

- (1) 2017 Business Report, Financial Statements and CPA Audit Report are attached as Attachment 1 and 2. (Please refer to page 6~26)
- (2) Please review.

**Item 2 :** Audit Committee's Review Report on the 2017 Financial Statements.  
Please submit for review.

**Explanatory Notes :**

- (1) The Company's 2017 financial statements have been duly audited and certified by the CPA and further audited by Audit Committee. The CPA and Audit Committee issue auditors' report and Audit Committee's review report respectively. Please refer to Attachment 2 and 3. (page 7~ 27)
- (2) Please review.

**Item 3 :** 2017 Employees' Compensation and Directors' Remuneration Report.  
Please submit for review.

**Explanatory Notes :**

- (1) In accordance with the 28th Article of the Company's Articles of Incorporation.
- (2) The 2017 profit of the Company is NT\$ 1,404,185,257. (That represents the pretax income before distribution of employees' compensation and directors' remuneration) The Company proposes to distribute 1.71% or NT\$ 24,048,000 as 2017 employees' compensation and 0.79% or NT\$ 11,077,747 as directors' remuneration. The payment will be made in cash.
- (3) After shareholders' meeting resolves, the Company shall proceed the distribution of employees' compensation and directors' remuneration.
- (4) Please review.

**Item 4 :** Implementation Report of the Company's 1<sup>st</sup> Domestic Unsecured Corporate Bonds. Please submit for review.

**Explanatory Notes :**

- (1) The Company issues the 1<sup>st</sup> Domestic Unsecured Corporate Bonds in order to enrich long-term working capital, repay debt and reduce the risk of rate rise in the future, which has been resolved by the Board of Directors' meeting on March 27, 2018.  
Implementation report is as below:

	The 1 <sup>st</sup> Domestic Unsecured Corporate Bonds in 2018
Date of Issuance	April 27, 2018

Term of Issuance	5 years
Object of Issuance	Enrich long-term working capital, repay debt and reduce the risk of rate rise in the future
Total Issuance Amount	NT\$ 3 Billion
Rate of Issuance	Fixed rate of 1.07%
Principal Payment	100% principal repayment upon maturity
Interest Calculation and Payment	From the date of issuance, a simple interest is calculated and distributed once a year per coupon rate. Each 1 million of bond interest is calculated to dollar and rounded off to dollar. If the day for repayment of principal and interest is the banks' closing day in the place of payment, then it shall repay at next business day without extra interest calculated and distributed. If receiving principal and interest after the day for repayment of principal and interest, it shall not calculate and distribute extra interest, either.

(2) Please review.

## Approvals

**Approval 1:** Approval of 2017 Financial Statements and Business Report. Please ratify. (Proposed by the Board of Directors)

### Explanatory Notes :

- (1) The 2017 Financial Statements and Business Report have been duly audited and certified by the CPA firm of Deloitte & Touche, and have been approved by the Board of Directors, and have also been reviewed and audited by Audit Committee and presented their audit report.
- (2) The 2017 Financial Statements and Business Report are attached as Attachment 2. (Please refer to page 7~27)
- (3) Please ratify.

### Resolution :

**Approval 2:** Approval of 2017 Profit Distribution Proposal. Please ratify. (Proposed by the Board of Directors)

### Explanatory Notes :

- (1) The Company's net profit after tax for 2017 was NTD 1,230,860,723 and adding the unappropriated retained earnings of previous years amounted NTD 1,661,705,164, the accumulated allocable earnings from profits was NTD 2,892,565,887 and to be allocated in accordance with the Articles of Incorporation.
- (2) The Board of Directors has drafted proposal for Distribution of 2017 Profit as shown below and Attachment 4 is attached. (Please refer to page 28)
  - I . Legal capital reserve, NTD 123,086,072.
  - II . Special reserve, NTD 147,598,130.
  - III . Shareholders' Dividend –Cash dividend NTD\$ 2.5 per share, NTD 732,197,198.
- (3) If the number of total shares outstanding, prior to the ex-dividend date for the distribution, has changed so that the ratios of dividends are affected, the Board of Directors is authorized to make such adjustments.
- (4) Please ratify.

**Resolution :**

## **Other Business and Special Motion**

## **Meeting Adjourned**



### 3 、 Attachment

#### Attachment 1

#### Business Report

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

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

In face of an ever-changing global market, our management team is more committed than ever to product innovation, market expansion, cost reduction and talent development by way of adaptive strategies, steady growth, and bottom-up resources integration. Taiwan Hon Chuan will continue to commit itself to cost saving and budget control, in order to enhance our overall competitiveness.

Looking ahead, Taiwan Hon Chuan will continue to commit to our core values; “focusing on our core business, developing global markets, respecting our customers, caring for our employees and paying more contributions to social responsibility”. We aim to develop our corporate base in Taiwan, and apply our successes into China, South East Asia, Africa and other potential markets. We look forward to entering into a new phase of Taiwan Hon Chuan through our continuing efforts in 2018.

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

Chairman :  
**Dai, Hung-Chuan**

President :  
**Tsao, Hsih-Chung**

Chief Accounting officer :  
**Cheng, Ya-wen**

### **Independent Auditors' Report (Consolidated Financial Statements)**

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

#### **Opinion**

We have audited the accompanying consolidated financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### **Basis for Opinion**

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

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows :

#### Revenue recognition

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

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

1. We have understood and tested the design and operating effectiveness of the key controls over revenue recognition.
2. We selected samples from the daily sales reports for the main products for the year ended December 31, 2017 and we checked the reports against the customer order list, pre-approved original purchase order, quotation of prices and delivery order.
3. We verified the entries to the revenue subsidiary ledger by selecting sample entries for the main products and we checked the entries against the original order, quotation of prices, delivery order, invoice and receipt voucher. We also checked the entries against the documents acknowledged by customers for their receipt, delivery and order.

#### Evaluation of impairment inventory

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

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

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

#### **Other Matter**

We did not audit the financial statements of PT Hon Chuan Indonesia, Hon Chuan Vietnam Co., Ltd. and Hon Chuan Malaysia Sdn. Bhd. as of and for the years ended December 31, 2017 and 2016. The total assets of these consolidated subsidiaries were 15.60% (NT\$4,412,758 thousand) and 15.54% (NT\$4,256,344 thousand) of the consolidated assets as of December 31, 2017 and 2016, respectively. The net sales of these subsidiaries were 10.42% (NT\$1,825,164 thousand) and

9.21% (NT\$1,520,507 thousand) of the consolidated net sales in 2017 and 2016, respectively. These investees' financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of other auditors.

We have also audited the parent company only financial statements of Taiwan Hon Chuan Enterprise Co., Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified report with other matter paragraph.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

### Notice to Readers

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

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

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

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

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

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

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



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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
SALES (Notes 4 and 30)	\$ 17,519,458	100	\$ 16,510,678	100
COST OF GOODS SOLD (Notes 4, 12, 23 and 30)	<u>14,198,877</u>	<u>81</u>	<u>13,108,263</u>	<u>79</u>
GROSS PROFIT	<u>3,320,581</u>	<u>19</u>	<u>3,402,415</u>	<u>21</u>
OPERATING EXPENSES (Notes 23 and 30)				
Selling and marketing expenses	902,855	5	801,332	5
General and administrative expenses	838,303	5	865,206	5
Research and development expenses	<u>69,043</u>	<u>-</u>	<u>64,680</u>	<u>1</u>
Total operating expenses	<u>1,810,201</u>	<u>10</u>	<u>1,731,218</u>	<u>11</u>
PROFIT FROM OPERATIONS	<u>1,510,380</u>	<u>9</u>	<u>1,671,197</u>	<u>10</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Notes 19 and 23)	(225,642)	(1)	(231,701)	(1)
Other gains and losses (Notes 4 and 23)	240,427	1	140,085	1
Net foreign exchange gain (loss) (Note 4)	<u>21,829</u>	<u>-</u>	<u>(81,758)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>36,614</u>	<u>-</u>	<u>(173,374)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	1,546,994	9	1,497,823	9
INCOME TAX EXPENSE (Notes 4 and 24)	<u>285,011</u>	<u>2</u>	<u>307,529</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>1,261,983</u>	<u>7</u>	<u>1,190,294</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 21)	(7,266)	-	(7,387)	-
Income tax expense related to items that may be reclassified subsequently (Note 24)	1,235	-	1,256	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(82,281)	-	(961,340)	(6)

(Continued)

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

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

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

(Concluded)

**TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Parent										
	Share Capital (Note 22)	Capital Surplus (Notes 4 and 22)	Retained Earnings (Notes 4, 21, 22 and 24)			Other Equity		Treasury Shares (Note 22)	Total	Non-controlling Interests (Note 13)	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available- for-sale Financial Assets				
BALANCE AT JANUARY 1, 2016	\$ 3,098,479	\$ 5,412,868	\$ 1,086,842	\$ 421,790	\$ 3,205,307	\$ (444,173)	\$ (273)	\$ (835,335)	\$ 11,945,505	\$ 1,057,492	\$ 13,002,997
Appropriation of 2015 earnings											
Legal reserve	-	-	94,896	-	(94,896)	-	-	-	-	-	-
Special reserve	-	-	-	22,656	(22,656)	-	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(585,758)	-	-	-	(585,758)	-	(585,758)
Net profit for the year ended December 31, 2016	-	-	-	-	1,178,224	-	-	-	1,178,224	12,070	1,190,294
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(6,131)	(774,259)	(1,901)	-	(782,291)	(187,081)	(969,372)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	1,172,093	(774,259)	(1,901)	-	395,933	(175,011)	220,922
Cancellation of treasury shares	(169,690)	(285,471)	-	-	(380,174)	-	-	835,335	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(12,672)	(12,672)
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	50,684	50,684
BALANCE AT DECEMBER 31, 2016	2,928,789	5,127,397	1,181,738	444,446	3,293,916	(1,218,432)	(2,174)	-	11,755,680	920,493	12,676,173
Appropriation of 2016 earnings											
Legal reserve	-	-	117,822	-	(117,822)	-	-	-	-	-	-
Special reserve	-	-	-	776,160	(776,160)	-	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(732,197)	-	-	-	(732,197)	-	(732,197)
Net profit for the year ended December 31, 2017	-	-	-	-	1,230,861	-	-	-	1,230,861	31,122	1,261,983
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,031)	(146,589)	(1,009)	-	(153,629)	64,308	(89,321)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,224,830	(146,589)	(1,009)	-	1,077,232	95,430	1,172,662
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	380,116	-	-	-	-	-	-	380,116	(380,116)	-
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	64,300	64,300
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	(18,175)	(18,175)
BALANCE AT DECEMBER 31, 2017	\$ 2,928,789	\$ 5,507,513	\$ 1,299,560	\$ 1,220,606	\$ 2,892,567	\$ (1,365,021)	\$ (3,183)	\$ -	\$ 12,480,831	\$ 681,932	\$ 13,162,763

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

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

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

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

	For the Year Ended December 31	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 1,546,994	\$ 1,497,823
Adjustments for:		
Depreciation and amortization expenses	2,142,368	2,154,420
Impairment loss recognized (reversed) on trade receivables	3,461	894
Net loss (gain) on fair value change of financial assets and liabilities designated as at fair value through profit or loss	16,090	(50,933)
Finance costs	225,642	231,701
Interest income	(20,854)	(23,745)
Loss recognized on associates under equity method	3,695	4,441
Loss on disposal of property, plant and equipment	9,071	5,788
Impairment loss on financial assets	-	86
Impairment loss recognized (reversed) on non-financial assets	15,339	(7,858)
Unrealized net loss (gain) on foreign currency exchange	(33,192)	103,279
Others	(2,069)	2,557
Net changes in operating assets and liabilities		
Financial assets held for trading	48,601	(13,280)
Notes receivable	(30,682)	(225)
Trade receivables	(387,604)	91,077
Inventories	(678,965)	(4,292)
Other current assets	(158,275)	73,133
Notes payable	(196,141)	(1,262)
Trade payables	320,837	197,668
Other payable	194,015	-
Other current liabilities	(223,268)	500,409
Net defined benefit liabilities	(8,147)	(11,165)
Cash generated from operations	2,786,916	4,750,516
Interest received	21,073	24,113
Interest paid	(209,050)	(209,704)
Income tax paid	(367,936)	(242,461)
Net cash generated from operating activities	<u>2,231,003</u>	<u>4,322,464</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of debt investments with no active market	(328,383)	-
Repayment debt investments with no active market at maturity	-	5,834
Return of capital from financial assets measured at cost	913	-
Acquisition of associates	-	(30,401)
Disposal of associates	-	29,221
Net cash outflow on acquisition of subsidiaries (Note 26)	-	(340,928)
Payments for property, plant and equipment	(1,037,842)	(702,260)
Proceeds from disposal of property, plant and equipment	13,440	132,834
Increase in refundable deposits	(5,788)	(1,052)
Purchase of intangible assets	(1,463)	-

(Continued)

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

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

	For the Year Ended December 31	
	2017	2016
Increase in other assets	\$ (19,923)	\$ -
Increase in prepayments for equipment	(1,379,067)	(1,164,022)
Increase in other prepayments	(3,495)	-
Other investing activities	<u>-</u>	<u>(1,152)</u>
Net cash used in investing activities	<u>(2,761,608)</u>	<u>(2,071,926)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (repayments of) short-term borrowings	(1,153,314)	(1,302,186)
Proceed from (repayments of) short-term bills payable	(300,000)	300,000
Repayments of corporate bonds	-	(575,500)
Proceeds from long-term borrowings	9,816,994	1,817,880
Repayments of long-term borrowings	(6,824,866)	(1,794,101)
Payments for preferred stock liabilities	(557,211)	-
Dividends paid to owners of the Corporation	(732,197)	(585,758)
Dividends paid to non-controlling interests	(18,175)	(12,672)
Changes in non-controlling interests	<u>64,300</u>	<u>28,967</u>
Net cash generated from (used in) financing activities	<u>295,531</u>	<u>(2,123,370)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>32,065</u>	<u>(134,219)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(203,009)	(7,051)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>2,414,908</u>	<u>2,421,959</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 2,211,899</u>	<u>\$ 2,414,908</u>

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

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

(Concluded)

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

## **Audit Committees' Review Report**

We hereby state as following:

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

To

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

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

Audit Committee      Chairman : Hung, Chao-Nan

Commissioner : Huang, Hsiang-Ying

Commissioner : Kung, Yi-Lu

March 27, 2018

# Taiwan Hon Chuan Enterprise Co., Ltd.

## Proposal for Distribution of 2017 Profits

Items	Unit : NTD
Amount	
<b>Unappropriated retained earnings of previous years</b>	1,667,736,210
Remeasurement of defined benefit obligation	<u>(6,031,046)</u>
<b>Unappropriated retained earnings after adjustment</b>	1,661,705,164
Net Income of 2017	1,230,860,723
10% for legal capital reserve	(123,086,072)
Special reserve	<u>(147,598,130)</u>
<b>Retained Earnings Available for Distribution as of 2017</b>	2,621,881,685
Shareholders' Dividend (NTD\$ 2.5 per share)	<u>(732,197,198)</u>
<b>Unappropriated Retained Earnings</b>	<u><u>1,889,684,487</u></u>

(Note1) Shareholders' Dividend -- Cash : 292,878,879 shares \* NTD\$ 2.5 = NTD\$ 732,197,198

(Note2) The cash dividend distribution will be calculated to the nearest NT dollar. For fractional shares distributed which are less than one dollar that will be adjusted by the chairman who is authorized to contact specific person to deal with it.

(Note3) Board of Directors is authorized to determine the ex-dividend date for the cash dividend distributions upon the approval of the profit distribution proposal at the Annual Meeting of Shareholders.

(Note4) In response to the implementation of Imputation System, when computing tax levied at the rate of ten percent on undistributed surplus earnings in accordance with Article 66-9 of Income Tax Act, the Company will adopt specific identification method to distribute preferably from earnings of recent years based upon official letter No. 871941343 issued by Ministry of Finance on April 30, 1998.

(Note5) Afterward, if there is any reason to influence the total amount of outstanding shares of the Company, based on the proposed total amount of cash distributed to shareholders which resolved by this shareholders' meeting and actual amount of outstanding shares on the base day of interest distribution, please authorize the chairman to adjust distribution rate.

### Explanatory Notes :

Unappropriated retained earnings of previous years : It represents the unappropriated retained earnings after making distribution of 2016 profits by the resolution of 2017 Shareholders' Meeting and is compiled based upon TIFRS GAAP.

Chairman :  
**Dai, Hung-Chuan**

President :  
**Tsao, Hsih-Chung**

Chief Accounting officer :  
**Cheng, Ya-wen**

## 4 、 Appendix

### Appendix 1

## **Taiwan Hon Chuan Enterprise Co., Ltd. Rules and Procedures for Shareholders' Meeting**

### **Article 1**

Shareholders' Meeting of the Company (the "Meeting") shall be conducted in accordance with the Rules and Procedures for Shareholders' Meeting ("Rules"). Any matters not provided herein shall be handled in accordance with the Articles of Incorporation, Company Law, and other relevant laws and regulation.

### **Article 2**

The term "shareholders" set forth herein includes the shareholders themselves and the proxies authorized by shareholders.

### **Article 3**

The Company shall specify in its shareholders' meeting notices the time to register for the Meeting, the place to register for attendance, and other matters for attention.

The time for shareholders to register, as stated in the preceding paragraph, shall start at least 30 minutes prior to the time the Meeting commences. The place for registration shall be clearly marked and a sufficient number of qualified staffs shall be assigned to handle the registrations.

Shareholders and their proxies (collectively, "shareholders") shall attend shareholders' meetings based on attendance cards, sign-in cards, or other certificates of attendance. The Company may not arbitrarily add requirements for other documents beyond those showing eligibility to attend presented by shareholders. Solicitors soliciting proxy forms shall also bring identification documents for verification.

The Company shall prepare an attendance book for shareholders to sign, or attending shareholders may hand in a sign-in card in lieu of signing on the attendance book.

When the government or a legal entity is a shareholder, it may be represented by more than one representative at Meeting.

When a legal entity is appointed to attend as proxy, it may designate only one representative to attend the Meeting.

### **Article 4**

Chairman shall call the Meeting to order at the time scheduled for the Meeting. If the number of shares represented by the shareholders present at the Meeting has not yet constituted the quorum at the time scheduled for the Meeting, the chairman may postpone the time for the Meeting. The postponements shall be limited to two times at the most and Meeting shall not be postponed for longer than one hour in the



aggregate.

If after two postponements no quorum can yet be constituted but the shareholders present at the Meeting represent more than one - third of the total outstanding shares, tentative resolutions may be made in accordance with Section 1 of Article 175 of the Company Law of the Republic of China. The aforesaid tentative resolutions shall be executed in accordance with relevant provisions of the Company Law of the Republic of China.

If during the process of the Meeting the number of outstanding shares represented by the shareholders present becomes sufficient to constitute the quorum, the chairman may submit the tentative resolutions to the Meeting for approval in accordance with Article 174 of the Company Law of the Republic of China.

#### **Article 5**

The agenda of the Meeting shall be set by the Board of Directors if the Meeting is convened by the Board of Directors. Unless otherwise resolved at the Meeting, the Meeting shall proceed in accordance with the agenda. The above provision applies mutatis mutandis to cases where the Meeting is convened by any person, other than the Board of Directors, entitled to convene such Meeting.

#### **Article 6**

During the Meeting, the chairman may, at his discretion, set time for intermission.

#### **Article 7**

Except the motions enumerated on the agenda, any new motion, or any amendment or alternative for one motion shall be seconded by other shareholders.

#### **Article 8**

When a shareholder present at the Meeting wishes to speak, a Speech Note should be filled out with summary of the speech, the shareholder's number (or the number of Attendance Card) and the name of the shareholder. The sequence of speeches by shareholders should be decided by the chairman.

If a corporate shareholder designates two or more representatives to attend the Meeting, only one representative can speak for each discussion item.

If any shareholder present at the Meeting submits a Speech Note but does not speak, no speech should be deemed to have been made by such shareholder. In case the contents of the speech of a shareholder are inconsistent with the contents of the Speech Note, the contents of actual speech shall prevail. Unless otherwise permitted by the chairman and the shareholder in speaking, no shareholder shall interrupt the speeches of the other shareholders; otherwise the chairman shall stop such interruption.

#### **Article 9**

The Chairman of the Board of Directors shall be the chairman presiding at the Meeting in the case that the Meeting is convened by the Board of Directors. If, for any

reason, the Chairman of the Board of Directors cannot preside at the Meeting, the Vice Chairman of the Board of Directors or one of the Directors shall preside at the Meeting.

In the event that another person is entitled to convene the Meeting, such person shall be the chairman to preside at the Meeting.

In the event that a director is appointed to chair a meeting as the substitute for the chairperson as mentioned in the preceding paragraph, such director shall be the one who has served as a director for a minimum of six months and who is fully aware of the Company's financial standing. This same provision is equally mutatis mutandis applicable to an event where the chairperson is the representative of an institutional or corporate director.

#### **Article 10**

The Company may invite its lawyers, CPAs or other related persons to attend the Meeting. The staff handling affairs of the Meeting shall wear identification cards or badges.

#### **Article 11**

Unless otherwise permitted by the chairman, each shareholder shall not, for each discussion item, speak more than two times (each time not exceeding 5 minutes). In case the speech of any shareholder violates the above provision or exceeds the scope of the discussion item, the chairman may stop the speech of such shareholder.

#### **Article 12**

The chairman may announce to end the discussion of any resolution and go into voting if the Chairman deems it appropriate.

#### **Article 13**

If there is an amendment or alternative for one motion, the chairman may combine the amendment or alternative into the original motion, and decide the orders for resolution. If any one of them has been resolved, the others shall be deemed rejected and no further voting is necessary.

#### **Article 14**

The person(s) supervising the casting of votes and counting the ballots shall be appointed by the chairman. The person(s) supervising the casting of votes shall be a shareholder(s). The result of voting shall be announced at the Meeting and written into records.

#### **Article 15**

The Company, beginning from the time it accepts shareholders' registrations, shall make an uninterrupted audio and video recording of the registration procedure, the proceedings of the shareholders meeting, and the voting and vote counting procedures.

The recorded materials of the preceding paragraph shall be retained for at least 1 year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the recording shall be retained until the conclusion of the litigation.

**Article 16**

Unless otherwise provided by the Company Act or the Company's Articles of Incorporation, a resolution shall be adopted by a majority of the votes represented by the shareholders present at the meeting.

A motion may be resolved by way of vote, or shall be deemed passed if no objection to the motion is expressed by all of the shareholders present at the meeting after the solicitation of the chairman, which shall have the same effect as if it was voted by casting ballots.

Vote counting for shareholders' meeting proposals or elections shall be conducted in public at the place of the shareholders meeting. Immediately after vote counting has been completed, the results of the voting, including the statistical tallies of the numbers of votes, shall be announced on-site at the meeting, and a record made of the vote. The election of directors at a shareholders meeting shall be held in accordance with the applicable election and appointment rules adopted by The Company, and the voting results shall be announced on-site immediately, including the names of those elected as directors and the numbers of votes with which they were elected.

**Article 17**

These Rules and Procedures shall be effective from the date it is approved by the Shareholders' Meeting. The same applies in case of revision.

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

## **Articles of Incorporation**

### **Chapter 1 General Principles**

#### **Article 1**

The Company is duly incorporated in accordance with Company Act, and its name is Taiwan Hon Chuan Enterprise Co., Ltd. (hereinafter referred to as the Company).

#### **Article 2**

The scope of business of the Company shall be as follows :

1. C805010 Plastic Sheets, Pipes and Tubes Manufacturing.
2. C805990 Other Plastic Products Manufacturing.
3. C110010 Beverage Manufacturing.
4. C102010 Dairy Products Manufacturing.
5. CB01010 Machinery and Equipment Manufacturing.
6. CB01990 Other Machinery Manufacturing Not Elsewhere Classified.
7. F206030 Retail Sale of Die.
8. F206010 Retail Sale of Ironware.
9. CA02990 Other Fabricated Metal Products Manufacturing Not Elsewhere Classified.
10. CA02010 Metal Architectural Components Manufacturing.
11. CA02060 Metal Containers Manufacturing.
12. C801100 Synthetic Resin & Plastic Manufacturing.
13. C701010 Printing.
14. C805020 Plastic Sheets & Bags Manufacturing.
15. C805030 Plastic Made Grocery Manufacturing.
16. CC01090 Batteries Manufacturing.
17. CC01080 Electronic Parts and Components Manufacturing.
18. F401010 International Trade.
19. F102030 Wholesale of Tobacco Products and Alcoholic Beverages.
20. F102040 Wholesale of Nonalcoholic Beverages.
21. F401171 Alcohol Drink Import.
22. C801010 Basic Industrial Chemical Manufacturing.
23. F213080 Retail Sale of Machinery and Equipment.
24. F299990 Retail Sale of Other Retail Trade Not Elsewhere Classified.
25. CA01990 Other Non-ferrous Metal Basic Industries.
26. CZ99990 Other Industrial Products Manufacturing Not Elsewhere Classified.
27. IZ06010 Cargoes Packaging.
28. F103010 Wholesale of Animal Feeds.
29. F202010 Retail sale of Animal Feeds.
30. F107050 Wholesale of Manure.
31. F207050 Retail Sale of Manure.

- 32. F121010 Wholesale of food additives.
- 33. F221010 Retail of food additives.
- 34. F102180 Wholesale of Ethanol.
- 35. F203030 Retail Sale of Ethanol.
- 36. F203020 Retail Sale of Tobacco and Alcoholic Drinks.
- 37. F401161 Tobacco Products Import.
- 38. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

### **Article 2-1**

The total amount of the investment made by the Company may exceed forty percent of its paid-in capital and the Board of Directors is authorized to execute the investment.

### **Article 2-2**

The Company may provide guarantees to others when necessary for its business.

### **Article 3**

The Company has its head office in Taichung City, Taiwan and may, when necessary, set up branch offices in other appropriate places; the setting up, address change, or the cancellation of the branch offices shall be made according to the resolutions adopted at the meeting of the Board of Director.

### **Article 4**

Public announcements of the Company shall be made in accordance with the provisions of Article 28 of the Companies Law.

## **Chapter 2 Shares**

### **Article 5**

The total authorized capital of the Company shall be in the amount of NT\$3,500,000,000, divided into 350,000,000 shares, at a par value of NT\$10. The remaining unissued shares may be issued in installments subject to the resolution of the Board of Directors upon the Company's operation needs.

### **Article 6**

The share certificates of the Company shall be issued with signature and seal specimen by three or more directors after being authenticated by competent governmental authority in accordance with law. After the shares being issued to the public, the Company may be exempted from printing any share certificate for the shares issued, but shall appoint a centralized securities custody institution to make recordation of the issue of such shares.

### **Article 6-1**

The share certificate of the Company may be printed in combination form with a higher denomination upon the request of the Taiwan Securities Depository & Clearing Corporation.

### **Article 7**

The handling of stock affairs of the Company, except otherwise provided for in applicable

laws and regulations, shall be subject to the Guidelines for Handling Stock Affairs by Public Companies prescribed by the Securities and Futures Commission.

#### **Article 8**

Registered share certificates shall be assigned by the holder thereof by way of endorsement and the name or title of the assignee shall be indicated on the share certificate. The transfer of shares shall not be effective against the Company, unless name/title and residence/domicile of the transferee have been recorded in the shareholders' register.

#### **Article 9**

Registration on shareholders' register for share transfer shall be suspended for sixty days before any ordinary shareholders' meeting, thirty days before any extraordinary shareholders' meeting, and five days before the record date for determination of the shareholders entitled to dividends or any other profit distributions by the Company.

### **Chapter 3 Shareholders' Meeting**

#### **Article 10**

Shareholders' meetings of the Company are of two kinds: ordinary shareholders' meetings and extraordinary shareholders' meetings. Ordinary shareholders' meeting shall be convened at least once a year within six months after the close of each accounting year; extraordinary shareholders' meetings shall be convened in accordance with the law whenever necessary.

#### **Article 11**

If a shareholder is unable to attend a shareholders' meeting, he/she may appoint an agent on his/her behalf by executing and issuing a proxy in accordance with Article 177 of Company Act.

#### **Article 12**

The chairman of the Board of the Company shall preside at the shareholders' meeting. In case the chairman of the Board of the Company is absent, the one who shall preside at the shareholders' meeting shall be elected in accordance with Paragraph 3 of Article 208 of Company Act.

#### **Article 13**

Shareholders of the Company shall be entitled to one vote for each share held by them. However, shares under limitation or with no voting power in accordance with Company Act enjoy no voting power.

#### **Article 14**

Any resolutions at a shareholders' meeting shall, unless otherwise provided for in Company Act, be adopted by the majority present at a shareholders' meeting at which shareholders of more than one-half of the issued and outstanding shares present.

## **Article 15**

The resolutions of the shareholders' meeting shall be recorded in the minutes, and shall be distributed in accordance with Article 183 of Company Act.

## **Chapter 4 Board of Directors Audit Committee**

## **Article 16**

The Company shall have seven to nine directors, all to be elected by shareholders with full legal capacity and with the election be done through the candidate nomination system for a term of three years and shall be eligible for re-election.

Said directors shall include no less than three independent directors, and the independent directors shall be no less than one-fifths of directors' seats. The independent directors shall be elected from the list of candidates in a shareholders' meeting. The qualification, shareholding, restriction on part-time jobs, nomination and election of independent directors and other matters to be complied with shall be handled in compliance with Company Act and other relevant requirement of the competent security authority.

The company may acquire liability insurance for all directors every year.

## **Article 16-1**

When the Company's directors perform Company duties, the Company may pay remuneration regardless of whether the Company operates at a profit or loss. The Board of Directors is authorized with powers to resolve the rates of such remuneration based on the extent of their participation in the Company's business operations or value of their contribution, at a level consistent with general practices in the industry. If the Company operates at a profit, they also may allocate remuneration in accordance with Article 28.

## **Article 17**

In the event more than one-third of the directors are discharged, a shareholders' meeting shall be convened to elect replacement directors. The term shall be subject to the original term of the directors.

## **Article 17-1**

The functions of the board of directors shall be as follows:

1. Proposing the amendments to the Articles of Incorporation;
2. Setting up and winding up branches;
3. Reviewing budgets, closing of accounts, and business reports;
4. Determining, supervising and executing the business plan;
5. Approving the investment in other companies or acquirement of the shares of other companies;
6. Appointing and discharging the accountants who certify the financial reports for the Company;
7. Appointing and discharging corporate officials at the level of deputy general manager and higher;
8. Preparing proposals to increase or decrease capital;

9. Proposing appropriation of earnings or make up of loss;
10. Proposing acquisition and disposal of important assets;
11. Approving external endorsements and guarantees of company;
12. Approving important contracts or other material matters;
13. Other duties and powers granted by or in accordance with the Company Act or shareholders' resolutions.

### **Article 18**

In case the Company is unable to elect new directors immediately after the expiration of the term of their office, the existing directors and supervisors shall continue to perform their duties until re-election within a time limit given by the competent authority.

### **Article 19**

The Board of Directors shall be composed of directors. The Chairman of the Board shall be elected from among the directors by a majority vote at a meeting attended by over two-thirds of the directors.

The Chairman of the Board of Directors shall conduct the Company's all business in accordance with applicable laws, regulations, Articles of Incorporation, resolutions of the shareholders' meeting and the resolutions of the Board of Directors.

### **Article 20**

The business strategy and other important matters of the Company shall be resolved by the Board of Directors. Meetings of the Board of Directors shall be convened and presided by the Chairman of the Board of Directors, except for the first meeting of each term of the Board of Directors that shall be convened in accordance with Article 203 of Company Act. The Chairman of the Board of Directors shall act as the chairman. In the event that the Chairman of the Board of Directors cannot execute his duties for any cause, the director appointed by the Chairmen shall act on his behalf; in the absence of such appointment, the director who is elected from among the directors shall handle.

### **Article 21**

Any resolution at a meeting of the Board of Directors shall be adopted if voted in favor by the majority present at a meeting of the Board of Directors at which more than half of the directors are present unless otherwise stipulated in Company Act. In case a director is unable to attend the meeting of the Board of Directors, the director is unable to attend the meeting of the Board of Directors, the director may, by issuing a proxy specifying the scope of agency, designate one of the other directors to act for and on his/her behalf, but a director may only act for one other director.

### **Article 22**

The resolution of the meeting of Board of Directors shall be recorded in the minutes, and the minutes shall be signed or sealed by the chairman of the meeting and shall be distributed to the directors within twenty days after the meeting. The minutes of the meeting of Board of Directors, shall record a summary of the essential points of the proceedings and results of the meeting. The minutes of the meeting of Board of Directors, the attendance list bearing the signatures of directors present at the meeting, and the



powers of attorney of the proxies shall be kept in the Company.

### **Article 23**

In accordance with Article 14-4 of Securities and Exchange Act, the Company shall establish an Audit Committee, which consists of all independent directors. The power and relevant affairs of Audit Committee and its members shall be devised in compliance with laws and regulations of competent authority.

## **Chapter 5 Managers and Employees**

### **Article 24**

The Company may have several managers. The appointment, discharge, and remuneration shall be handled in accordance with Article 29 of the Company Act.

### **Article 25**

The Company may have president, vice president, chief executive officer, vice chief executive officer, consultant and important employees according to the resolution of the Board of Directors. Board of Directors may decide to have remuneration Committee or other functional committees to meet operation needs.

### **Article 26**

The appointment and discharge of the employees of the Company shall be decided by the managers and submitted to the Board of Directors for recordation.

## **Chapter 6 Accounting**

### **Article 27**

At the end of each fiscal year, the Board of Directors shall prepare (1) business report, (2) financial statements, (3) proposal for appropriation of earnings or covering of loss, etc., and deliver the same to shareholders' meeting for approval.

### **Article 28**

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

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

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

### **Article 29**

Upon closing of accounts, if there shall be any net profit, the Company shall make up the losses for the preceding years, then set aside a legal reserve of 10% of the net profit unless the statutory surplus reserve has reached the total capital and then set aside or rotate special reserves; Any further remaining amount shall be added to the unallocated surplus from the prior year as shareholder dividend and bonus. The Board of Directors shall draft a proposal to distribute the surplus, which shall be approved at a shareholders' meeting.

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

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

## **Chapter 7 Supplementary Provisions**

### **Article 30**

The organizational rules and detailed procedures for business operations of the Company shall be determined by Board of Directors.

### **Article 31**

With regard to those matters not provided for in these Articles of Incorporation, the Company Act and other relevant laws and regulations of the Republic of China shall govern.

### **Article 32**

These Articles of Incorporation were adopted on 16 June 1969.

The First Amendment was made on 5 November 1973.

The Second Amendment was made on 1 July 1976.

The Third Amendment was made on 13 March 1979.

The Fourth Amendment was made on 5 December 1980.

The Fifth Amendment was made on 22 March 1982.

The Sixth Amendment was made on 27 April 1982.

The Seventh Amendment was made on 10 November 1983.

The Eighth Amendment was made on 10 November 1984.

The Ninth Amendment was made on 13 October 1985.

The 10th Amendment was made on 1 January 1988.

The 11th Amendment was made on 10 November 1988.

The 12th Amendment was made on 4 July 1989.

The 13th Amendment was made on 10 November 1989.

The 14th Amendment was made on 25 March 1991.

The 15th Amendment was made on 15 July 1991.  
The 16th Amendment was made on 24 April 1992.  
The 17th Amendment was made on 1 April 1993.  
The 18th Amendment was made on 26 April 1993.  
The 19th Amendment was made on 13 September 1993.  
The 20th Amendment was made on 17 December 1993.  
The 21th Amendment was made on 30 May 1994.  
The 22th Amendment was made on 5 May 1995.  
The 23th Amendment was made on 29 May 1995.  
The 24th Amendment was made on 30 November 1995.  
The 25th Amendment was made on 31 May 1996.  
The 26th Amendment was made on 11 June 1997.  
The 27th Amendment was made on 11 June 1998.  
The 28th Amendment was made on 20 April 1999.  
The 29th Amendment was made on 17 November 1999.  
The 30th Amendment was made on 18 April 2000.  
The 31th Amendment was made on 31 May 2001.  
The 32th Amendment was made on 31 May 2001.  
The 33th Amendment was made on 7 May 2002.  
The 34th Amendment was made on 18 June 2003.  
The 35th Amendment was made on 15 June 2004.  
The 36th Amendment was made on 14 June 2005.  
The 37th Amendment was made on 23 June 2006.  
The 38th Amendment was made on 19 June 2009.  
The 39th Amendment was made on 20 June 2012.  
The 40th Amendment was made on 19 June 2013.  
The 41th Amendment was made on 29 June 2015.  
The 42th Amendment was made on 22 June 2016.  
The 43th Amendment was made on 15 June 2017.

## Shareholding of Directors and Supervisors

1. The Company Paid-in Capital is NTD\$ 2,928,788,790 and the Company has issued a total of 292,878,879 shares as of April 17, 2018.
2. According to the stipulations of Article 26 of the Securities and Exchange Act and Rules and Review Procedures for Director Share Ownership Ratios at Public Companies, the total shareholding of the Company's directors shall not be less than 12,000,000 shares.
3. As of the share transfer suspension date of this Shareholders' meeting, the numbers of shares held by the respective directors as denoted in the shareholders list are as follows: ( The Company has conformed with minimum shareholding requirement by Article 26 of the Securities Exchange Act ) :

Position	Name	Date elected	Tenure of office	Current shareholding	
				Shares	Shareholding ratio
Chairman	Dai, Hung-Chuan	2017.06.15	3 years	3,665,019	1.25%
Director	Tsao, Hsih-Chung	2017.06.15	3 years	4,372,243	1.49%
Director	Liu, Yun-Chang	2017.06.15	3 years	689,303	0.24%
Director	Lin, Chuan-Nui	2017.06.15	3 years	2,780,795	0.95%
Director	Chang, Chun-Shu	2017.06.15	3 years	2,662,234	0.91%
Director	Dai, Hung-I	2017.06.15	3 years	5,890,111	2.01%
Independent Director	Hung, Chao-Nan	2017.06.15	3 years	0	0
Independent Director	Huang, Hsiang-Ying	2017.06.15	3 years	0	0
Independent Director	Kung, Yi-Lu	2017.06.15	3 years	0	0
Total number of shares held by all Directors				20,059,705	6.85%

# MEMO



## **TAIWAN HON CHUAN GROUP**

[www.honchuan.com.tw](http://www.honchuan.com.tw) / [service@mail.honchuan.com.tw](mailto:service@mail.honchuan.com.tw)

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

**T** +886 4 2359 0088    **F** +886 4 2359 0086