

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

**Consolidated Financial Statements for the  
Years Ended December 31, 2017 and 2016 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, 2017 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 27, 2018

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

#### Revenue recognition

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

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

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

#### Evaluation of impairment inventory

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

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

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

#### **Other Matter**

We did not audit the financial statements of PT Hon Chuan Indonesia, Hon Chuan Vietnam Co., Ltd. and Hon Chuan Malaysia Sdn. Bhd. as of and for the years ended December 31, 2017 and 2016. The total assets of these consolidated subsidiaries were 15.60% (NT\$4,412,758 thousand) and 15.54% (NT\$4,256,344 thousand) of the consolidated assets as of December 31, 2017 and 2016, respectively. The net sales of these subsidiaries were 10.42% (NT\$1,825,164 thousand) and 9.21% (NT\$1,520,507 thousand) of the consolidated net sales in 2017 and 2016, respectively. These investees' financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of other auditors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Notice to Readers

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

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

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

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

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
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>
<b>NONCURRENT ASSETS</b>				
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>
<b>TOTAL</b>	<u>\$ 28,284,527</u>	<u>100</u>	<u>\$ 27,391,306</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
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>
<b>NONCURRENT LIABILITIES</b>				
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>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>				
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
<b>NON-CONTROLLING INTERESTS</b>	<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>
<b>TOTAL</b>	<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>12,070</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	-	-	94,896	-	(94,896)	-	-	-	-	-	-
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
Cancelation 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	-	-	117,822	-	(117,822)	-	-	-	-	-	-
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)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<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	<u>2,786,916</u>	<u>4,750,516</u>
Interest received	21,073	24,113
Interest paid	(209,050)	(209,704)
Income tax paid	<u>(367,936)</u>	<u>(242,461)</u>
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)	-

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

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
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>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>32,065</u>	<u>(134,219)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(203,009)	(7,051)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,414,908</u>	<u>2,421,959</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,211,899</u>	<u>\$ 2,414,908</u>

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

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

(Concluded)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. ORGANIZATION AND OPERATIONS

Taiwan Hon Chuan Enterprise Co., Ltd. (the “Corporation”) was incorporated in 1969. It manufactures and sells various packing materials for the food and beverage industries (such as aluminum closures, plastic caps, metal caps, labels, bioriented polyolefin shrinkable films, low density polyethylene (LDPE), shrinkable films, and polyethylene terephthalate (PET) bottles) and automatic sealer machines. It also manufactures and sells packing materials for electronic parts (such as anti-static sheets or bags), precision instrument cases, and caps for batteries.

The Corporation became a public company in August 1993 under the approval of the Securities and Futures Bureau (SFB) under the Financial Supervisory Commission. The Corporation’s shares have been traded on the Taiwan Stock Exchange since March 2, 2001.

The consolidated financial statements of the Corporation and its subsidiaries (referred to collectively as “the Group”) are presented in the Corporation’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 27, 2018.

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

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

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

#### Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include and emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the

Group's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefit at the acquisition date.

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

**IFRS 9 "Financial Instruments" and related amendments - Classification, measurement and impairment of financial assets**

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

- b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

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

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

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, financial instruments measured at FVTOCI, lease receivables, contract assets, certain written loan commitments and financial guarantee contracts arising from IFRS 15 “Revenue from Contracts with Customers”. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

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

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

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

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of IFRS 15, other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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

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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on



or after their respective effective dates.

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

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

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

#### IFRS 16 “Leases”

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use assets separately from the interest expense accrued on the lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

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

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

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

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

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

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

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Basis of consolidation

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

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

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

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

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

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

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

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

e. Business combinations

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

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

f. Foreign currencies

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

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

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

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

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

recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

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

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

g. Inventories

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

h. Investment in associates

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

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

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

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

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

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

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

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

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

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

i. Property, plant and equipment

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

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

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

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

j. Goodwill

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

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

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

k. Intangible assets

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

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

l. Impairment of tangible and intangible assets other than goodwill

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

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

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

m. Financial instruments

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

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

## 1) Financial assets

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

### a) Measurement categories

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

#### i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

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

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

#### ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

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

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

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

other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

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

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

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

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

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

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

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.



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

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

c) Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

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

Financial liabilities are classified as at fair value through profit or loss when such financial liabilities are either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 29.

b) Derecognition of financial liabilities

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

#### 4) Convertible bonds and liability component of preferred stock

The component parts of compound instruments (i.e. convertible bonds and liability component of preferred stock) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

#### 5) Derivative financial instruments

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

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

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

#### n. Revenue recognition

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

##### 1) Sale of goods

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

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

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

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

## 2) Rendering of services

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

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

## 3) Dividend and interest income

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

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

## o. Leasing

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

### The Group as lessee

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

## p. Borrowing costs

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

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

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

q. Government grants

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

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

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

r. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

s. Share-based payment arrangements - Employee share options

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

t. Taxation

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

### 1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

### 2) Deferred tax

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

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

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

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

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

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

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

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

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

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

Write-down of inventory

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

**6. CASH AND CASH EQUIVALENTS**

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

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

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

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Financial liabilities held for trading</u>		
Derivative financial liabilities		
Foreign exchange forward contracts	<u>\$ 15,955</u>	<u>\$ -</u>

Outstanding foreign exchange forward contracts were as follows:

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

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

#### 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS – NONCURRENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Overseas stock of publicly quoted entity	\$ <u>8,350</u>	\$ <u>9,231</u>

#### 9. FINANCIAL ASSETS MEASURED AT COST - NONCURRENT

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

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

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

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

- 1) The Group bought US\$1,127 thousand of 3-year corporate bonds issued by Garden Fresh (HK) Fruit & Vegetable Co., Limited (“Garden Fresh”) with a coupon rate of 0% and effective interest rate of 3.57% in July 2012. The corporate bonds were originally recorded under non-current assets, but were reclassified as current assets because they will mature within one year from balance sheet date.
- 2) The market interest rates of the financial product investment were 3.30%-4.15% per annum, as of December 31, 2017.

## 11. TRADE RECEIVABLES - NET

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

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

The aging of receivables was as follows:

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

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

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

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

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



## 12. INVENTORIES

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

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

The cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of \$15,339 thousand and inventory reversals of write-downs of \$7,858 thousand, respectively. Previous write-downs were reversed as a result of selling inventory.

## 13. SUBSIDIARIES

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

Investor	Investee	Main Businesses	<u>% of Ownership</u>	
			<u>2017</u>	<u>2016</u>
The Corporation	Hon Chuan Holding Limited ("Samoa Hon Chuan")	Overseas reinvested holding company and international trade	100	100
Samoa Hon Chuan	Hon Chuan (China) Holding Co., Ltd. ("Hon Chuan China")	Overseas reinvested holding company	94.17	76.84
	HC (Asia) Holding Co., Ltd. ("Hon Chuan Asia")	Overseas reinvested holding company and international trade	100	100
	Hon Chuan Technologies (Ningbo) Co., Ltd. ("Ningbo Hon Chuan")	Manufacture and sale of packing materials for electronic components and caps for batteries	-	100
Hon Chuan China	Hon Chuan (Africa) Holding Co., Ltd. ("Hon Chuan Africa")	Overseas reinvested holding company and international trade	100	100
	Kai Gang Industries Limited ("Kai Gang")	Overseas reinvested holding company	100	100
	Hon Hsing (Samoa) Holding Limited ("Samoa Hon Hsing")	Overseas reinvested holding company	100	100
Hon Chuan Asia	Hon Chuan (Thailand) Co., Ltd. ("Hon Chuan Thailand")	Manufacture and sale of plastic caps and PET bottles	100	100
	PT Hon Chuan Indonesia ("Hon Chuan Indonesia")	Manufacture and sale of plastic caps and PET bottles	100	100
	Hon Chuan (Myanmar) Co., Ltd. ("Hon Chuan Myanmar")	Manufacture and sale of plastic caps and PET bottles	70	70
	Hon Chuan Vietnam Co., Ltd. ("Hon Chuan Vietnam")	Manufacture and sale of plastic caps and PET bottles	100	100
	Hon Chuan Malaysia Sdn. Bhd. ("Hon Chuan Malaysia")	Manufacture and sale of plastic caps and PET bottles	100	100
	Honly Holding Co., Ltd. ("Samoa Honly")	Overseas reinvested holding company and international trade	60	60
	Honly International Co., Ltd. ("Honly")	Overseas reinvested holding company and international trade	49	49
	Honhua Holdings Co., Ltd. ("Honhua")	Overseas reinvested holding company and international trade	60	-

(Continued)

Investor	Investee	Main Businesses	% of Ownership	
			2017	2016
Kai Gang	Hon Chuan Enterprise (Suzhou) Company Limited (“Suzhou Hon Chuan”)	Manufacture and sale of various plastic caps, labels and aluminum closures	100	100
	Hon Chuan Food Packing (Qingxin) Co., Ltd. (“Qingxin Hon Chuan”)	Manufacture and sale of various plastic caps, labels, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Food Packing (Zhangzhou) Co., Ltd. (“Zhangzhou Hon Chuan”)	Manufacture and sale of PET bottles and beverage filling OEM service	100	100
	Hon Chuan Food Packing (Chuzhou) Co., Ltd. (“Chuzhou Hon Chuan”)	Manufacture and sale of various plastic caps and PET bottles	100	100
	Hon Chuan Food Packing (Xiantao) Co., Ltd. (“Xiantao Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Enterprise Packing (Luoche) Co., Ltd. (“Luoche Hon Chuan”)	Manufacture and sale of PET bottles and beverage filling OEM service	100	-
Samoa Hon Hsing	Suzhou Hongxin Food Packing Co., Ltd. (“Suzhou Hongxin”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Food Packing (Taiyuan) Co., Ltd. (“Taiyuan Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Enterprise (Changsha) Co., Ltd. (“Changsha Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
	Hon Chuan Food Packing (Jinan) Co., Ltd. (“Jinan Hon Chuan”)	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	100	100
Hon Chuan Thailand	Hon Chuan FD Packaging Co., Ltd. (“Hon Fu Thailand”)	Manufacture and sale of plastic caps, labels and PET bottles	65	65
Samoa Honly	Honly Food & Beverage Co., Ltd. (“Cambodia Honly”)	Beverage packing service	100	100
Suzhou Hongxin	Quanhe Investment (Suzhou) Co., Ltd. (“Quanhe”)	Equity investment	100	100
	Hon Chuan Food Packing (Anyang) Co., Ltd. (“Anyang Hon Chuan”)	Sale of PE/PET packaging, food packaging	100	100
Hon Chuan Africa	Hon Shi Mozambique Limitada (“Hon Shi Samoa”)	Overseas reinvested holding company and international trade	60	60
Hon Shi Samoa	Shimada International Limitada (“Shimada”)	Manufacture and sales of plastic caps PET bottles and LDPE membrane	100	100
	Hon Shi Mozambique Co., Ltd. (“Hon Shi Mozambique”)	Manufacture and sales of plastic caps	100	100
Hon Hua	Uni Tun Co., Ltd. (Uni Tun)	Water filling	100	-

(Concluded)

Ningbo Hon Chuan has been liquidated in May, 2017.

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

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

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

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

Name of Subsidiary	Proportion of Ownership and Voting Rights Held by Non-controlling Interests	
	December 31	
	2017	2016
Hon Chuan China	5.83%	23.16%

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

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

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

Hon Chuan China and Hon Chuan China's subsidiaries:

	December 31	
	2017	2016
Current assets	\$ 3,621,264	\$ 3,043,494
Non-current assets	8,163,254	8,713,704
Current liabilities	(5,506,015)	(7,338,715)
Non-current liabilities	<u>(1,498,741)</u>	<u>(658,833)</u>
Equity	<u>\$ 4,779,762</u>	<u>\$ 3,759,650</u>
Equity attributable to:		
Owners of Hon Chuan China	\$ 4,501,111	\$ 3,217,776
Non-controlling interests of Hon Chuan China	<u>278,651</u>	<u>541,874</u>
	<u>\$ 4,779,762</u>	<u>\$ 3,759,650</u>

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

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

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

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

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



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

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

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

## 16. OTHER ASSETS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Office supplies	\$ 479,885	\$ 432,968
Prepaid expenses and prepayment for purchases	335,933	194,855
Prepayments for lease	290,450	332,988
Other receivables	45,344	25,862
Refundable deposits	42,576	37,039
Tax refund receivable	29,232	109,328
Restricted assets (Note 31)	25,642	65,674
Others	<u>250,382</u>	<u>210,990</u>
	<u>\$ 1,499,444</u>	<u>\$ 1,409,704</u>
Current	\$ 1,166,875	\$ 1,046,093
Non-current	<u>332,569</u>	<u>363,611</u>
	<u>\$ 1,499,444</u>	<u>\$ 1,409,704</u>

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

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

## 17. GOODWILL

Changes in goodwill were as follows:

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

## 18. BORROWINGS

### a. Short-term borrowings

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Unsecured borrowings</u>		
Bank loans for working capital	\$ 5,143,126	\$ 5,841,644
Loans for purchasing raw materials	13,187	18,737
<u>Secured borrowings</u>		
Collateral loans (Note 31)	-	800,000
	<u>\$ 5,156,313</u>	<u>\$ 6,660,381</u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.69-4.70	0.70-4.35
Loans for purchasing raw materials	1.13-2.43	1.33-2.11
Collateral loans	-	0.98

- b. Short-term bills payable are commercial paper issued with interest rate of 1.01% on December 31, 2016. These borrowings have not been discounted, because the effect was not material.

### c. Long-term borrowings

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Bank loans for working capital-March, 2019 to November 2022	\$ 7,999,920	\$ 5,236,194
Less: Current portion of long-term loans	-	(258,000)
	<u>\$ 7,999,920</u>	<u>\$ 4,978,194</u>
<u>Rate of interest per annum (%)</u>		
Bank loans for working capital	0.95-3.20	0.80-2.20

The Corporation entered into a secured loan agreement with a syndicate of banks led by Land Bank of Taiwan Co., Ltd. for repayment of short-term bank loans, procure fund for future investment and increase operating fund. Under the agreement, the Corporation should maintain certain financial ratios, as listed below, based on the numbers in the Corporation's annual financial statements.

- 1) Current ratio - at least 100% of financial statements.
- 2) Debt ratio - maximum of 200% of financial statements.
- 3) Interest coverage ratio - at least 300% of financial statements.
- 4) Tangible assets - at least \$7,000,000 thousand of financial statements.

If the Corporation could not maintain certain financial ratios, it must improve financial ratios and provide documents certified by the Corporation's auditor within five months of next year starting May 1. If the Corporation maintained these financial ratios within the grace period, there will be no violation of the agreement. However, the Corporation should pay interest at annual rate plus 0.2% from May 1 next year to the date it actually completed the improvement. The Corporation had repaid the syndicated term loan in June 2016.

Samoa Hon Chuan entered into a syndicate term loan agreement led by Land Bank of Taiwan Co., Ltd. for repayment of short-term bank loans, procure fund for future investment fund and increase operating fund. The Corporation provided financial guarantees for Samoa Hon Chuan in the syndicated term loan agreement. Under the agreement, the Corporation should maintain some financial ratios, as listed below, based on the numbers in the Corporation's consolidated financial statements.

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

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

## 19. LIABILITY COMPONENT OF PREFERRED STOCKS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Convertible preferred stock	\$ -	\$ 596,625
Less: Liability component of preferred stocks discount	-	(13,437)
	-	583,188
Less: Current portions	-	(583,188)
Non-current	<u>\$ -</u>	<u>\$ -</u>

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

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



## 20. OTHER LIABILITIES

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

## 21. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

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

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

### b. Defined benefit plans

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ 155,211	\$ 153,623
Fair value of plan assets	<u>(119,570)</u>	<u>(117,101)</u>
Net defined benefit liability	<u>\$ 35,641</u>	<u>\$ 36,522</u>

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

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities (Assets)</b>
Balance at January 1, 2016	\$ 148,855	\$ (108,555)	\$ 40,300
Service cost			
Current service cost	1,296	-	1,296
Net interest expense (income)	<u>2,596</u>	<u>(1,971)</u>	<u>625</u>
Recognized in profit or loss	<u>3,892</u>	<u>(1,971)</u>	<u>1,921</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,176	1,176
Actuarial loss - changes in demographic assumptions	632	-	632
Actuarial loss - changes in financial assumptions	3,157	-	3,157
Actuarial loss - experience adjustments	<u>2,422</u>	<u>-</u>	<u>2,422</u>
Recognized in other comprehensive income	<u>6,211</u>	<u>1,176</u>	<u>7,387</u>
Contributions from the employer	-	(13,086)	(13,086)
Benefits paid	<u>(5,335)</u>	<u>5,335</u>	<u>-</u>
Balance at December 31, 2016	<u>153,623</u>	<u>(117,101)</u>	<u>36,522</u>
Service cost			
Current service cost	1,152	-	1,152
Net interest expense (income)	<u>2,112</u>	<u>(1,701)</u>	<u>411</u>
Recognized in profit or loss	<u>3,264</u>	<u>(1,701)</u>	<u>1,563</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	561	561
Actuarial (gain) loss - changes in demographic assumptions	297	-	297
Actuarial (gain) loss - changes in financial assumptions	1,483	-	1,483
Actuarial (gain) loss - experience adjustments	<u>4,925</u>	<u>-</u>	<u>4,925</u>
Recognized in other comprehensive income	<u>6,705</u>	<u>561</u>	<u>7,266</u>
Contributions from the employer	-	(9,710)	(9,710)
Benefits paid	<u>(8,381)</u>	<u>8,381</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 155,211</u>	<u>\$ (119,570)</u>	<u>\$ 35,641</u>

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

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate	1.250%	1.375%
Expected rate of salary increase	1.375%	1.375%

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate(s)		
0.25% increase	\$ <u>(3,026)</u>	\$ <u>(3,119)</u>
0.25% decrease	\$ <u>3,123</u>	\$ <u>3,223</u>
Expected rate(s) of salary increase		
0.25% increase	\$ <u>3,005</u>	\$ <u>3,107</u>
0.25% decrease	\$ <u>(2,926)</u>	\$ <u>(3,021)</u>

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

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

## 22. EQUITY

### a. Share capital

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Number of shares authorized (in thousands)	<u>350,000</u>	<u>350,000</u>
Shares authorized	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>292,879</u>	<u>292,879</u>
Shares issued	<u>\$ 2,928,789</u>	<u>\$ 2,928,789</u>

### b. Capital surplus

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

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

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

### c. Retained earnings and dividends policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 22, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on the distribution of employees' compensation.

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration to directors and supervisors before and after the amendment, please refer to d. Employee benefits expense, depreciation and amortization expenses in Note 23-4.

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

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

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

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

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

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

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

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

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

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

d. Special reserves

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

e. Treasury shares

<b>Purpose of Buy-Back</b>	<b>Shares Cancelled (In Thousands of Shares)</b>
Number of shares at January 1, 2016	16,969
Decrease during the year	<u>(16,969)</u>
Number of shares at December 31, 2016	<u><u>-</u></u>

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote. The Corporation's board of directors proposed February 4, 2016 to be the date for cancellation of treasury shares and also the base date of capital reduction. The registration process has been completed on February 22, 2016.

**23. NET PROFIT FROM CONTINUING OPERATIONS**

a. Other gains and losses

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

b. Finance costs

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

c. Employee benefits expense, depreciation and amortization expenses

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

d. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration to directors and supervisors at the rates of no less than 1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors on March 27, 2018 and March 24, 2017, respectively, were as follows:

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

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

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

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

## 24. TAXES

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

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

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

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

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

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

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



b. Deferred tax assets and liabilities

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>For the Year Ended</u>				
<u>December 31, 2017</u>				
<u>Deferred Tax Assets</u>				
Temporary differences				
Tax losses	\$143,540	\$ 17,938	\$ -	\$161,478
Defined benefit obligation	7,764	(2,940)	1,235	6,059
Inventories	3,169	2,353	-	5,522
Other	<u>11,232</u>	<u>(2,054)</u>	<u>-</u>	<u>9,178</u>
	<u>\$ 165,705</u>	<u>\$ 15,297</u>	<u>\$ 1,235</u>	<u>\$ 182,237</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>11,822</u>	<u>8,024</u>	<u>-</u>	<u>19,846</u>
	<u>\$ 36,105</u>	<u>\$ 8,024</u>	<u>\$ -</u>	<u>\$ 44,129</u>
<u>For the Year Ended</u>				
<u>December 31, 2016</u>				
<u>Deferred Tax Assets</u>				
Temporary differences				
Tax losses	\$ 136,803	\$ 6,737	\$ -	\$ 143,540
Defined benefit obligation	8,328	(1,820)	1,256	7,764
Inventories	7,291	(4,122)	-	3,169
Other	<u>18,901</u>	<u>(7,669)</u>	<u>-</u>	<u>11,232</u>
	<u>\$ 171,323</u>	<u>\$ (6,874)</u>	<u>\$ 1,256</u>	<u>\$ 165,705</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	\$ 24,283	\$ -	\$ -	\$ 24,283
Others	<u>28,586</u>	<u>(16,764)</u>	<u>-</u>	<u>11,822</u>
	<u>\$ 52,869</u>	<u>\$ (16,764)</u>	<u>\$ -</u>	<u>\$ 36,105</u>

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

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

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

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

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

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

- e. Integrated income tax

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

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

- f. Income tax assessments

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

## 25. EARNINGS PER SHARE

	Net profit attributable to owners of the Corporation	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the year ended December 31, 2017</u>			
Basic	\$ 1,230,861	292,879	<u>\$ 4.20</u>
Dilutive effects - employees' compensation or bonus issue to employees	<u>-</u>	<u>507</u>	
Dilutive	<u>\$ 1,230,861</u>	<u>293,386</u>	<u>\$ 4.20</u>
<u>For the year ended December 31, 2016</u>			
Basic	\$ 1,178,224	292,879	<u>\$ 4.02</u>
Dilutive effects - employees' compensation or bonus issue to employees	-	556	
Domestic convertible bonus	<u>4,941</u>	<u>4,286</u>	
Dilutive	<u>\$ 1,183,165</u>	<u>297,721</u>	<u>\$ 3.97</u>

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

## 26. BUSINESS COMBINATIONS

### a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Hon Shi Samoa	Overseas reinvested holding company and international trade	July 5, 2016	60	<u>\$ 343,208</u>

Hon Shi Samoa and its subsidiaries were acquired in 2016.

### b. Consideration transferred

Cash	\$ 343,208
Contingent consideration arrangement	<u>-</u>
	<u>\$ 343,208</u>

c. Hon Shi Samoa and its subsidiaries assets acquired and liabilities assumed at the date of acquisition

Current assets	
Cash and cash equivalents	\$ 2,280
Trade and other receivables	16,853
Inventories	17,524
Other current assets	5,427
Non-current assets	
Property, plant and equipment	43,265
Current liabilities	
Trade and other payables	(29,535)
Other current liabilities	<u>(711)</u>
	<u>\$ 55,103</u>

d. Goodwill recognized on acquisition

Consideration transferred	\$ 343,208
Plus: Non-controlling interests (40% in Hon Shi Samoa)	22,526
Less: Fair value of identifiable net assets acquired	<u>(55,103)</u>
Goodwill recognized on acquisition (Note 17)	<u>\$ 310,631</u>

The goodwill recognized in the acquisition of Hon Shi Samoa and its subsidiaries mainly represents the control premium included in the cost of the combination. In addition, the consideration paid for the combination effectively included amounts attributed to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

e. Net cash outflow on acquisition of subsidiaries

Consideration paid in cash	\$ 343,208
Less: Cash and cash equivalent balances acquired	<u>(2,280)</u>
	<u>\$ 340,928</u>

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

## 28. CAPITAL MANAGEMENT

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

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

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

## 29. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

	Level 1	Level 2	Total
<u>December 31, 2017</u>			
Financial assets at fair value through profit or loss (FVTPL)			
Domestic convertible bonds	\$ 31,935	\$ -	\$ 31,935
Available-for-sale financial assets			
overseas stock of publicly quoted entity	\$ 8,350	\$ -	\$ 8,350
Financial liabilities at fair value through profit or loss (FVTPL) foreign			
exchange forward contracts	\$ -	\$ 15,955	\$ 15,955
<u>December 31, 2016</u>			
Financial assets at fair value through profit or loss (FVTPL)			
Foreign exchange forward contracts	\$ -	\$ 48,590	\$ 48,590
Domestic convertible bonds	32,070	-	32,070
Domestic stock of publicly quoted entity	2,463	-	2,463
	<u>\$ 34,533</u>	<u>\$ 48,590</u>	<u>\$ 83,123</u>
Available-for-sale financial assets			
overseas stock of publicly quoted entity	\$ 9,231	\$ -	\$ 9,231

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

- 2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives - foreign exchange forward contracts	Discounted cash flow.  Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

- b. Categories of financial instruments

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

- c. Financial risk management objectives

The Group's major financial instruments included equity and debt investments, trade receivable, trade payables, bonds payable and borrowings. The Group's Corporate Treasury function manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

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

- 1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. There had been

no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

#### Foreign currency risk

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

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

#### Sensitivity analysis

The Group was mainly exposed to the USD and EUR.

The Group's sensitivity to a 1% increase and decrease in NTD (the functional currency) against the relevant foreign currencies represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items. The sensitivity analysis included external borrowings as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. Assuming a 1% movement in the levels of the NTD against the USD, the pre-tax profit for the years ended December 31, 2017 and 2016 would have changed by decreasing \$3,698 thousand and \$4,237 thousand, respectively. Assuming a 1% movement in the levels of the NTD against the EUR, losses before income tax for the years ended December 31, 2017 and 2016 would have changed by decreasing \$2,791 thousand and \$1,765 thousand, respectively.

#### Interest rate risk

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

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

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

### Sensitivity analysis

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

If interest rates had been raised by 0.125% higher and all other variables were held constant, the Group's pre-tax profit for the year ended December 31, 2017 and 2016 would decrease by \$15,875 thousand and \$16,621 thousand, respectively.

### 2) Credit risk

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

- The carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets; and
- The amount of contingent liabilities in relation to financial guarantees issued by the Group.

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

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of trade receivables. The Group's concentrations of credit risk regarding top 5 customers were 35% and 45% in total trade receivables as of December 31, 2017 and 2016, respectively. No other concentration of credit risk was observed.

### 3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Corporation had available unutilized short-term bank loan facilities of \$8,094,023 thousand and \$5,742,063 thousand, respectively.

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



	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Total</b>
<u>December 31, 2017</u>			
Non-derivative financial liabilities			
Borrowings	\$ 5,156,313	\$ 7,999,920	\$ 13,156,233
Non-interest bearing liabilities	<u>914,467</u>	<u>-</u>	<u>914,467</u>
	<u>\$ 6,070,780</u>	<u>\$ 7,999,920</u>	<u>\$ 14,070,700</u>
<u>December 31, 2016</u>			
Non-derivative financial liabilities			
Borrowings	\$ 6,918,381	\$ 4,978,194	\$ 11,896,575
Non-interest bearing liabilities	822,559	-	822,559
Short-term bills payable	300,000	-	300,000
Preferred stock liabilities	<u>583,188</u>	<u>-</u>	<u>583,188</u>
	<u>\$ 8,624,128</u>	<u>\$ 4,978,194</u>	<u>\$ 13,602,322</u>

### 30. TRANSACTIONS WITH RELATED PARTIES

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

#### a. Related Party Categories / Names

<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>2017</u>	<u>2016</u>
Net sales		
Others	<u>\$ 8,577</u>	<u>\$ 6,756</u>
Rental expenses (recorded under manufacturing or operation expenses)		
Others	<u>\$ 3,263</u>	<u>\$ 3,176</u>

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Accounts receivable		
Others	<u>\$ 1,828</u>	<u>\$ 3,144</u>
Other receivable (recorded under current assets)		
Others	<u>\$ 3,422</u>	<u>\$ 1,701</u>
Other payables (recorded under other current liabilities)		
Others	<u>\$ 32,574</u>	<u>\$ 57,312</u>

c. Compensation of key management personnel

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

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

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

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

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

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2017 and 2016 were as follows:

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

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

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

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

	December 31					
	2017			2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets of monetary items</u>						
USD	\$	14,834	29.76	\$	441,460	\$ 776,290
EUR		3,093	35.57		110,018	90,683
<u>Financial liabilities of monetary items</u>						
USD		27,179	29.76		808,847	1,203,473
EUR		11,009	35.57		391,590	269,234

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

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

### 35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities). (Table 3)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital. (Table 4)

- 5) Acquisition of individual real estate at costs of at least NT \$300 million or 20% of the paid-in capital. (Table 5)
  - 6) Disposal of individual real estate at prices of at least NT \$300 million or 20% of the paid-in capital. (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (None)
  - 8) Receivables from related parties amounting to at least NT \$100 million or 20% of the paid-in capital. (Table 6)
  - 9) Trading in derivative instruments. (Note 7)
  - 10) Intercompany relationships and significant intercompany transactions. (Table 7)
  - 11) Information on investees. (Table 8)
- b. Information on investments in mainland China
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 9)
  - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 7)
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 7)
    - c) The amount of property transactions and the amount of the resultant gains or losses. (Table 7)
    - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (Table 2)
    - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)
    - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (Table 7)

### 35. SEGMENT INFORMATION

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

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

#### a. Segment revenues and results

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

	Domestic	Asia	Adjustment and Elimination	Total
<u>For the Year ended December 31, 2017</u>				
Revenue from external customers	\$ 7,386,706	\$ 10,132,752	\$ -	\$ 17,519,458
Inter-segment revenue	<u>70,162</u>	<u>37,464</u>	<u>(107,626)</u>	<u>-</u>
Segment revenue	<u>\$ 7,456,868</u>	<u>\$ 10,170,216</u>	<u>\$ (107,626)</u>	<u>\$ 17,519,458</u>
Segment income	<u>\$ 986,456</u>	<u>\$ 523,924</u>		\$ 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>
<u>For the Year ended December 31, 2016</u>				
Revenue from external customers	\$ 7,061,831	\$ 9,448,847	\$ -	\$ 16,510,678
Inter-segment revenue	<u>71,831</u>	<u>40,827</u>	<u>(112,658)</u>	<u>-</u>
Segment revenue	<u>\$ 7,133,662</u>	<u>\$ 9,489,674</u>	<u>\$ (112,658)</u>	<u>\$ 16,510,678</u>
Segment income	<u>\$ 952,558</u>	<u>\$ 718,639</u>		\$ 1,671,197
Financial costs				(231,701)
Foreign exchange gain				(81,758)
Other gains and losses				<u>140,085</u>
Profit before tax				<u>\$ 1,497,823</u>

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

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

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

c. Revenue from major products and services

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Packaging materials	\$ 11,584,051	\$ 10,904,119
Beverages (included bottle filling and OEM)	4,869,552	4,718,929
Others	<u>1,065,855</u>	<u>887,630</u>
	<u>\$ 17,519,458</u>	<u>\$ 16,510,678</u>

d. Geographical information

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

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

	<b>Revenue from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Taiwan	\$ 7,386,706	\$ 7,061,831	\$ 5,154,456	\$ 4,795,182
China	5,923,846	5,923,745	7,995,302	8,562,665
Southeast Asia	4,088,624	3,439,741	5,626,312	5,630,568
Others	<u>120,282</u>	<u>85,361</u>	<u>389,050</u>	<u>401,883</u>
	<u>\$ 17,519,458</u>	<u>\$ 16,510,678</u>	<u>\$ 19,165,120</u>	<u>\$ 19,390,298</u>

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

e. Information on major customers

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

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

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

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

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount (Note 5)	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes 1 and 3)	Aggregate Financing Limits (Notes 2 and 3)
													Item	Value		
1	Samoa Hon Chuan	Hon Chuan China	Receivable from related parties	Yes	\$ 2,409,072 (US\$ 80,950)	\$ 1,711,795 (US\$ 57,520)	\$ 1,711,795 (US\$ 57,520)	2.79%-3.17%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 4,397,164	\$ 4,397,164
		Kai Gang	Receivable from related parties	Yes	74,400 (US\$ 2,500)	-	-	2.79%-2.85%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
		Samoa Hon Hsing	Receivable from related parties	Yes	15,773 (US\$ 530)	15,773 (US\$ 530)	15,773 (US\$ 530)	3.08%-3.17%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
		Hon Chuan Asia	Receivable from related parties	Yes	336,288 (US\$ 11,300)	-	-	2.79%-3.08%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
		Xiantao Hon Chuan	Receivable from related parties	Yes	59,520 (US\$ 2,000)	59,520 (US\$ 2,000)	59,520 (US\$ 2,000)	3.29%-3.67%	Short-term financing	-	Operating Capital	-	-	-	4,397,164	4,397,164
2	Kai Gang	Samoa Hon Chuan	Receivable from related parties	Yes	89,280 (US\$ 3,000)	89,280 (US\$ 3,000)	89,280 (US\$ 3,000)	2.87%-3.17%	Short-term financing	-	Operating Capital	-	-	-	2,114,129	2,114,129
		Hon Chuan China	Receivable from related parties	Yes	308,016 (US\$ 10,350)	308,016 (US\$ 10,350)	308,016 (US\$ 10,350)	2.79%-3.17%	Short-term financing	-	Operating Capital	-	-	-	2,114,129	2,114,129
		Qingxin Hon Chuan	Receivable from related parties	Yes	163,680 (US\$ 5,500)	-	-	3.29%-3.35%	Short-term financing	-	Operating Capital	-	-	-	2,114,129	2,114,129
3	Samoa Hon Hsing	Hon Chuan China	Receivable from related parties	Yes	416,640 (US\$ 14,000)	416,640 (US\$ 14,000)	416,640 (US\$ 14,000)	2.79%-3.17%	Short-term financing	-	Operating Capital	-	-	-	1,932,424	1,932,424
		Samoa Hon Chuan	Receivable from related parties	Yes	184,512 (US\$ 6,200)	-	-	2.79%-2.93%	Short-term financing	-	Operating Capital	-	-	-	1,932,434	1,932,424
4	Hon Chuan Asia	Hon Chuan Indonesia	Receivable from related parties	Yes	160,704 (US\$ 5,400)	119,040 (US\$ 4,000)	119,040 (US\$ 4,000)	3.29%-3.67%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
		Account receivable-related parties	Yes	48,953 (EUR\$ 1,376)	-	-	-	Business transaction	48,953 (EUR\$ 1,376)	-	-	-	-	48,953	2,749,145	
		Honly	Receivable from related parties	Yes	27,452 (US\$ 922)	27,452 (US\$ 922)	27,452 (US\$ 922)	3.29%-3.67%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
		Hon Chuan Vietnam	Receivable from related parties	Yes	89,280 (US\$ 3,000)	-	-	3.29%-3.37%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
		Account receivable-related parties	Yes	40,025 (EUR\$ 1,125)	-	-	-	Business transaction	40,025 (EUR\$ 1,125)	-	-	-	-	40,025	2,749,145	
		Samoa Honly	Receivable from related parties	Yes	14,880 (US\$ 500)	14,880 (US\$ 500)	14,880 (US\$ 500)	3.67%	Short-term financing	-	Operating Capital	-	-	-	2,749,145	2,749,145
5	Suzhou Hon Chuan	Chuzhou Hon Chuan	Receivable from related parties	Yes	97,922 (RMB 21,500)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
		Xiantao Hon Chuan	Receivable from related parties	Yes	54,654 (RMB 12,000)	13,663 (RMB 3,000)	13,663 (RMB 3,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
		Suzhou Hongxin	Receivable from related parties	Yes	68,317 (RMB 15,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
		Luooh Hon Chuan	Receivable from related parties	Yes	49,644 (RMB 10,900)	49,644 (RMB 10,900)	49,644 (RMB 10,900)	4.35%	Short-term financing	-	Operating Capital	-	-	-	430,491	430,491
6	Changsha Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	113,862 (RMB 25,000)	11,386 (RMB 2,500)	11,386 (RMB 2,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126
		Chuzhou Hon Chuan	Receivable from related parties	Yes	179,903 (RMB 39,500)	179,903 (RMB 39,500)	179,903 (RMB 39,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126
		Xiantao Hon Chuan	Receivable from related parties	Yes	81,981 (RMB 18,000)	75,149 (RMB 16,500)	75,149 (RMB 16,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126
		Suzhou Hongxin	Receivable from related parties	Yes	22,772 (RMB 5,000)	22,772 (RMB 5,000)	22,772 (RMB 5,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	398,126	398,126

(Continued)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount (Note 5)	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Notes 1 and 3)	Aggregate Financing Limits (Notes 2 and 3)
													Item	Value		
7	Zhongzhou Hon Chung	Qingxin Hon Chuan	Receivable from related parties	Yes	\$ 91,090 (RMB 20,000)	\$ 81,070 (RMB 17,800)	\$ 81,070 (RMB 17,800)	4.35%	Short-term financing	\$ -	Operating Capital	\$ -	-	\$ -	\$ 497,702	\$ 497,702
		Xiantao Hon Chuan	Receivable from related parties	Yes	40,990 (RMB 9,000)	40,990 (RMB 9,000)	40,990 (RMB 9,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	497,702	497,702
		Suzhou Honxin	Receivable from related parties	Yes	68,317 (RMB 15,000)	68,317 (RMB 15,000)	68,317 (RMB 15,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	497,702	497,702
8	Jinan Hon Chuan	Qingxin Hon Chuan	Receivable from related parties	Yes	31,881 (RMB 7,000)	-	-	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
		Xiantao Hon Chuan	Receivable from related parties	Yes	25,050 (RMB 5,500)	25,050 (RMB 5,500)	25,050 (RMB 5,500)	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
		Chuzhou Hon Chuan	Receivable from related parties	Yes	9,109 (RMB 2,000)	9,109 (RMB 2,000)	9,109 (RMB 2,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
		Suzhou Hon Chung	Receivable from related parties	Yes	9,109 (RMB 2,000)	9,109 (RMB 2,000)	9,109 (RMB 2,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	519,899	519,899
9	Taiyuan Hon Chuan	Xiantao Hon Chuan	Receivable from related parties	Yes	132,080 (RMB 29,000)	91,090 (RMB 20,000)	91,090 (RMB 20,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	608,978	608,978
		Chuzhou Hon Chuan	Receivable from related parties	Yes	27,327 (RMB 6,000)	27,327 (RMB 6,000)	27,327 (RMB 6,000)	4.35%	Short-term financing	-	Operating Capital	-	-	-	608,978	608,978
10	Samoa Honly	Cambodia Honly	Receivable from related parties	Yes	90,768 (US\$ 3,050)	90,768 (US\$ 3,050)	90,768 (US\$ 3,050)	-	Short-term financing	-	Operating Capital	-	-	-	120,100	120,100

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

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

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

Note 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.

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

(Concluded)



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

ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of Dollars, Unless Otherwise Specified)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Notes 1 and 3)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Notes 2 and 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given On behalf of Companies in Mainland China	
		Name	Relationship											
0	The Corporation	Samoa Hon Chuan	(Note 4)	\$ 6,003,610	\$ 2,916,480 (US\$ 98,000)	\$ 2,916,480 (US\$ 98,000)	\$ 1,621,920 (US\$ 54,500)	\$ -	24	\$ 12,007,220	Y	-	-	
		Hon Chuan China	(Note 4)	6,003,610	3,868,800 (US\$ 130,000)	3,720,000 (US\$ 125,000)	3,720,000 (US\$ 125,000)	-	31	12,007,220	Y	-	-	
		Hon Chuan Asia	(Note 4)	6,003,610	1,428,480 (US\$ 48,000)	1,190,400 (US\$ 40,000)	397,167 (US\$ 13,346)	-	10	12,007,220	Y	-	-	
		Qingxin Hon Chuan	(Note 4)	6,003,610	446,400 (US\$ 15,000)	446,400 (US\$ 15,000)	320,373 (US\$ 10,765)	-	4	12,007,220	Y	-	Y	
		Taiyuan Hon Chuan	(Note 4)	6,003,610	238,080 (US\$ 8,000)	238,080 (US\$ 8,000)	59,520 (US\$ 2,000)	-	2	12,007,220	Y	-	Y	
		Samoa Hon Hsing	(Note 4)	6,003,610	565,440 (US\$ 19,000)	565,440 (US\$ 19,000)	416,640 (US\$ 14,000)	-	5	12,007,220	Y	-	-	
		Kai Gang	(Note 4)	6,003,610	446,400 (US\$ 15,000)	-	-	-	-	-	12,007,220	Y	-	-
		Suzhou Hongxin	(Note 4)	6,003,610	89,280 (US\$ 3,000)	-	-	-	-	-	12,007,220	Y	-	Y
		Jinan Hon Chuan	(Note 4)	6,003,610	297,600 (US\$ 10,000)	-	-	-	-	-	12,007,220	Y	-	Y
		Xiantao Hon Chuan	(Note 4)	6,003,610	312,182 (US\$ 10,490)	133,622 (US\$ 4,490)	-	-	-	1	12,007,220	Y	-	Y
		Qingxin Hon Chuan (Note 5)	(Note 4)	6,003,610	178,262 (US\$ 5,990)	178,262 (US\$ 5,990)	38,486 (US\$ 1,293)	-	-	1	12,007,220	Y	-	Y
		Zangzhou Hon Chuan (Note 5)	(Note 4)									Y	-	Y
		Chuzhou Hon Chuan (Note 5)	(Note 4)									Y	-	Y
		Kai Gang (Note 6)	(Note 4)	6,003,610	297,600 (US\$ 10,000)	297,600 (US\$ 10,000)	119,692 (US\$ 4,022)	-	-	2	12,007,220	Y	-	Y
		Suzhou Hongxin (Note 6)	(Note 4)									Y	-	Y
		Qingxin Hon Chuan (Note 6)	(Note 4)									Y	-	Y
		Xiantao Hon Chuan (Note 6)	(Note 4)									Y	-	Y
Xiantao Hon Chuan (Note 7)	(Note 4)	6,003,610	297,600 (US\$ 10,000)	297,600 (US\$ 10,000)	-	-	-	2	12,007,220	Y	-	Y		
Jinan Hon Chuan (Note 7)	(Note 4)									Y	-	Y		
Chuzhou Hon Chuan (Note 7)	(Note 4)									Y	-	Y		
1	Hon Chuan Thailand	Hon Fu Thailand	(Note 4)	6,003,610	55,056 (THB 60,000)	45,880 (THB 50,000)	5,276 (THB 5,750)	-	-	12,007,220	-	-	-	

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

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

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

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

Note 5: Loan facilities share with these three companies.

Note 6: Loan facilities share with these four companies.

Note 7: Loan facilities share with these three companies.

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

**TABLE 3****TAIWAN HON CHUAN ENTERPRISE CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2017****(In Thousands of Dollars, Unless Otherwise Specified)**

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	DECEMBER 31, 2017			
				Shares	Carrying Value (Note 1)	Percentage of Ownership	Fair Value (Note 1)
The Corporation	<u>Capital Stock</u> Globaltec Technology Partner Venture Capital Corp.	-	Financial assets measured at cost - noncurrent	39,143	\$ 447	2	\$ 447
	Lightel Technologies Inc.	-	Financial assets measured at cost - noncurrent	551,051	8,645	2	8,645
	CDIB CME Fund Ltd.	-	Financial assets measured at cost - noncurrent	3,000,000	30,000	2	30,000
	<u>Corporate Bonds</u> Adimmune Corporation	-	Financial instruments at fair value through profit or loss - current	300,000	31,935	-	31,935
	Samoa Hon Chuan	<u>Corporate Bonds</u> Garden Fresh	-	Debt investments with no active market - current	-	30,971 (US\$ 1,041)	-
Hon Chuan Thailand	<u>Capital Stock</u> Ichitan Company	-	Available-for-sale financial assets - noncurrent	1,000,000	8,350 (THB 9,100)	0.08	8,350 (THB 9,100)

Note 1: The fair value of the securities held was based on cost as established at the date of acquisition.

Note 2: Information on investees, please see Tables 8 and 9.

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

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

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

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

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

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

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

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

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

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

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

Note: The amount is according to the contract.

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

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
 DECEMBER 31, 2017  
 (In Thousands of Dollars, Unless Otherwise Specified)

Company Name	Related Party	Relationship	Ending Balance (Note 2)	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
Samoa Hon Chuan	Hon Chuan China	(Note 1)	\$ 1,711,795 (US\$ 57,520)	-	\$ -	Depend on the operation	\$ -	\$ -
Kai Gang	Hon Chuan China	(Note 1)	308,016 (US\$ 10,350)	-	-	Depend on the operation	-	-
Samoa Hon Hsing	Hon Chuan China	(Note 1)	416,640 (US\$ 14,000)	-	-	Depend on the operation	-	-
Hon Chuan Asia	Hon Chuan Indonesia	(Note 1)	119,040 (US\$ 4,000)	-	-	Depend on the operation	-	-
Changsha Hon Chuan	Chuzhou Hon Chuan	(Note 1)	179,903 (RMB 39,500)	-	-	Depend on the operation	-	-

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

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

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

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			% to Total Sales or Assets
				Financial Statement Account	Amount	Payment Terms	
0	The Corporation	Hon Chuan Asia and its subsidiaries	1	Sales	\$ 59,650	T/T 180 days	-
		Hon Chuan Asia and its subsidiaries	1	Purchase	31,941	T/T 180 days	-
		Hon Chuan Asia and its subsidiaries	1	Accounts Receivable	13,235	T/T 180 days	-
		Hon Chuan China and its subsidiaries	1	Sales	6,265	T/T 180 days	-
		Hon Chuan China and its subsidiaries	1	Purchase	5,358	T/T 180 days	-
		Hon Chuan Africa and its subsidiaries	1	Sales	4,248	T/T 180 days	-
1	Samoa Hon Chuan	Hon Chuan China and its subsidiaries	3	Receivable from related parties	1,787,088	Depend on working capital sufficiency	6
		Hon Chuan China and its subsidiaries	3	Interest revenue	54,005	Depend on working capital sufficiency	-
		Hon Chuan China and its subsidiaries	3	Interest receivable	12,904	Depend on working capital sufficiency	-
		Hon Chuan China and its subsidiaries	3	Payables to related parties	89,280	Depend on working capital sufficiency	-
		Hon Chuan Africa	3	Sales	9,363	T/T 180 days	-
2	Hon Chuan Asia	Among Hon Chuan Asia's subsidiaries	3	Receivable from related parties	161,372	Depend on working capital sufficiency	1
		Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	161,391	T/T 180 days	1
		Among Hon Chuan Asia's subsidiaries	3	Accounts Payable	11,830	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	83,255	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Sales	148,453	T/T 180 days	1
3	Hon Chuan Thailand	Among Hon Chuan Asia's subsidiaries	3	Sales	4,635	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	121,004	T/T 180 days	1
		Among Hon Chuan Asia's subsidiaries	3	Accounts Payable	25,596	T/T 180 days	-
4	Hon Fu Thailand	Among Hon Chuan Asia's subsidiaries	3	Sales	4,375	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	254	T/T 180 days	-
5	Hon Chuan Malaysia	Among Hon Chuan Asia's subsidiaries	3	Sales	10,919	T/T 180 days	-
6	Hon Chuan Indonesia	Among Hon Chuan Asia's subsidiaries	3	Sales	21	T/T 180 days	-
7	Hon Chuan Vietnam	Among Hon Chuan Asia's subsidiaries	3	Sales	16,693	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	14,124	T/T 180 days	-
8	Samoa Honly	Among Hon Chuan Asia's subsidiaries	3	Accounts receivable	57,646	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Receivable from related parties	90,768	Depend on working capital sufficiency	-
		Among Hon Chuan Asia's subsidiaries	3	Sales	13,305	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Accounts payable	48,281	T/T 180 days	-
		Among Hon Chuan Asia's subsidiaries	3	Other receivables	104,257	Depend on working capital sufficiency	-
		Among Hon Chuan Asia's subsidiaries	3	Purchase	54,097	T/T 180 days	-

(Continued)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			% to Total Sales or Assets
				Financial Statement Account	Amount	Payment Terms	
9	Hon Shi Samoa	Among Hon Chuan Africa's subsidiaries	3	Other receivables	\$ 49,405	Depend on working capital sufficiency	-
10	Shimada	Among Hon Chuan Africa's subsidiaries Among Hon Chuan Africa's subsidiaries	3 3	Sales Purchase	9,834 400	T/T 180 days T/T 180 days	- -
11	Hon Chuan China	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3	Payable to related parties Interest expense	724,953 18,275	Depend on working capital sufficiency Depend on working capital sufficiency	3 -
12	Suzhou Hon Chuan	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3 3 3 3 3 3 3 3 3	Receivable from related parties Accounts receivable Sales Purchase Account payable Sales of property, plant and equipment Purchase of property, plant and equipment Other income Manufacturing expense	63,307 32,868 67,705 5,187 40,936 20,431 34,673 26,994 23,039	Depend on working capital sufficiency T/T 180 days T/T 180 days T/T 180 days T/T 180 days Depend on working capital sufficiency Depend on working capital sufficiency Depend on working capital sufficiency Depend on working capital sufficiency	- - - - - - - - -
13	Suzhou Hongxin	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3 3 3 3	Purchase Other payables Payable to related parties Other receivables Sales	5,959 27,277 100,199 18,019 56	T/T 180 days Depend on working capital sufficiency Depend on working capital sufficiency Depend on working capital sufficiency T/T 180 days	- - - - -
14	Jinan Hon Chuan	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3 3 3	Sales Purchase Purchase of property, plant and equipment Receivable from related parties	40,382 5,596 60,477 34,159	T/T 180 days T/T 180 days Depend on working capital sufficiency Depend on working capital sufficiency	- - - -
15	Taiyuan Hon Chuan	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3 3	Purchase Sales Receivable from related parties	4,815 1,218 118,417	T/T 180 days T/T 180 days Depend on working capital sufficiency	- - -
16	Changsha Hon Chuan	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3 3	Receivable from related parties Purchase Interest revenue	266,438 1,283 13,105	Depend on working capital sufficiency T/T 180 days Depend on working capital sufficiency	1 - -
17	Qingxin Hon Chuan	Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries Among Hon Chuan China's subsidiaries	3 3 3	Purchase Sales Payable to related parties	1,792 16,208 81,070	T/T 180 days T/T 180 days Depend on working capital sufficiency	- - -
18	Zhangzhou Hon Chuan	Among Hon Chuan China's subsidiaries	3	Receivable from related parties	40,991	Depend on working capital sufficiency	-

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

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

(Concluded)

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

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of DECEMBER 31, 2017			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 4)	Note
				December 31, 2017	December 31, 2016	Shares	%	Carrying Amount (Note 4)			
The Corporation	Samoa Hon Chuan	Samoa	Overseas reinvested holding company and international trade	\$ 10,463,071	\$ 9,194,798	340,472,818	100	\$ 12,124,517	\$ 443,554	\$ 443,554	Subsidiary
Samoa Hon Chuan	Hon Chuan China	Cayman Island	Overseas reinvested holding company	3,888,620 (US\$ 130,666)	3,338,060 (US\$ 112,166)	109,730,576	94.17	4,501,111 (US\$ 151,247)	201,338 (US\$ 6,616)	(Note 1)	Indirect subsidiary
	Hon Chuan Asia	Cayman Island	Overseas reinvested holding company and international trade	5,830,192 (US\$ 195,907)	5,157,616 (US\$ 173,307)	194,192,505	100	7,042,525 (US\$ 236,644)	244,065 (US\$ 8,020)	(Note 1)	Indirect subsidiary
	Hon Chuan Africa	Samoa	Overseas reinvested holding company and international trade	388,189 (US\$ 13,044)	325,693 (US\$ 10,944)	13,044,118	100	428,395 (US\$ 14,395)	14,486 (US\$ 476)	(Note 1)	Indirect subsidiary
	Paeon Company	Seychelles	Overseas reinvested holding company	27,915 (US\$ 938)	27,915 (US\$ 938)	-	23.08	22,814 (US\$ 767)	(16,007) (US\$ 526)	(Note 1)	Investments accounted for using equity method
Hon Chuan China	Kai Gang	Hong Kong	Overseas reinvested holding company	4,537,210 (US\$ 152,460)	4,180,090 (US\$ 140,460)	1,191,155,396	100	5,708,147 (US\$ 191,806)	237,126 (US\$ 7,792)	(Note 1)	Indirect subsidiary
	Samoa Hon Hsing	Samoa	Overseas reinvested holding company	3,749,939 (US\$ 126,006)	3,749,939 (US\$ 126,006)	126,006,000	100	4,887,009 (US\$ 164,214)	166,280 (US\$ 5,464)	(Note 1)	Indirect subsidiary
Hon Chuan Asia	Hon Chuan Thailand	Thailand	Manufacture and sale of plastic caps and PET bottles	1,234,980 (US\$ 41,498)	1,234,980 (US\$ 41,498)	137,000,000	100	2,088,765 (US\$ 70,187)	145,891 (US\$ 4,794)	(Note 1)	Indirect subsidiary
	Hon Chuan Indonesia	Indonesia	Manufacture and sale of plastic caps, PET bottles and beverage filling OEM service	2,580,847 (US\$ 86,722)	2,500,911 (US\$ 84,036)	86,670,329	100	2,296,311 (US\$ 77,161)	66,950 (US\$ 2,200)	(Note 1)	Indirect subsidiary
	Hon Chuan Vietnam	Vietnam	Manufacture and sale of plastic caps and PET bottles	892,800 (US\$ 30,000)	744,000 (US\$ 25,000)	-	100	1,035,648 (US\$ 34,800)	69,568 (US\$ 2,286)	(Note 1)	Indirect subsidiary
	Hon Chuan Malaysia	Malaysia	Manufacture and sale of plastic caps and PET bottles	776,706 (US\$ 26,099)	776,706 (US\$ 26,099)	81,259,900	100	699,300 (US\$ 23,498)	15,703 (US\$ 516)	(Note 1)	Indirect subsidiary
	Hon Chuan Myanmar	Myanmar	Manufacture and sale of plastic caps and PET bottles	707,871 (US\$ 23,786)	707,871 (US\$ 23,786)	89,524,394	70	612,401 (US\$ 20,578)	13,755 (US\$ 452)	(Note 1)	Indirect subsidiary
	Samoa Honly	Samoa	Overseas reinvested holding company and international trade	265,459 (US\$ 8,920)	208,915 (US\$ 7,020)	8,920,000	60	179,542 (US\$ 6,033)	(62,781) (US\$ 2,063)	(Note 1)	Indirect subsidiary
	Honly	Cambodia	Overseas reinvested holding company and international trade	26,248 (US\$ 882)	26,248 (US\$ 882)	490	49	26,754 (US\$ 899)	1,552 (US\$ 51)	(Note 1)	Indirect subsidiary
	Hon Hua	Samoa	Overseas reinvested holding company and international trade	107,136 (US\$ 3,600)	-	3,600,000	60	105,618 (US\$ 3,549)	(2,556) (US\$ 84)	(Note 1)	Indirect subsidiary
Hon Chuan Thailand	Hon Fu Thailand	Thailand	Manufacture and sale of plastic caps, labels, pp bottles and PET bottles	116,225 (THB 126,662)	116,225 (THB 126,662)	12,666,225	65	194,316 (THB 211,768)	(618) (THB 685)	(Note 1)	Indirect subsidiary
Samoa Honly	Cambodia Honly	Cambodia	Beverage filling service	178,560 (US\$ 6,000)	178,560 (US\$ 6,000)	6,000,000	100	40,890 (US\$ 1,374)	(64,820) (US\$ 2,130)	(Note 1)	Indirect subsidiary
Hon Chuan Africa	Hon Shi Samoa	Samoa	Overseas reinvested holding company and international trade	388,189 (US\$ 13,044)	325,693 (US\$ 10,944)	3,138,790	60	417,324 (US\$ 14,023)	22,185 (US\$ 729)	(Note 1)	Indirect subsidiary
Hon Shi Samoa	Shimada	Africa	Manufacture and sales of plastic caps PET bottles and LDPE membrane	27,052 (US\$ 909)	27,052 (US\$ 909)	-	100	79,281 (US\$ 2,664)	24,954 (US\$ 820)	(Note 1)	Indirect subsidiary
	Hon Shi Mozambique	Africa	Manufacture and sales of plastic caps	72,079 (US\$ 2,422)	24,463 (US\$ 822)	1,600,000	100	79,400 (US\$ 2,668)	700 (US\$ 23)	(Note 1)	Indirect subsidiary
Hon Hua	Uni Tun	Myanmar	Bottled water filling	3,125 (US\$ 105)	-	-	100	684 (US\$ 23)	(2,465) (US\$ 81)	(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, 2017.

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

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



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

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of Dollars, Unless Otherwise Specified)

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

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

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

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

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

Note 4: The foreign-currency amounts were translated into New Taiwan dollars at the exchange rates prevailing on December 31, 2017.

Note 5: Significant intercompany accounts and transactions have been eliminated, except those of Ningbo Company, a company that has been liquidated in May 2017.

