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台灣福興工業股份有限公司

TAIWAN FU HSING INDUSTRIAL CO., LTD.



2017

ANNUAL REPORT

Printed Date: April 18, 2018

TWSE Website: <http://www.twse.com.tw>

Taiwan Fu Hsing Website: <http://www.fuhsing.com.tw>

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2. Company and factory address and phone number

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5. Listed overseas securities for trading: None

6. Company Website: [www.fuhsing.com.tw](http://www.fuhsing.com.tw)

## CONTENTS

I. Letter to Shareholders .....	5
II. Company Profile .....	9
(1) Date of Establishment .....	9
(2) Milestones .....	9
III. Corporate Governance Report .....	12
(1) Organization System .....	12
(2) Information on the company's directors, supervisors, president, vice president, Director, and the superintendents of all the company's divisions and branch units .....	13
(3) Remuneration paid to directors, supervisors, president and vice president in current fiscal year .....	23
(4) Corporate governance practices .....	32
(5) Information on certifying accountants .....	57
(6) Information on certifying accountant's professional fees .....	57
(7) Information on the change of certifying accountants in the most two recent fiscal years and any subsequent interim period.....	57
(8) Whether the company's chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm .....	57
(9) Change of shareholding for directors, supervisors, manager, and major shareholders .....	58
(10) Information on the top ten shareholders and their interrelationships .....	59
(11) Composite share holding percentage .....	60
IV. Capital Raising Activities.....	61
(1) Source of capital stock .....	61
(2) Shareholding structure .....	61
(3) Dispersion of shareholding.....	62
(4) Name list of major shareholders.....	62
(5) Share prices, net worth, earnings, dividends, and other related information in the most recent two fiscal years .....	63
(6) Dividend policy and the implementation.....	63
(7) Effects of proposed stock dividend distribution to the company's operation performance and earnings per share .....	64
(8) Employee's bonuses and remunerations paid to directors and supervisors .....	64
(9) Share buyback situation. ....	64
(10) Issuance of corporate bond.....	64
(11) Issuance of preferred stock .....	64
(12) Issuance of global depository receipt. ....	64
(13) Employee stock option.....	64
(14) Mergers or acquisitions, and issuance of new shares due to acquisition of shares of other companies.....	64
(15) The implementation of capital allocation plan:.....	65
V. The Operations .....	66

(1) Operation content.....	66
(2) Market and the Production-Marketing Situation .....	71
(3) Number of employees, the average years of services, average age, and education analysis over the past two years and during the current fiscal year until the date of printing of this annual report.....	75
(4) Expenditures on environmental protection .....	76
(5) Work environment and measures adopted to protect employee's safety .....	77
(6) Labor relations .....	79
(7) Important contracts. ....	84
6. Financial Report .....	85
(1) Condensed Balance Sheets and Statements of Income .....	85
(2) Financial analysis.....	90
(3) Supervisor's report on the most recent fiscal year's financial report .....	96
(4) Financial statements of the most recent fiscal year: please refer to Attachment I. ....	97
(5) The CPA certified consolidated financial statements of the most recent fiscal year: please refer to Attachment II.....	97
(6) In the most fiscal year and up until the printing date of this annual report, should the company and its affiliated companies have financial difficulties; the influences on the company's financial situation should be disclosed .....	97
VII Financial situation and discussions and analysis on the year's operation results and the risk management.....	98
1. Two year comparisons on financial situation .....	98
2. Two year comparison on the financial performance.....	99
3. Review and analysis Table on Cash Flows.....	100
4. Influences of major capital expenditure plan in the recent fiscal year: .....	100
5. Main reason for the profit or loss of its invested company in the current year, and the improvement plan and investment plan in the future year: .....	100
6 Risk management & assessment .....	101
7. Other important matters. ....	105
VIII. Special Notes .....	106
(1) Disclosure regarding affiliated companies .....	106
(2) Private placement of securities.....	115
(3) The holding or disposal of shares in the company by the company's subsidiaries during the most recent fiscal year and during the current fiscal year up to the date of printing of the annual report.....	115
(4) Other matters that require additional explanation.....	115
IX. Situations Listed in Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act that Might Materially Affect Shareholder's Equity or The Company's Stock Price .....	115

## I. Letter to Shareholders

To the Shareholders of Fu Hsing Industrial Co., Ltd.:

Taiwan Fu Hsing Industrial Co., Ltd., ever since its establishment in 1957, puts all the efforts into the business, and finally it achieved the important 60-years milestone in 2017. The scarce achievement was resulted from all the hard works by all Fu Hsing employees, domestically and internationally, as well as our shareholders' support and encouragement. Therefore, we would like to share the glory to all the employees and shareholders.

Looking back at the past year, due to United States' weak dollar policy, New Taiwan Dollar hugely appreciated 7.7% in just a year. As an indirect effect, the price of international bulk metal rose sharply. The pricing of our main materials, including metals like copper, zinc, nickel and aluminum, also increased over 20%. This was a serious challenge to our operations. Our 2017 audited consolidated revenue was 8 billion, which declined about 4.6% (or 390 million dollars), comparing to our 2016 revenue. The consolidated gross margin also declined 4.7% to 20.5% in 2017. The 2017 EPS after tax was 2.92 dollar per share. Despite the touch macro conditions, all Fu Hsing employees still stuck to their posts. Hence, we had good achievements no matter in maintaining the relationship with existing customers, finding new customers, developing new products or enhancing our manufacturing efficiency.

In the past year, our achievements also included:

- 82 domestic and international patents in total
- Sales of electronic locks grew 142%
- "Electronic auxiliary lock with external knob" was appraised in the 26<sup>th</sup> "Taiwan Excellence Award"
- Received "Corporate Culture Award" in the 13<sup>th</sup> Art and Business Awards from Ministry of Culture

**The Company's 2017 operation results are stated as the following:**

**(1) Review the implementation of Business Plan**

Unit: NTD1,000

List	2017	2016	Increase (Decrease)	Increase (Decrease) by %
Revenues (Net)	\$8,006,401	\$8,398,732	\$-392,331	-5%
Operating Profit	808,364	1,106,794	-298,430	-27%
NIBT (Net Income Before Tax)	738,598	1,160,596	-421,998	-36%
NIAT (Net Income After Tax)	549,976	819,739	-269,763	-33%

(2) **Review of Budget Implementation**

Not available. Fu Hsing did not disclose Financial Forecast for the year of 2017.

(3) **Analysis of Receipt, Expenditure, and Profitability**

List		2017	2016
Financial Structure	Debt to Total Asset (%)	31.14	30.82
	Long Fund to Fixed Assets, Plants, and Facilities (%)	257.53	328.14
Business Solvency	Current Ratio (%)	236.93	262.70
	Quick Ratio (%)	187.19	218.08
	Interest Protection Multiples	530.46	1,852.03
Profitability	Return on Assets (%)	7.32	10.99
	Return on Equity (%)	10.58	15.81
	NIBT to Paid In Capital (%)	39.19	61.59
	Net Profit Ratio (%)	6.87	9.76
	Earnings Per Share (NTD)	2.92	4.35

(4) **Research & Development Works**

The development of new products and technology has always been one important operational direction for Fu Hsing. In 2017, besides continuously promoting our R&D speed, we've been acting aggressively to construct a more complete and more diversified electronic lock product line. Besides developing IoT door locks to expand into the market of intelligent home, we also extend horizontally to further integrate our products with computer software and mobile phone app, trying to connect door control system with the most updated communication technology. In the light of existing key pad type and touch screen type electronic door lock product, we also continue to work on the improvement of lock appearances and electronic functions. It is hoped that during the process to integrate new/old products and soft-/hard-ware, Fu Hsing is able to continue accumulating its ability in cross-industrial development.

Besides the development of electronic locks, we still maintain the pace in developing traditional door locks. In 2017, Fu Hsing, as a member, actively participated in activities held by the Builders Hardware Manufacturers Association (BHMA) in the U.S. and continued to keep an eye on the changes of U.S. regulations in order to develop products. In the breadth of products, Fu Hsing, through various channels, collected and analyzed the most updated lock appearance design trend in order to launch exterior parts that are able to meet the market demand timely and help our customers grasp the precious business opportunities when the construction industry booms.

For the coming year, our main development direction will focus on:

1. Re-planning of the factory production flow

In the beginning of 2018, the Company acquired an about 300 ping land with factory. The new asset is quite close to our Kangshan factory. With well-planning, the whole factory layout will be more complete. In addition, the new Tong Hsing factory in the Benzhou Industrial Zone is planned to start production at the end of this year. After that, the Company will carry out a complete review and re-plan on the Company's production flow, which will also take our zinc alloy die casting and surface processing lines into consideration. We expect to well-utilize every inch of the land and establish the most efficient plant layout.

2. Establishing a highly-efficient solar energy generation system in response to green power generation to protect the environment

In response to the government's environment policy on green energy generation, we have planned to build highly efficient roof-top solar energy generation systems on our new Tong Hsing plant in Kaohsiung Benzhou Industrial Park, as well as in subsidiaries, Fortress Industrial Co., Ltd. in Changhua, and ARCTEK Industrial Co., Ltd. We would like to carry out our social responsibility as an enterprise that loves the land and values environmental protection.

3. Never stop on social welfare

It is Fu Hsing's honor to receive the Corporate Culture Award in the 13<sup>th</sup> Art and Business Awards held by the Ministry of Culture. The purpose of this Art and Business Awards is to honor business's devotions to maintain Taiwan's art and culture and create a superior cultural environment. This award tells us that our efforts in supporting art and cultural activities are seen and recognized by the public. In addition, through Taiwan Fu Hsing Culture and Education Foundation, the scale of Fu Hsing Cup tennis competition gradually enlarged. We have more participants and competing teams year over year. Today, Fu Hsing Cup has become a nation-renowned game. We are happy about the outcome and yet also feel the need to bear heavier responsibility. Therefore, we shall further encourage ourselves to level up the Fu Hsing Cup and live up to all's expectations.

4. Continuously investing in researching and developing new products

The honor of being appraised on the 26<sup>th</sup> Taiwan Excellence Award by the Ministry of Economic Affairs is also the most positive recognition for us to prove our strategy of the continuous investment in researching and developing new products. The Company expects to submit the application to over 60 domestic and international patents. In addition, besides patents on product's mechanical structure, we also plan to expand the application to product's manufacturing method. It is hoped the claim on intellectual property right is able to

eliminate in-appropriate acts such as malicious plagiarism, and hence are able to protect the Company and our customers' rights.

IMF estimated the global economic growth rate in 2018 to be around 3.9%, which is the highest growth rate since 2011. However, it also warns to watch the impacts resulted from US-China trade war and some geopolitics related variables such as Syria war. While taking these issues into consideration, as well as currency risks caused by strong NT dollars and rising bulk metal price, we must pay close attention to the development of international political and economic situation later on and walk steadily but carefully to sally out the changeable situation in 2018.

Chairman:

LIN, Jui-Chang



## II. Company Profile

### (1) Date of Establishment

i. Registration Date of Establishment:

November 23<sup>rd</sup>, 1957

ii. Company and Factory Address and Phone Number:

Headquarter (Factory):

No.88, Yucai Rd., Benzhou Vil., Kangshan Dist., Kaohsiung City

Telephone No.: +886 7 6225151

Taipei Contact Office:

8/F, No.23, Ln. 155, Sec. 3, Beishen Rd., Shenkeng Dist., New Taipei City

Telephone: +886 2 26643030

Taichung Contact Office:

No.310, Hezuo ST., South Dist., Taichung City

Telephone: +886 4 22859965

iii. Business Scope:

A. CA04010 Metal Surface Treating

B. CA02070 Lock Manufacturing

C. CA02990 Other Fabricated Metal Products Manufacturing Not Elsewhere Classified

D. CD01030 Automobiles and Parts Manufacturing

E. CD01040 Motor Vehicles and Parts Manufacturing

F. F214030 Retail Sale of Motor Vehicle Parts and Supplies

G. CQ01010 Die Manufacturing

H. F206030 Retail Sale of Die

I. F401021 Restrained Telecom Radio Frequency Equipments and Materials Import

J. CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing

K. CA02080 Metal Forging Industry

L. CA01090 Aluminum Casting Manufacturing

M. CA01990 Other Non-Ferrous Metal Basics Industries

N. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

### (2) Milestones

Time	Course of Change and Development
1957~1966	<ul style="list-style-type: none"><li>•Total capital was NT100,000 dollars at the time of establishment. The factory was established in Sanmin District, Kaohsiung City to produce bicycle parts for domestic market. The business reputation was good.</li><li>•Due to the prosperous development of domestic motorcycle industry, the company's capital was increased to NT500,000 dollars and started to produce motorcycle parts for major domestic motorcycle manufacturers. The business had good fame island-wide.</li></ul>
1967~1976	<ul style="list-style-type: none"><li>•Devoted to new products' research and development and added new equipment and facilities. Started to produce all different kinds of office swivel chairs and folding chairs. Fu Hsing injected a new blood to domestic chair products market and pushed domestic office chair industry to step into a new milestone.</li><li>•With thriving business, the old factory required further expansion. Thus, for long term development, the whole factory was moved to Kangshan Township in Kaohsiung County. The plant site was expanded to have 16,529 square meters and company capital was increased to NT10,000,000 dollars.</li></ul>

1977~1986	<ul style="list-style-type: none"> <li>•For connecting the overall operation, the Financial Dept. and Operation Dept. were also moved to Kangshan Township. Fu Hsing's operation started to boom after consolidation of departments from different areas.</li> <li>•Fu Hsing Founder and also the Chairman, LIN, Huo-Mu, passed away. The Board of Directors resolved to elect Mr. LIN, Jui-Chang to be the successor. Chairman LIN devoted to product quality and management. With all's efforts, Fu Hsing product had good and stable quality and was accredited as A+ Quality Factory by the Ministry of Economic Affairs and evaluated as Taiwan Good Supplier by CNFI and Ministry of Economic Affairs.</li> <li>•In order to integrate corporate resources, set up systematic management system, and enhance overall efficiency, Fu Hsing introduced in E-Computerization system in full scale. 14 management systems were mapped out, and more IT personnel were trained. Fu Hsing officially stepped into computerized management.</li> <li>•With renowned good product quality, Fu Hsing was approved as one of the CNS certified factories by the Ministry of Economic Affairs.</li> </ul>
1987~1996	<ul style="list-style-type: none"> <li>•For enhancing all employees' awareness in product quality and quality improvement, Fu Hsing started to advocate humane management, QCC (Quality Control Circle), improvement proposal system, and introduced CWQC system to solidify the company's quality control system.</li> <li>•Invented electronic key-cards and obtained various domestic and overseas patents.</li> <li>•Was awarded the honor of "Good Company of the Top Ten Product Research and Development" by the Chinese National Federation of Industries.</li> <li>•Received the honor of the 1<sup>st</sup> Industrial Technology Advancement Award.</li> <li>•Fu Hsing Chairman was elected as the 15<sup>th</sup> Model of Young Entrepreneur.</li> <li>•Received the 2<sup>nd</sup> SMEA award.</li> <li>•Fu Hsing products were awarded the mark of Taiwan Excellence.</li> <li>•On March 15<sup>th</sup>, 1995, Fu Hsing went public. Door Closer Group was established. °</li> </ul>
1997~2006	<ul style="list-style-type: none"> <li>•Obtained ISO-9002 certification from the Bureau of Merchandise Inspection.</li> <li>•Received the 7<sup>th</sup> Industrial Technology Development Award from the Ministry of Economic Affairs.</li> <li>•Implemented employee bonus and employee stock policy.</li> <li>•China's re-invested company Ji Jing Institution (Shanghai) Co., Ltd. was re-named to Fu Hsing Industrial (Shanghai) Co., Ltd..</li> <li>•Consolidated 100% owned subsidiary Formflex Enterprise Co., Ltd.</li> <li>•Invested in Ziyong Hardware Products (Taichang) Co., Ltd. in China.</li> <li>•Formed strategic alliance with Ingersoll Rand Group from the United States.</li> <li>•ERP system was officially launched to achieve a more efficient integration on corporate resources and information system.</li> </ul>
2007	<ul style="list-style-type: none"> <li>•E-Management: Introduced in BI (Business Intelligent) system to connect with the company's ERP database for prompter and comprehensive data analysis.</li> <li>•E-Pass system was introduced into the Mold Center to enhance the accuracy of production cost calculation and promote the overall competitiveness.</li> <li>•Invested in China and set up ChangShu Fortune Packing Material Co., Ltd. with total investment amount of US 204,000 dollars.</li> </ul>
2008	<ul style="list-style-type: none"> <li>•ERP system was fully launched in Fu Hsing's Changhua Factory, as well as in Formflex Metal Industrial (Changshu) Co., Ltd. and Ziyong Hardware Products (Taichang) Co., Ltd. in China to further enhance the overall work efficiency and integrate corporate resources and information system.</li> <li>•Enlarged the scale of China investment project and increased the capital of Formflex Metal Industrial (Changshu) Co., Ltd. to US 9,000,000 dollars. The actual amount wired to China up to the end of 2008 was US 14,000,000 dollars.</li> </ul>
2009	<ul style="list-style-type: none"> <li>•Acquired ARCTEK Industrial Co., Ltd. to strengthen the industry's horizontal integration, increase the market share of door closer type products such as door hinge and floor hinge, and enhance the company's competitiveness.</li> <li>•Received AFNOR ASIA's ISO14001 international certification through TAF environment management monitoring system.</li> <li>•Implemented treasury stock buyback and used for capital reduction. The total capital at the time was NTD 1,884,521,700.</li> </ul>

2010	<ul style="list-style-type: none"> <li>• Introduced Lean Production System.</li> <li>• Introduced BPM (Business Process Management) system.</li> <li>• Acquired 70% of Rui Sheng Industrial Co., Ltd. through ARCTEK Industrial Co., Ltd.</li> <li>• All the issued outstanding securities changed to be non-physical securities.</li> </ul>
2011	<ul style="list-style-type: none"> <li>• Obtained the AEO certification from the Customs Administration, Ministry of Finance R.O.C. and became one of the good AEO safety certified companies.</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Consolidated a 100% own subsidiary, Tai Master Enterprise Co., Ltd.</li> <li>• Spited Fu Hsing's Changhua branch that was responsible for the production and sale of door closer type products from the company and assigned it to Fu Hsing's subsidiary, Fortress Industrial Co., Ltd. on January 1<sup>st</sup>, 2013.</li> <li>• Established Arctek (Shanghai) International Trading Co., Ltd.</li> <li>• Invested USD5,000,000 in Formflex Metal Industrial (Changshu) Co., Ltd. in China to increase the capital.</li> <li>• Officially launched the operation of Remuneration Committee in first quarter.</li> </ul>
2013	<ul style="list-style-type: none"> <li>• The door lock production base, Fu Hsing Industrial (Shanghai) Co., Ltd., in Shanghai stopped operation in the end of January due to land expropriation relating to Shanghai government's municipal construction planning. Its related door lock capacity was transferred to Fu Hsing's Changshou plant and continued to provide customers with superior products and services.</li> <li>• Established the "Guidance for Ethical Operation Procedures and Behaviors" as a code of conduct for employee's external behaviors.</li> <li>• In order to cooperate with the door plate re-organization and consolidation project requested by the Household Registration Office, address of Fu Hsing's headquarter changed from "No.55-10, Benzhou Rd." to "No.88, Yucai Rd." on August 9<sup>th</sup>.</li> </ul>
2014	<ul style="list-style-type: none"> <li>• Merged Hundure Technology Co., Ltd. and entered into access security industry.</li> <li>• Edited and published Fu Hsing's first "CSR Corporate Sustainable Development Report" (edited in accordance with GRI G4 index).</li> <li>• Subsidiary Arctek (Shanghai) International Trading Co., Ltd. was appraised as "one of the top ten access security hardware companies in China" by China Hardware Technological Innovation Strategy Union in the year of 2013.</li> <li>• Established Fortress Door Control Product (Changshu) Co., Ltd.</li> <li>• Established Tong Hsing Enterprise Co., Ltd.</li> </ul>
2015	<ul style="list-style-type: none"> <li>• The "2014 CSR Report" was certified by the SGS.</li> <li>• Received the honor of "Good Fortune Enterprise Label Award"</li> <li>• A warehousing facility measuring 50,000 sqft was acquired in Georgia State, United States for further cultivating North America market and providing better services to customers.</li> </ul>
2016	<ul style="list-style-type: none"> <li>• Subsidiary, ARCITEK Industrial Co., Ltd., acquired land and factory in Changhua County Beidou Industrial Zone for future use in order to meet with the group's goal in continuous operation.</li> <li>• Rewarded the "Healthy Workplace Badge for Heath Promotion" by the Health Promotion Administration", Ministry of Health and Welfare</li> <li>• Rewarded as "2016 Sport Corporation" from the Sports Administration, Ministry of Education.</li> </ul>
2017	<ul style="list-style-type: none"> <li>• Received the "Corporate culture award" in the 13<sup>th</sup> "Art &amp; Business Awards" held by the Ministry of Culture</li> <li>• Lock product received the honor in the 26<sup>th</sup> Taiwan Excellence Award</li> <li>• Started the factory construction of subsidiary, Tong Hsing Enterprise Co., Ltd.</li> </ul>

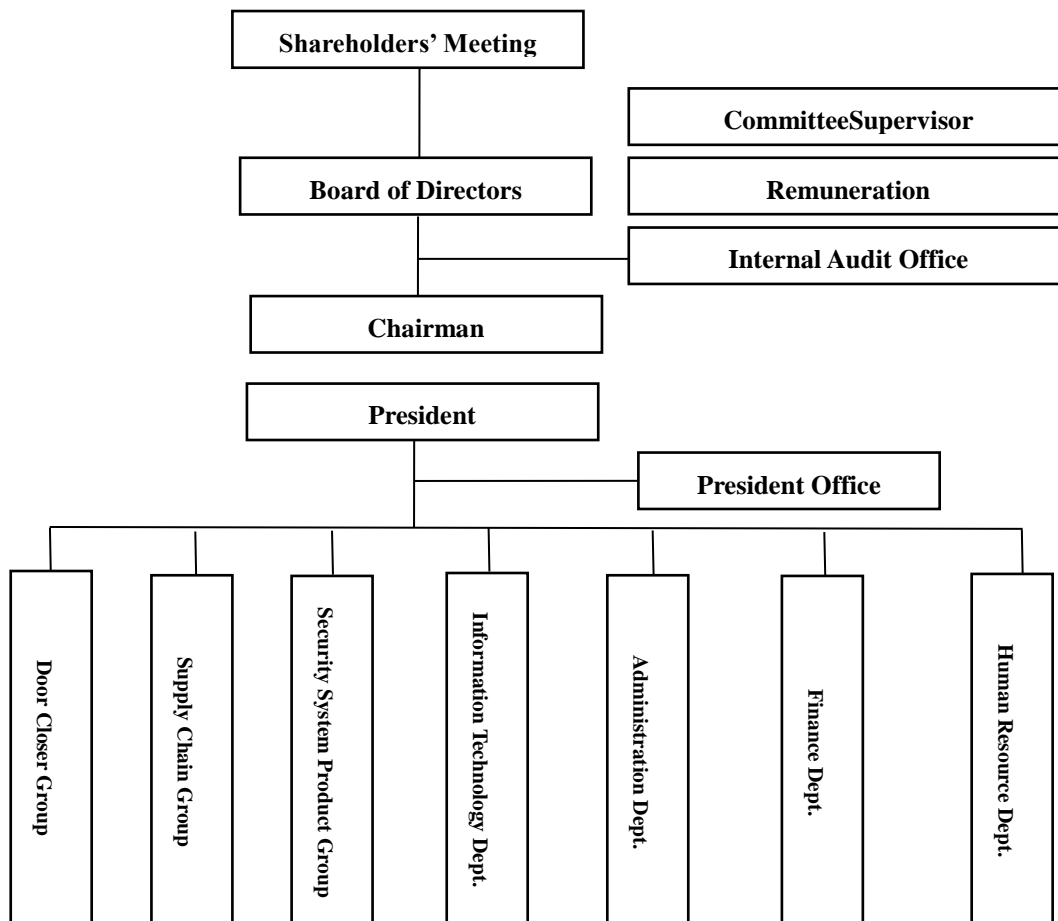
### III. Corporate Governance Report

#### (1) Organization System

##### 1. Organization Chart

Data drawn: Dec. 31, 2017

#### Organization Chart of Taiwan Fu Hsing Industrial Co., Ltd.



## 2. Business scope of major business units

Department	Top Executive Officer	Business Scope
Internal Audit Office	Senior Officer	To plan and execute the company's audit system.
President Office	President	To plan and analyze the company's operation strategy and the plan and execution of the management system, labor safety and health, legal affairs, and stock affairs.
IT Department	Manager	Responsible for the development and maintenance of the Group's information system, as well as to introduce in new information technology
Finance Dept.	Chief Finance Officer	Responsible for accounting, taxation, investments, and fund management.
Administration Dept.	Manager	Responsible for maintaining factory facilities and the safety of constructions, managing administrative issues, and promoting employees' health
HR Dept.	Manager	Responsible for recruiting and appointing new employees, carrying out HR related issues such as educational trainings, performance management, salary management, work hours and business trip management and labor relationships.
Security System Product Group	Group President	Responsible for the research, development, manufacturing, marketing, and after-sale services of door lock type products.
Supply Chain Group	Group President	Responsible for the research, development, manufacturing, marketing and after-sale services of home hardware, auto parts, motorcycle parts, and parts for 3C products.
Door Closer Group	Group President	Responsible for the research, development, manufacturing, marketing, and after-sale services of door closer, door hinge, floor hinge, panic exit devices, and other related products.

- (2) Information on the company's directors, supervisors, president, vice president, Director, and the superintendents of all the company's divisions and branch units

# 1. Information on directors and supervisors (1)

Data drawn on Dec. 31<sup>st</sup>, 2017

Title	Nationality or Place of Registration	Name	Gender	Post Beginning Date	Term of Office	Date of First Elected	Shareholding of Date Elected		Current Shareholding		Current Shareholding of Spouse and Minors		Shareholding under Other's Name		Education & Experiences	Other Post in the Company and other company Concurrently	Manager who is a spouse or a relative within two generations		
							Shares Held	Stake	Shares Held	Stake	Shares Held	Stake	Shares Held	Stake			Title	Name	Relation
Chairman	Taiwan R.O.C.	LIN, Jui-Chang	Male	Jun. 19, 2017	3 Years	5/31/1990	1,624,978	0.86%	1,624,978	0.86%	597,576	0.32%	-	-	Soochow University - Accounting	Note 2	Vice President Supervisor  Director	CHANG, Jui-Pi LIN, Wen-Hsing LIN, Tzu-Hsuan	Spouse  Brother  Son
President	Taiwan R.O.C.	CHEN, Chien-Kun	Male	Jun. 19, 2017	3 Years	2/24/1993	675,132	0.36%	675,132	0.36%	6,940	-	-	-	Soochow University - Accounting	Note 3	-	-	-
Director	Taiwan R.O.C.	Representative of Fu Zhi Investment Co., Ltd.: CHU, Jung-Ho	Male	Jun. 19, 2017	3 Years	6/19/2017	10,091,307 (Note 1)	5.35%	10,091,307 (Note 1)	5.35%	-	-	-	-	National SunYat-Sen University - EMBA	Note 4	-	-	-
Director	U.S.A.	Representative of Fu Zhi Investment Development Co., Ltd.: Michael A.Hoer	Male	Jun. 19, 2017	3 Years	5/31/2008	10,091,307 (Note 1)	5.35%	10,091,307 (Note 1)	5.35%	-	-	-	-	Brigham Young University - MBA	Note 5	-	-	-
Director	Taiwan R.O.C.	Representative of Hong Cheng Investment Development Co., Ltd.: LIN, Tzu-Hsuan	Male	Jun. 19, 2017	3 Years	6/19/2017	5,721,451 (Note 1)	3.04%	5,721,451 (Note1)	3.04%	-	-	-	-	University of Technology Sydney-MBA	Note 6	Chairman Vice President	LIN, Jui-Chang CHANG, Jui-Pi	Father Mother
Independent Director	Taiwan R.O.C.	CHANG, Ling-Ling	Female	Jun.19, 2017	3 Years	6/19/2017	0	0%	0	0%	-	-	-	-	Soo-Chow University / Accounting	Note 7	-	-	-

Independent Director	Taiwan R.O.C.	CHEN, Yung-Chun	Male	Jun.19, 2017	3 Years	6/19/2017	0	0%	0	0%	-	-	-	-	Soo-Chow University/Accouting	Note 8	-	-	-
Supervisor	Taiwan R.O.C.	Representative of Fu Yuan Investment Co., Ltd.: LIN, Wen-Hsing	Male	Jun. 19, 2017	3 Years	4/16/1999	2,697,185 (Note 1)	1.43%	2,697,185 (Note 1)	1.43%	90,045	0.05%	-	-	Cheng Shiu College - Machinery	Note 9	Chairman	LIN, Jui-Chang	Brother
Supervisor	Taiwan R.O.C.	Representative of Fu Yuan Investment Co., Ltd.: HUANG, Fu-Ti	Male	Jun. 19, 2017	3 Years	4/16/1999	2,697,185 (Note 1)	1.43%	2,697,185 (Note 1)	1.43%	-	-	-	-	Feng Chia University - Statistics	Note 10	-	-	-
Supervisor	Taiwan R.O.C.	Representative of Fu Yuan Investment Co., Ltd.: LIU, Ju-Shan	Male	Jun.19, 2017	3 Years	5/31/2005	2,697,185 (Note 1)	1.43%	2,697,185 (Note 1)	1.43%	-	-	-	-	National Taiwan University of Science and Technology Graduate School-Industry Management	Note 11	-	-	-

Note 1: Number of shares held by corporate shareholders.

Note 2: Is concurrently a director in FU HSING AMERICAS, INC., a director in Allegion Fu Hsing Limited, a director in Fine Blanking & Tool Co., Ltd., a director in ALLEGION Fu Hsing Holdings., LTD., the Chairman of ARCTEK Industrial Co, Ltd., a director in Launch Technologies Co., Ltd., an supervisor in Taiflex Scientific Co., Ltd., a supervisor in Advanced International Multitech Co., Ltd., a director in De Zhi Mei International Co., Ltd., a director in Arctek (Shanghai) Safety Protection Technology Co., Ltd., the Chairman of Fortress Industrial Co., Ltd., and the Chairman of Tong Hsing Enterprise Co., Ltd.

Note 3: Is concurrently the President of the Company, the Chairman of Master United Investment Group Ltd., the Chairman of Formflex Enterprise Co., Ltd., the Chairman of Formflex Metal Industrial (Changshu) Co, Ltd., the Chairman of Ziyong Hardware Products (Taichang) Co., Ltd., a director in ARCTEK Industrial Co., Ltd., the Chairman of Rui Sheng Industrial Co., Ltd., a director of ALLEGION Fu Hsing Holdings., LTD., a director in Arctek (Shanghai) Safety Protection Technology Co., Ltd., the President and a director in Fortress Industrial Co., Ltd., the Chairman of Fortress Door Control Product (Changshu) Co., Ltd., and a director of Tong Hsing Enterprise Co., Ltd.

Note 4: Is concurrently the President of business group in the company, the Chairman of FU HSING AMERICAS, INC., a director of ARCTEK Industrial Co., Ltd., a director in Rui Sheng Industrial Co., Ltd., a director in ALLEGION FU HSING LIMITED, a director in Allegion Fu Hsing Holdings., Ltd., a director in Ziyong Hardware Products (Taichang) Co., Ltd., the Chairman of Arctek (Shanghai) Safety Protection Technology Co., Ltd., the Vice Chairman of Fortress Industrial Co., Ltd., a director in Fortress Door Control Product (Changshu) Co., Ltd., a director in Hundure Technology Co., Ltd., and the Chairman of H&C Econ Tech Engineering Co., Ltd.

Note 5: Is concurrently a consultant in First Western Advisors, the Honorary Chairman of Dynasty Petroleum Holdings, and a director in Allegion Fu Hsing Limited.

Note 6: Is concurrently the General Manager of Arctek (Shanghai) Safety Protection Technology Co., Ltd., a supervisor in ARCTEK Industrial Co, Ltd., a director in Fortress Industrial Co., Ltd., a director in Fortress Door Control Product (Changshu) Co., Ltd., and a supervisor in Tong Hsing Enterprise Co., Ltd.

Note 7: Is concurrently an independent director in Jazz Hipster Corporation, the leader of Zonta International Organization Kaohsiung Branch, a financial, taxation, accounting, and sales consultant of the Export Processing Zone Administration of the Ministry of Economic Affairs, a proctor of the Accounting Skill Evaluation, a financial evaluator for Kaohsiung city's aged care homes, an independent director in Sun Far Computer Co., Ltd., and a committee member in the Remuneration Committee of the Taiwan Fu Hsing Industrial Co., Ltd

Note 8: Is concurrently a committee member in the Remuneration Committee of the Taiwan Fu Hsing Industrial Co., Ltd.

Note 9: Is concurrently a director in Ziyong Hardware Products (Taichang) Co., Ltd., a director in Formflex Metal Industrial (Changshu) Co, Ltd., a director in Fortress Door Control Product (Changshu) Co., Ltd., and a director in Tong Hsing Enterprise Co., Ltd.

Note 10: Is concurrently a supervisor in Fortress Industrial Co., Ltd., and an independent director in Emerging Display Technologies Corp.

Note 11: Is currently the CEO of Waterland Venture Capital, the Chairman of Guo Want International Leasing Corp., a director in Fortress Industrial Co., Ltd., and an independent director of the Fuzetec Technology Co., Ltd.

## 2. Information on directors and supervisors (2)

Name of Corporate Shareholders	Major Shareholders of the Corporate Shareholder*	Note
Fu Yuan Investment Co., Ltd.	Fu Xun Investment Co., Ltd.	45.75%
	Hong Cheng Investment Co., Ltd.	16.77%
	Lian Guang Investment Co., Ltd.	13.66%
	Sheng You Investment Co., Ltd.	10.43%
Hong He Investment Co., Ltd.	LIN, Chao-Hung	33.30%
	LIN YIN, Li-Wen	33.30%
	LIN, Shao-Chien	33.30%
Fu Zhi Investment Development Co., Ltd.	Fu Xun Investment Co., Ltd.	45.10%
	Hong Cheng Investment Co., Ltd.	16.77%
	Lian Guang Investment Co., Ltd.	13.66%

\* For major shareholders, who are also legal persons, fill up the form below.

## 3. Information on directors and supervisors (3)

Name of Corporate Shareholders	Major Shareholders of the Corporate Shareholder	Note
Fu Xun Investment Co., Ltd.	CHANG, Jui-Pi	37.96%
	LIN, Tzu-Hsuan	33.02%
	CHANG, Shan	12.35%
	LIN, Tzu-Yang	13.58%
Hong Cheng Investment Co., Ltd.	LIN YIN, Li-Wen	49.64%
	LIN, Chao-Hung	47.74%
Lian Guang Investment Co., Ltd.	LIN, Wen-Hsing	26.88%
	HSU, Mei-Hui	25.00%
	LIN, Chih-Cheng	24.37%
	LIN, Chih-Yu	23.75%
Sheng You Investment Co., Ltd.	LIN, Miao-Chen	33.04%
	LIN, Teng-Tsai	31.30%



	CHANG, Shan	18.26%
De Li International Investment Co., Ltd.	LIN, Miao-Yin	32.26%
	CHEN, Chen-Yueh	30.65%
	CHEN, Ssu-Chin	19.35%
	CHEN, Ssu-Kai	17.74%

#### 4. Information on directors and supervisors (4)

Name	Qualification	Having at least 5 years working experiences and professional qualifications listed below*			Conditions of Independence*										Number of concurrent duties in other public companies as independent directors
		At least a lecturer from public or private colleges in business, legal affairs, finance, accounting and other business related department	Judges, prosecutors, lawyers, accountants, or other business technical staffs who are holders of professional or specialized vocational certification from state exam	Working experience in business, legal affairs, finance, accounting, or other business related fields.	1	2	3	4	5	6	7	8	9	10	
LIN, Jui-Chang		-	-	✓	-	-	-	-	✓	-	✓	-	✓	✓	-
CHEN, Chien-Kun		-	-	✓	-	-	-	-	✓	-	✓	✓	✓	✓	-
Representative of Fu Zhi Investment Development Co., Ltd.: CHU, Jung-Ho		-	-	✓	-	-	-	-	✓	-	✓	✓	✓	-	-
Representative of Fu Zhi Investment Development Co., Ltd.: Michael A.Hoer		-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Representative of Hong Cheng Investment Co., Ltd.: LIN, Tzu-Hsuan		-	-	✓	-	-	-	-	✓	-	✓	-	✓	-	-
CHANG, Ling-Ling		-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
CHEN, Yung-Chun		-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Representative of Fu Yuan Investment Co., Ltd.: LIU, Ju-Shan		-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	1
Representative of Fu Yuan Investment Co., Ltd.: LIN, Wen-Hsing		-	-	✓	-	-	-	-	✓	-	✓	-	✓	-	-
Representative of Fu Yuan Investment Co., Ltd.: HUANG, Fu-Ti		-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	1

Note: Please mark “✓” in the relevant criteria for directors and supervisors, who have met the following criteria two years before being elected and during their tenure.

- (1) Neither an employee of the company nor of its affiliated enterprises
- (2) Neither a director nor a supervisor of the company nor of its affiliated enterprises (Exceptions apply to independent directors that directly and indirectly hold more than 50% or above of the voting shares of the company or its parent company)
- (3) A natural person shareholder that neither him/herself, his/her spouse, or minor children or under other person's name holds more than 1% of the total outstanding shares of the company nor on the list of the top

ten major natural person shareholder

- (4) Not a spouse, a second-degree relative, or third-degree immediate blood relative of the person that is in the three categories mentioned above
- (5) Neither a director, supervisor, or employee of a corporate shareholder that indirectly holds more than 5% of the company's total outstanding shares nor a director, supervisor, or employee of any of the top 5 major corporate shareholders
- (6) Not a director (council member), supervisor, manager, or shareholder that holds more than 5% of shares of any of the affiliated enterprises that financially or commercially relate to the company
- (7) Neither an individual professional nor an owner, partner, director (council member), supervisor, manager, or spouse of an sole proprietorship, partnership, corporation, or institution that provides operational, legal, financial, or accounting services to the company or its affiliated enterprises. Exceptions apply to members of the Remuneration Committee that shall carry out their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over The Counter
- (8) Not a second-degree relative or spouse of other directors
- (9) No matters related to Article 30 of the Company Act
- (10) Not elected from the government, legal person, or its representative as stated in Article 27 of the Company Act

5. Information on the President, Vice President, Director, and superintendents of all the company's groups and branch units

Date Drawn on April 18, 2018

Title	Nationality	Name	Gender	Post Beginning Date (yy/mm/dd)	Shareholding		Shareholding of Spouse and Minors		Shareholding under Other's Name		Education & Experiences	Post in other company concurrently	Manager who is a spouse or a relative within two generations		
					Shares	Holding %	Shares	Holding %	Shares	Holding %			Title	Name	Relation
President	Taiwan R.O.C.	CHEN, Chien-Kun	Male	1994/01/01	675,132	0.36%	6,940	-	-	-	Soochow University - Accounting	Note 1	-	-	-
Group President	Taiwan R.O.C	CHU, Jung-Ho	Male	2008/01/01	95,244	0.05%	-	-	-	-	National Sun Yat-Sen University – EMBA	Note 2	-	-	-
Group President	Taiwan R.O.C	LIN, Teng-Tsai	Male	2008/01/01	200,129	0.11%	43,428	0.02%	-	-	National Hsin Hua Industrial Vocational High School – Mechanical Engineering	Note 3	-	-	-
Vice President	Taiwan R.O.C	CHANG, Jui-Pi	Female	2010/05/01	597,576	0.32%	1,624,978	0.86%	-	-	Ming Chuan University – International Trade	None	Director	LIN, Tzu-Hsuan	Mother-Son
Vice President	Taiwan R.O.C	WANG, Han-Ting	Male	2010/05/01	28,439	0.02%	-	-	-	-	National Cheng Kung University – Mechanical Engineering	Note 4	-	-	-
Director	Taiwan R.O.C	LI, Chen-Hui	Male	2004/10/01	968	-	-	-	-	-	Tung Hai University - Politics	None	-	-	-
Director	Taiwan R.O.C	LIN, Shih-Huang	Male	2012/01/01	40,000	0.02%	-	-	-	-	University of Michigan – Ann Arbor – Doctoral in Machinery	None	-	-	-

Director	Taiwan R.O.C	LIN, Tzu-Hsuan	Male	2014/04/01	775,191	0.41%					University of Technology, Sydney - MBA	Note 5	Vice President	CHANG, Jui-Pi	Mother-Son
Director	Taiwan R.O.C	CHU, Hung-Yang	Male	2014/09/10	23,354	0.01%					Fu Jen Catholic University – International Trade	None			
Chief Finance Officer	Taiwan R.O.C.	LI, Kuo-Wei	Male	2015/02/01	2,000	0.001%	-	-	-	-	National Chengchi University - Accounting	Note 6	-	-	-
Plant Manager	Taiwan R.O.C.	CHUNG, Hsuan-Tung	Male	2004/10/01	2,000	0.001%	-	-	-	-	Aletheia University – Industrial Management	None	-	-	-
Manager of Administration Dept.	Taiwan R.O.C.	TSAL, Yen-Fen	Female	2009/01/01	-	-	-	-	-	-	National Cheng Kung University affiliated National Open University and Supplementary Junior College – Business Information	None	-	-	-
Manager of IT Dept.	Taiwan R.O.C.	TSAL, Yu-Kung	Male	2005/09/01	4,020	0.002%	-	-	-	-	Chung Yuan Christian University- Information Management	None	-	-	-

Note 1: Is concurrently the President of the Company, the Chairman of Master United Investment Group Ltd., the Chairman of Formflex Enterprise Co., Ltd., the Chairman of Formflex Metal Industrial (Changshu) Co., Ltd., the Chairman of Ziyong Hardware Products (Taichang) Co., Ltd., a director in ARCTEK Industrial Co., Ltd., the Chairman of Rui Sheng Industrial Co., Ltd., a director of ALLEGION Fu Hsing Holdings., LTD., a director of Arctek (Shanghai) Safety Protection Technology Co., Ltd., the President and also a director in Fortress Industrial Co., Ltd., the Chairman of Fortress Door Control Product (Changshu) Co., Ltd., and a director of Tong Hsing Enterprise Co., Ltd.

Note 2: Is concurrently the President of a business group in the company, the Chairman of FU HSING AMERICAS, INC., a director in ARCTEK Industrial Co., Ltd., a director in Rui Sheng Industrial Co., Ltd., a director in ALLEGION FU HSING LIMITED, a director in Allegion Fu Hsing Holdings, Ltd., a director in Ziyong Hardware Products (Taichang) Co., Ltd., the Chairman of Arctek (Shanghai) Safety Protection Technology Co., Ltd., the Vice Chairman of Fortress Industrial Co., Ltd., a director in Fortress Door Control Product (Changshu) Co., Ltd., a director in Hundure Technology Co., Ltd., and the Chairman of H&C Econ Tech Engineering Co., Ltd.

Note 3: Is concurrently a director in Ziyong Hardware Products (Taichang) Co., Ltd., a director in Formflex Metal Industrial (Changshu) Co., Ltd., a director in Fortune Industrial Ltd., a director in ChangShu

Fortune Packing Material Co., Ltd., a director of Arctek (Shanghai) Safety Protection Technology Co., Ltd., a director in Fortress Door Control Product (Changshu) Co., Ltd., and a director in Tong Hsing Enterprise Co., Ltd.

Note 4: Is concurrently the Executive Vice President of the Fu Hsing Americas, INC.

Note 5: Is concurrently the President of Arctek (Shanghai) Safety Protection Technology Co., Ltd., a supervisor in ARCTEK Industrial Co., Ltd., a director in Fortress Industrial Co., Ltd., a director in Fortress Door Control Products (Changshu) Co., Ltd., a supervisor in Tong Hsing Enterprise Co., Ltd., and a supervisor in Hundure Technology Co., Ltd.

Note 6: Is concurrently a supervisor in ARCTEK Industrial Co., Ltd., a supervisor in Rui Sheng Industrial Co., Ltd., a supervisor in Fortress Industrial Co., Ltd., a supervisor in Fortress Door Control Products (Changshu) Co., Ltd., a supervisor in Tong Hsing Enterprise Co., Ltd., and a supervisor in Hundure Technology Co., Ltd.

(3) Remuneration paid to directors, supervisors, president and vice president in current fiscal year

1. Remuneration paid to directors

Unit: NTD1,000

Title	Name	Remuneration paid to directors								Summation of A, B, C and D to NIAT (%) (Note 2)		Relevant remuneration paid to staff holding concurrent posts								Summation of A, B, C, D, E, F and G to NIAT (%) (Note 2)		Remuneration received from investments in other subsidiaries
		Remuneration (A)		Retirement Payment (B)		Director's Compensation (C)		Business Incurred Fees (D) (Note 1)				Salary, rewards, and special fees, etc. (E) (Note 3)		Retirement Payment (F) (Note 4)		Employee's Compensation (G)						
		The Company	companies under the consolidate	The Company	companies under the consolidate	The Company	companies under the consolidate	The Company	companies under the consolidate	The Company	companies under the consolidate	The Company	companies under the consolidate	The Company	companies under the consolidate	The Company		All companies under the consolidated report		The Company	companies under the consolidate	
																Cash Bonus	Stock Bonus	Cash Bonus	Stock Bonus			
Chairman	Note 5	-	-	-	-	9,600	9,600	3,350	3,350	2.35%	2.35%	10,503	12,025	140	140	17,010	-	17,010	-	7.38%	7.66%	None
Director	Note 6																					
Director	Note 7																					
Director	Note 8																					
Director	Note 9																					
Independent Director	Note 10																					
Independent Director	Note 11																					

\*Except for the above disclosure, remunerations paid to directors for providing services (such as service as a non full-time consultant etc.) to any of the company in the financial reports during the most current fiscal year: None

Note 1: Included travelling expense of \$186.

Note 2: NIAT referred to the net earnings after tax of \$549,976 in 2017.

Note 3: Included assigned business car expense \$1,207.

Note 4: Was a reserve account for retirement benefits in 2017, which was not yet paid.

Note 5: LIN, Jui-Chang

Note 6: CHEN, Chien-Kun

Note 7: Michael A.Hoer, representative of Fu Zhi Investment Development Co., Ltd.

Note 8: CHU, Jung-Ho, representative of Hong He Investment Co., Ltd.

Note 9: Hong Cheng Investment Co., Ltd.

Note 10: CHANG, Ling-Ling

Note 11: CHEN, Yung-Chun

#### Remuneration Range Table

Remuneration range for directors of the company	Name of Director			
	The total of first 4 remunerations (A+B+C+D)		The total of first 7 remunerations (A+B+C+D+E+F+G)	
	The Company (Note 8)	All Companies in the Consolidated Report (Note 9) H	The Company (Note 8)	All Companies in the Consolidated Report (Note9)I
Less than NT\$2,000,000	LIN, Jui-Chang CHEN, Chien-Kun Representatives of Fu Zhi Investment Co., Ltd: CHU, Jung-Ho CHANG, Ling-Ling CHEN, Yung-Chun	LIN, Jui-Chang CHEN, Chien-Kun Representatives of Fu Zhi Investment Co., Ltd: CHU, Jung-Ho CHANG, Ling-Ling CHEN, Yung-Chun	CHANG, Ling-Ling CHEN, Yung-Chun	CHANG, Ling-Ling CHEN, Yung-Chun
NT\$2,000,000 (including)~NT\$5,000,000 (excluding)	Michael A.Hoer (representative of Fu Zhi Investment Development Co., Ltd.) Hong Cheng Investment Co., Ltd.	Michael A.Hoer (representative of Fu Zhi Investment Development Co., Ltd.) Hong Cheng Investment Co., Ltd.	Michael A.Hoer (representative of Fu Zhi Investment Development Co., Ltd.) Hong Cheng Investment Co., Ltd.	Michael A.Hoer (representative of Fu Zhi Investment Development Co., Ltd.) Hong Cheng Investment Co., Ltd.
NT\$5,000,000 (including)~NT\$10,000,000 (excluding)			CHEN, Chien-Kun	CHEN, Chien-Kun
NT\$10,000,000 (including)~NT\$15,000,000 (excluding)	-	-	LIN, Jui-Chang CHU, Jung-Ho (representative of Fu Zhi	LIN, Jui-Chang CHU, Jung-Ho (representative of Fu Zhi



			Investment Development Co., Ltd.)	Investment Development Co., Ltd.)
NT\$15,000,000 (including)~NT\$30,000,000 (excluding)	-	-	-	-
NT\$30,000,000 (including)~NT\$50,000,000 (excluding)	-	-	-	-
NT\$50,000,000 (including)~NT\$100,000,000 (excluding)	-	-	-	-
NT\$100,000,000 and above	-	-	-	-
Total	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>

## 2. Remuneration paid to supervisors

Unit: NTD1,000

Title	Name	Remuneration paid to supervisors						Summation of A, B and C to NIAT (%)		Remuneration received from investments in other subsidiaries
		Remuneration (A)		Compensation(B)		Business Incurred Fees (C)		(Note 2)		
		The Company	All Companies in the Consolidated Report	The Company	All Companies in the Consolidated Report	The Company	All Companies in the Consolidated Report	The Company	All Companies in the Consolidated Report	
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: LIN, Wen-Hsing	-	-	3,600	3,600	90	90	0.67%	0.67%	None
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: HUANG, Fu-Ti									
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: LIU, Ju-Shan									
Note 1: Included travelling expense of \$90.										
Note 2: NIAT referred to the net earnings after tax of \$549,976 thousand dollars in 2017.										

**Remuneration Range Table**

Remuneration range for supervisors of the company	Name of Supervisor	
	The total of first three remunerations(A+B+C)	
	The Company	All Companies in the Consolidated Report
Less than NT\$2,000,000	LIN, Wen-Hsing (representative of Fu Yuan Investment Co., Ltd.) HUANG, Fu-Ti (representative of Fu Yuan Investment Co., Ltd.) LIU, Ju-Shan (representative of Fu Yuan Investment Co., Ltd.)	LIN, Wen-Hsing (representative of Fu Yuan Investment Co., Ltd.) HUANG, Fu-Ti (representative of Fu Yuan Investment Co., Ltd.) LIU, Ju-Shan (representative of Fu Yuan Investment Co., Ltd.)
NT\$2,000,000 (including)~NT\$5,000,000 (excluding)	-	-
NT\$5,000,000 (including)~NT\$10,000,000 (excluding)	-	-
NT\$10,000,000 (including)~NT\$15,000,000 (excluding)	-	-
NT\$15,000,000 (including)~NT\$30,000,000 (excluding)	-	-
NT\$30,000,000 (including)~NT\$50,000,000 (excluding)	-	-
NT\$50,000,000 (including)~NT\$100,000,000 (excluding)	-	-
NT\$100,000,000 and above	-	-
Total	3	3

### 3. Remuneration paid to President and Vice President

Unit: NTD1,000

Title	Name	Salary(A)		Retirement Payment (B)  (Note 1)		Rewards and Special Fees, etc... (C)  ( Note 2)		Employee's Compensation (D)				Summation of A, B, C and D to NIAT (%)  (Note 3)		Remuneration received from investments in other subsidiaries
		The Company	All Companies in the Consolidated Report	The Company	All Companies in the Consolidate d Report	The Company	All Companies in the Consolidated Report	The Company		All Companies in the Consolidated Report		The Company	All Companies in the Consolidated Report	
								Cash Bonus	Stock Bonus	Cash Bonus	Stock Bonus			
President	CHEN, Chien-Kun	12,019	15,983	1,101	1,101	1,113	1,479	18,350	-	18,350	-	5.92%	6.71%	None
Group President	LIN, Teng-Tsai													
Group President	CHU, Jung-Ho													
Vice President	CHANG, Jui-Pi													
Vice President	WANG, Han-Ting													
Note 1: Was a reserve account for retirement benefits in 2017, which was not yet paid.														
Note 2: Included assigned business car expense \$1,479 thousand dollars.														
Note 3: NIAT referred to the net earnings after tax of \$549,976 thousand dollars in 2017.														

Remuneration Range Table

Remuneration range for President and Vice President of the company	Name of President and Vice President	
	The Company (Note 6)	All Companies under the Consolidated Report E (Note 7)
Below NT\$2,000,000	-	-
NT\$2,000,000 (including)～NT\$5,000,000 (excluding)	CHANG, Jui-Pi; WANG, Han-Ting	CHANG, Jui-Pi
NT\$5,000,000 (including)～NT\$10,000,000(excluding)	CHEN, Chien-Kun; LIN, Teng-Tsai; CHU, Jung-Ho	CHEN, Chien-Kun; LIN, Teng-Tsai; WANG, Han-Ting
NT\$10,000,000 (including)～NT\$15,000,000 (excluding)	-	CHU, Jung-Ho
NT\$15,000,000 (including)～NT\$30,000,000 (excluding)	-	-
NT\$30,000,000 (including)～NT\$50,000,000 (excluding)	-	-
NT\$50,000,000 (including)～NT\$100,000,000 (excluding)	-	-
NT\$100,000,000 and above	-	-
Total	5	5

#### 4. Names of managers receiving employee's compensation and the allocation

Fiscal Year 2017 / Unit:NTD1,000

	Job Title  (Note 1)	Name  (Note 1)	Amount of Stock  Compensation	Amount of Cash  Compensation	Total	Total Amount in % out of  NIAT (%)  (Note 2)
Managers	President	CHEN, Chien-Kun	-	23,950	23,950	4.35%
	Group President	CHU, Jung-Ho				
	Group President	LIN, Teng-Tsai				
	Vice President	CHANG, Jui-Pi				
	Vice President	WANG, Han-Ting				
	Director	LI, Chen-Hui				
	Director	CHU, Hung-Yang				
	Director	LIN, Tzu-Hsuan				
	Director	LIN, Shih-Huang				
	Director	CHANG, Chin-Sheng				
	Plant Manager	CHUNG, Hsuan-Tung				
	Chief Finance Office	LI, Kuo-Wei				
	Note 1: According to Remuneration Committee’s Letter Tai-Cai-Zheng-San-Zi No.0920001301, dated March 27 <sup>th</sup> , 2003, the applicable range for managers is ruled as the following: 1. President and similar rank 2. Vice President and similar rank 3. Director and similar rank 4. Superintendent in Financial Department 5. Superintendent in Accounting Department 6. Other personnel that have administrative power over the company affairs or have the right of signature.  Note 2: NIAT referred to the net earnings after tax of \$549,976 in 2017.					

5. Analysis of net profit distribution to directors, supervisors, President and Vice President:

Title	Proportion of net profit distributed to the company's directors, supervisors, President and vice President in the 2017 company report and consolidated report .	Proportion of net profit distributed to the company's directors, supervisors, President and Vice President in the 2016 company report and consolidated report .
Directors	7.66%	5.80%
Supervisors	0.67%	0.55%
President & Vice President	4.35%	5.15%

According to the Clause 26-1 of Articles of Incorporation, remunerations paid to directors should be distributed based on the principle of not higher than five percent of the current year's product, and should also take the Company's operating results and director's contribution to the Company's performance into consideration.

Total remunerations paid to the company's Chairman, President, and Vice President includes the basic salary, allowance for additional duty and meal. The salary is calculated based on education background, work experiences, work performance, contribution level, and seniority. A year-end bonus is distributed based on the company's operation performance of the year. The procedures to calculate director's remunerations should consider not only the Company's overall business performance, risks and development trends in the industry, but also personal performance achievement and personal contribution to the Company's operation performance to provide reasonable compensations. The performance evaluation and the reasonableness of compensation both are verified by the Company's Remuneration Committee, which reviews the Company's actual operation situation and related laws and regulations at all times to manage and balance the goals of sustainable operation and risk management.

(4) Corporate governance practices

1. Information relating to the Operation of Board of Directors

During the fiscal year 2017, 6 Board Meetings were conducted. The name lists of the attendees are as follows

Title	Name	Attendance in Person	Attendance in proxy	Actual Attendance Rate (%)	Remarks
Chairman	LIN, Jui-Chang	6	0	100%	Term of office renewed on 06/19/217
Director	CHEN, Chien-Kun	6	0	100%	Term of office renewed on 06/19/217
Director	Representative of Hong Ho Investment Development Co., Ltd.: CHU, Jung-Ho	3	0	100%	Dismissed on 06/17/2017 /should present 3 times
Director	Representative of Fu Zhi Investment Development Co., Ltd.: Michael A.Hoer	3	0	50%	Term of office renewed on 06/19/217
Director	Representative of Fu Zhi Investment Development Co., Ltd.: LIU, Ju-Shan	2	0	67%	Dismissed on 06/17/2017 /should present 3 times
Director	Representative of Fu Zhi Investment Development Co., Ltd.: CHU, Jung-Ho	3	0	100%	Newly Appointed on 06/17/2017 /should present 3 times
Director	Representative of Hong Cheng Investment Co., Ltd.: LIN, Tzu-Hsuan	2	0	67%	Newly Appointed on 06/19/2017/should present 3 times
Independent Director	CHANG, Ling-Ling	3	0	100%	Newly Appointed on 06/19/2017/should present 3 times
Independent Director	CHEN, Yung-Chun	3	0	100%	Newly Appointed on 06/19/2017/should present 3 times

Other things should be noted:

1. According to Article 14-3 of the Securities and Exchange Act, if an independent director has a dissenting opinion or qualifying opinion and such opinion was recorded or taken down as written statements, the date of Board of Directors Meeting, term, all independent directors' opinions in the resolutions and the company's reaction to the independent's opinions should be addressed: Not applicable.

Date of the Meeting (mm/dd/yyyy)	Important Resolution	Opinion of the Independent Directors	React to Independent Director's Opinions
01/13/2017	To review "Total Remuneration Paid to Employees in 2016"	Independent Director not appointed yet	Not Applicable
	To review "2016 Remuneration Paid to Managers and Employees"	Independent Director not appointed yet	
03/27/2017	To review "The Remuneration Paid to Directors and Supervisors in 2016"	Independent Director not appointed yet	Not Applicable
	The proposal for a complete re-election of director and supervisors	Independent Director not appointed yet	Not Applicable
	To adopt the 2106 business report and financial statements	Independent Director not appointed yet	Not Applicable



	To resolve on the 2016 earnings distribution	Independent Director not appointed yet	Not Applicable
	To handle the project of capital increase by cash for subsidiary Tong Hsing Enterprise Co., Ltd. (Tong Hsing Enterprise)	Independent Director not appointed yet	Not Applicable
5/8/2017	Review the candidate list of independent director being elected in 2017 Shareholders' Meeting	Independent Director not appointed yet	Not Applicable
6/19/2017	The very first board meeting after a complete re-election of directors. The meeting was brought up to elect the Chairman of the Board of this term.	Approved	Not Applicable
	Proposal to loan funds to subsidiary, FU HSING AMERICAS, INC.	Approved	Not Applicable
8/7/2017	Proposal to re-elect committee members in the Company's Remuneration Committee	Approved	Not Applicable
	Proposal to amend "Rules of Procedures for Board of Director's Meeting"	Approved	Not Applicable
11/1/2017	Proposal of 2018 audit plan	Approved	Not Applicable

2. The implementation to avoid motions with matters bearing on director's personal interests. Name of director, contents of the motion, reasons to avoid conflicts of interests, and the voting situation:

While was reviewing the proposal of "Total Remunerations paid to Employees, Directors and Supervisors" and "Remuneration paid to Managers and Employees", LIN, Jui-Chang, CHEN, Chien-Kun, CHU, Jung-Ho, Michael A. Hoer, and LIU, Ju-Shan, as the Company's directors and have conflicts of interest with the representing juridical company all refused the involvement in the voting according to related laws and regulations.

3. The goal and implementation of enhancing Board of Director's function in the most recent fiscal year (ex. setting up audit committee, enhancing information transparency, etc...):

Directors to pursue further education: attended various seminars, including the "2017 Corporate Governance Forum Series – Insider Trading & Corporate Social Responsibility" held by Securities & Futures Institute, the "Certification Lecture for Corporate Governance / Corporate Sustainable Operation" held by UBS, the "2017 Insider Trading related Law Compliance Seminar for Public Companies and non-public Companies" held by Securities & Futures Institute, and the "Corporate Governance Forum – Corporate Sustainable Operation" held by Taiwan Academy of Banking and Finance.

To promote information transparency: according to Article 14-6 of the Securities and Exchange Act, Remuneration Committee was established and its operation and administration standard was added in the company's internal control system.

Implementation status: Implemented in accordance with the Board of Director's Rules of Procedures; and the implementation were good.

4. The implementation of board member diversification:

Diversified Core Skills Name of Director	Gender	Operation & Management	Lead & Decision Making	Industry Knowledge	Operational Judgment	Finance & Accounting	Prospect on international market	Social care
Chairman / LIN, Jui-Chang	Male	✓	✓	✓	✓	✓	✓	✓
Director / CHEN, Chien-Kun	Male	✓	✓	✓	✓	✓		✓
Director / CHU, Jung-Ho	Male	✓	✓	✓	✓		✓	✓
Director / Michael A.Hoer	Male	✓		✓	✓	✓	✓	✓
Director / LIN, Tzu-Hsuan	Male	✓	✓	✓	✓		✓	✓
Independent director / CHANG, Ling-Ling	Female	✓		✓	✓	✓		✓
Independent director / CHEN, Yung-Chun	Male	✓	✓	✓	✓	✓		✓

2. Information relating to the operation of Auditing Committee: Not Applicable

3. Supervisors participating in the operation of Board of Directors Meeting

During the fiscal year 2017, 6 Board Meetings were conducted. The name lists of the attendees are as follows:

Title	Name	Attendance in Person	Actual Attendance Rate (%)	Remarks
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: LIN, Wen-Hsing	6	100%	
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: HUANG, Fu-Ti	6	100%	
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: LIU, Ju-Shan	3	100%	Newly appointed on 06/19/2017/should present 3 times

1. Composition and duty of supervisors:

- i. The communication conditions among supervisors, company staffs and shareholders (such as the communication channels and methods, etc...):

When there is a need of communication, the Company's staffs or shareholders can either communicate through supervisors during the Company's Board of Directors' Meetings or Shareholders' Meeting or reach to request agent for stock affairs to communicate at any time. The Company's supervisors may direct concerned department to handle the issues upon request and need. Therefore, there have been established appropriate communication channels among the supervisors and company staffs and shareholders.

- ii. The communication conditions among supervisors, internal audit executives and accountants (such as communication matters with regard to the company's financial or marketing issues, communication methods and results, etc...):

Supervisors, besides can contact the company's audit executives and accountants to discuss matters with regard to the company's financial, marketing, internal control system, and audit status at any time, can also sit in the Board of Director's Meeting to listen and discuss the company's financial and audit related reports. Therefore, there have been established appropriate communication channels among the supervisors and the company's internal audit executives and accountants.

2. If there are any suggestions made by the supervisors during the Board of Director's Meeting, such suggestions shall be stated along with the date of Board of Director's Meeting, term, content of the motion, resolutions, and the reactions to such suggestions made by supervisors. None.

4. The implementation of corporate governance and the divergence from the regulated Best-Practice Principles for TSE/GTSM Listed Companies and the reason for such divergences

List of <u>Assessments</u>	Implementation Status ( <u>Note 1</u> )			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
1. Whether the company establishes and discloses corporate governance principles following the regulated “Corporate Governance Best Practice Principles for TWSE/GESM Listed Companies”?		✓	The company has not yet established corporate governance related practice principles, but the company has set up practice principles for ethical operation and corporate governance’s self-assessing report, and such rules are smoothly implemented.	No significant divergence
2. Regarding the company’s share structure and stockholder’s equity A. Whether the company sets up internal work procedures to handle suggestions, questions, disputes and lawsuits with shareholders, and whether the procedures are implemented accordingly? B. Whether the company holds the information on the company’s major shareholders with controlling interests and the ultimate controlling parties that stand behind the major shareholders? C. Whether the company establishes and implements rules for risk management with affiliated companies and builds the firewall mechanism? D. Whether the company establishes internal regulations to prohibit insiders from utilizing un-disclosed information to purchase/sell securities?	✓ ✓ ✓ ✓	✓	A. The company has not yet set up internal work procedures, but the company has appointed spokesperson and acting spokesperson to deal with suggestions, disputes and other problems arising from shareholders. B. The shareholding of the company is quite centralized. Besides, the company does pay attention to the company’s securities trading status in the market all the time. C. The company has already established related rules in the company’s internal control system according to laws and regulations. D. The company has set up “Work Procedures to Handle Significant and Important Information” and regularly propagated precautions of insider transactions.	No significant divergence
3. Composition and duties of Board of Directors A. Whether the company sets up rules for the diversity of the members of Board of Director and whether the rules are truly implemented? B. Besides setting up Remuneration Committee and Audit Committee according to laws and regulations, whether the company voluntarily sets up other similar kinds of functional committee? C. Whether the company sets up Board of Director’s performance evaluation rules and method and carries out the evaluations regularly each year?	✓   ✓	 ✓ ✓	A. 1. The company has made a plan for the diversification of board members and has been actually carried out the plan in the Board of Directors’ Meeting. The nomination and election of the Company’s Board members all followed the rules stated on the Company’s Articles of Incorporation and took candidate’s educational and career background into consideration to ensure the diversity and independency of the Company’s Board members. 2. The board members elected this term included	No significant divergence

List of <u>Assessments</u>	Implementation Status ( <u>Note 1</u> )			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
D. Whether the company periodically evaluates the independence of the company's certifying accountant?	✓		<ul style="list-style-type: none"> <li>- a female member;</li> <li>- LIN, Jui-Chang, CHEN, Chien-Kun, CHU, Jung-Ho, and LIN, Tzu-Hsuan: are good at operation &amp; management, lead &amp; decision making, industry knowledge and operational judgment;</li> <li>- LIN, Jui-Chang and Michael A. Hoer: have made contributions to social care including;</li> <li>- LIN, Jui-Chang, CHU, Jung-Ho, Michael A. Hoer, and LIN, Tzu-Hsuan: are having international outlook;</li> <li>- 2 independent directors are good at finance, accounting and other associated affairs.</li> </ul> <p>3. Policies in relation to the diversity of the board members are disclosed on the Company's website.</p> <p>B. The company has not yet set up other similar kinds of functional committee, but such is under planning.</p> <p>C. The company has not yet established Board of Director's performance evaluation rules and method, but such is in evaluation</p> <p>D.</p> <ol style="list-style-type: none"> <li>1. According to Article 29 of the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and the company's "Methods for evaluating the independence of the CPAs", the company evaluates the independence of certifying accountants regularly each year.</li> <li>2. After carrying out the following evaluation procedures, the certifying accountants' independence and competency have met the related regulations. The company has submitted the evaluation result to the Board of Director's Meeting on January 29, 2018.               <ol style="list-style-type: none"> <li>(1) Obtain accountant's independence statement</li> <li>(2) Review years of continuing implementation as a certifying accountant in the company</li> <li>(3) Request certifying accountant to fill out a competency questionnaire. The questionnaire results are evaluated and</li> </ol> </li> </ol>	

List of <u>Assessments</u>	Implementation Status ( <u>Note 1</u> )			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
			<p>summarized.</p> <ul style="list-style-type: none"> <li>✓ Whether the certifying accountant is a director of the Company or in its affiliated company?</li> <li>✓ Whether the certifying accountant is a shareholder of the Company or its affiliated company?</li> <li>✓ Whether the certifying accountant receives remunerations from the Company or its affiliated company?</li> <li>✓ Whether the certifying accountant confirms his accounting firm has complied with regulations associated to independency?</li> <li>✓ Whether the certifying accountant's accounting firm has joint certified accountant that serves as the Company's director, manager, or other posts that might have significant influence to the Company's audit practices within a year of his retirement from the accounting firm?</li> <li>✓ Whether the certifying accountant has been providing audit services for the Company for continuous seven years?</li> <li>✓ Whether the certifying accountant complies with the independency requirement stated in the No.10 of the "Norm of Professional Ethics of the Certified Public Accountant"?</li> </ul>	
4. Whether the Company establishes a specific (part-time) unit or personnel to be responsible for corporate governance related affairs (including but not limited to provide information required for directors/supervisors to execute business issues, provide meeting minutes of the Board of Directors' Meeting or Shareholder's Meeting in accordance with laws and regulations, to handle business registration or amend business registration, and to make meeting minutes of the Board of Directors' Meeting and Shareholders' Meeting)?	✓		The Company has established corresponding personnel to handle with corporate governance related affairs.	No significant divergence

List of <u>Assessments</u>	Implementation Status ( <u>Note 1</u> )			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
5. Whether the Company establishes communication channels with interested parties (including but not limited to the Company's shareholders, employees, customers, and suppliers), and whether the company constructs a web site for interested parties on the company's website and properly answers all the important CSR related questions arising from interested parties?	✓		The company has and maintains good communications with its banks, creditors other than banks, employees, customers, and suppliers. Meanwhile, the company has built a web page for interested parties (in Chinese) under the section of Social Responsibility. We do respect all's legitimate rights and interests.	No significant divergence
6. Whether the Company entrusts professional stock affairs agency to handle Shareholder's Meeting related affairs?	✓		The company entrusts "Capital Securities Corporation" as our agency of stock affairs to handle all Shareholders' Meeting related affairs.	No significant divergence
7. Information Disclosures A. Whether the company constructs a website and discloses information about the company's financial and corporate governance? B. Whether the company adopts other methods to disclose the company's information (such as constructing English website, assigning a staff to collect and disclose the company's information, truly carry out spokesman system, put road show information and contents on the company's website, etc...)	✓  ✓		A. The company has a company website ( <a href="http://www.fuhsing.com.tw">www.fuhsing.com.tw</a> ) . Under the Investor Relations section, one can inquire about the company's financial, annual reports and share prices. Under the Products section, pictures of our products are also exhibited. B. The company has assigned a staff to collect and disclose the company's information and truly carries out the spokesman system.	No significant divergence
8. Whether the company has other important information that might help understand the operation of corporate governance (including but not limiting to information regarding to employees' rights, the consideration for employees, investor relationship, supplier relationship, relationship with interested parties, director and supervisor's further education pursuit, risk management policy and risk measurement implementation, customer policy, insurance procured for directors and supervisors, and etc...)	✓		1 、 The company encourages employees to communicate directly with the management to properly reflect their suggestions on important decisions regarding the company's operation or employee's benefit. 2 、 On the company's website ( <a href="http://www.fuhsing.com.tw">www.fuhsing.com.tw</a> ) , information about the company, corporate social responsibility, products, investor relationship, join us (recruiting information), supplier platform are listed in separate sections. Also our contact information including emails, telephone number, and address can be found on the website. (1) The company has established an e-filing work system to provide investors and interested parties with information that might affect their decision. (2) The company's directors and supervisors attend educational training with a fixed schedule. (3) Risk management policy and the implementation of risk measurement: Not applicable (this is for securities brokers).	No significant divergence

List of <u>Assessments</u>	Implementation Status ( <u>Note 1</u> )			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
			(4) Consumer protection or the implementation of customer policy: Not applicable (this is for securities brokers). (5) The company does not purchase any liability insurances for directors and supervisors.	
<p>9. Whether the Company provides explanations on the process of improvement on the corporate governance assessment result published by the TWSE Corporate Governance Center and provide prioritized issues and measures for areas that have not been improved? (Companies that are not included in the assessed companies do not fill in this section.)</p> <p>To explain the improvements in 2017 based on the result of the most current year's corporate governance assessments as below:</p> <ol style="list-style-type: none"> <li>More than one third of directors (including at least one independent director) presented in the Company's General Shareholders' Meeting: The company started to disclose the director's attendance name list in the meeting meetings of the Board of Directors' Meeting, as well as established two seats for independent directors when the Company carried out a complete re-election of directors and supervisors in 2017. In the future, we will continue to invite our directors and independent directors to actively attend the Company's Shareholders' Meeting.</li> <li>The Board of Directors' Meeting regularly assesses the independency of the Company's certifying accountant and discloses the assessing process according to the facts in the annual report. The Board of Directors regularly assesses the independency and competency of the assigned certifying accountant every year. In addition, started from 2016, besides obtaining certifying accountants' written declaration of independence and reviewing certifying accountant's years of continuous appointment, the Company also discloses the assessing issues on the questionnaires of certifying accountant's competency based on the facts.</li> <li>The board member should include at least one female director. The Company set up two seats for independent directors in 2017, among which one is female director. While is electing board members, we place value on gender equality and knowledge, skill, professionalism to carry out the work as a member of the Board.</li> <li>Disclose the name list of major shareholders in the Company's annual report and on the Company's website: Besides disclosing major shareholders on the Company's annual report, started from 2107, we also disclose the name, shareholding amount and percentage of shareholder, who holds more than five percent of the company's shares and the holding share's percentage is in the top 10 rank on the company's website.</li> </ol>				

5. The composition, duty, and operation of the company's Remuneration Committee

(1) Members of the Remuneration Committee

Identity	Condition Name	Having at least 5 years working experiences and professional qualifications listed below			Conditions of Independence (Note 2)								Number of concurrent duties in other public companies as independent directors	Remarks (Note 3)
		At least a lecturer from public or private colleges in business, legal affairs, finance, accounting and other business related department	Judges, prosecutors, lawyers, accountants, or other business related technical staffs who are holders of professional or specialized vocational certification from state exam	Working experience in business, legal affairs, finance, accounting, or other business related fields.	1	2	3	4	5	6	7	8		
Other	CHEN, Chin-Chi		✓		✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	CHANG, Ling-Ling		✓		✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	CHEN, Yung-Chun			✓	✓	✓	✓	✓	✓	✓	✓	✓	0	



Note 1: Please fill in Director, Independent Director or Others in the field of Identity according to the actual situation	
Note 2: Please mark “✓” in the relevant criteria for committee members, who have met the following criteria two years before being elected and during their tenure	
(1)	Neither an employee of the company nor of its affiliated enterprises.
(2)	Neither a director or a supervisor of the company nor of its affiliated enterprises (Exceptions apply to independent directors that directly and indirectly hold more than over 50% of the voting shares of the company or its parent company).
(3)	A natural person shareholder that neither him/herself, his/her spouse, or minor children or under other person’s name holds more than 1% of the total outstanding shares of the company nor on the list of the top ten major natural person shareholder.
(4)	Not a spouse, a second-degree relative, or third-degree immediate blood relative of the person that is in the three categories mentioned above.
(5)	Neither a director, supervisor, or employee of a corporate shareholder that indirectly holds more than 5% of the company’s total outstanding shares nor a director, supervisor, or employee of any of the top 5 major corporate shareholders.
(6)	Not a director (council member), supervisor, manager, or shareholder that holds more than 5% of shares of any of the affiliated enterprises that financially or commercially relate to the company.
(7)	Neither an individual professional nor an owner, partner, director (council member), supervisor, manager, or spouse of an sole proprietorship, partnership, corporation, or institution that provides operational, legal, financial, or accounting services to the company or its affiliated enterprises. Exceptions apply to members of the Remuneration Committee that shall carry out their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over The Counter.
(8)	No matters related to Article 30 of the Company Act.
Note 3: If the member’s identity is a director, please also clarify whether the member meets the regulation stated in Article 6-5 of the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter”	

**(2) The Operation of the Remuneration Committee.**

1. There are 3 committee members in the company's Remuneration Committee.

2. Current committee member's term of office: starting from Aug. 7, 2017 to Jun. 18, 2020. In current fiscal year, 2 meetings were held (A).

The committee member's status and attendances were as follows:

Title	Name	Attendance in Person (B)	Attendance in Proxy	Actual Attendance Rate (%) (B/A) (Note)	Remarks
Convener	CHANG, Ling-Ling	2	0	100%	-
Member	CHEN, Chin-Chi	2	0	100%	-
Member	CHEN, Yung-Chun	2	0	100%	-

Other matters that should be noted:

1. If the Board of Directors do not accept or intent to modify suggestions made by the Remuneration Committee, then date of Board of Director's Meeting, term, content of the motion, resolutions, and reactions to the suggestions made by the members of Remuneration Committee should also be addressed (If the remuneration proposal approved by the Board of Directors is better than the proposal suggested by the Remuneration Committee, the divergence and the reason should also be addressed).
2. For motions that are determined by the Remuneration Committee, if committee members hold objective or withholding comments and such comments are recorded or taken down as written statement, then date of the meeting of Remuneration Committee, term, content of motions, all committee members' opinions and the reactions to the suggestions should also be addressed.

6. The implementation of corporate social responsibility

List of <u>Assessments</u>	Implementation Status <u>(Note 1)</u>			Divergence from the regulated Best Practices and
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation (Note 2)</u>	Reasons of the Divergence
<p>1. Implementation of Corporate Governance</p> <p>A. Whether the company establishes corporate social responsibility policy or system and reviews the efficacy of such policy or system?</p> <p>B. Whether the company regularly holds education training on the area of social responsibility?</p> <p>C. Whether the company sets up a unit that is exclusively (or concurrently) responsible for promoting the corporate social responsibility in the company, and such unit should be in charged by high level management empowered by the Board of Directors and reporting directly to the Board of Directors?</p> <p>D. Whether the company establishes reasonable remuneration and salary policy, integrates employee's performance evaluation system with the company's CSR policy, and sets up effective and explicit reward and punishment system?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>A. The company has established "Declaration of Corporate Social and Environment Responsibility (SER)" and "Corporate Social and Environment Responsibility (SER) Execution Booklet" and publicized the information on the Company's website and other external related websites for review by related interested parties. The Company also voluntarily share information and communicate with related interested parties through website, mail box and direct lines. In addition, we disclose important information regularly on our annual operation report and CSR report and irregularly make such disclosure on periodicals or news. We have set up diversified and effective communication channels to collect responses and comments whenever necessary and reflect such responses and comments on the Company's strategy and policies in order to establish a mutually beneficial relationship with interested parties.</p> <p>B. The company conducts SER-related education training per year. Below lists our education trainings that were held in 2017:</p> <p>1. Training for new employees and also a re-training session on SER topic for all employees in the plant. Date of Training: 04/10/2017</p> <p>2. "Fu Hsing superintendents SER annual retraining session" was held in the light of all superintendents. We also invited suppliers to participate. Date of Training: 05/08/2017</p> <p>3. "Annually retraining session for Supply Chain Safety (AEO)" was held in the light of all employees in the plant. Date of Training: 04/10/2017</p> <p>4. "Supply Chain Safety Key Education Training_Product Safety_Cargo Safety_Suspicious Package Identification Training_Information Safety" was held in the light of specific employees (such as shipping personnel, logistics personnel, mailroom personnel, etc...) Date of Training:</p>	No significant divergence

List of <u>Assessments</u>	Implementation Status <u>(Note 1)</u>			Divergence from the regulated Best Practices and
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation (Note 2)</u>	Reasons of the Divergence
			<p>05/02/2017-05/03/2017</p> <p>5. According to the “Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE listed and TPEX listed Companies, directors are required to take 6 hour of CPE (Continuing Professional Education) per year. In 2017, educational courses attended including “2017 Insider transactions and corporate social responsibility seminar” held by TWSE, “Corporate governance/sustainable operating certification lecture class” held by UBS, the “2017 Insider Trading related Law Compliance Seminar for Public Companies and non-public Companies” held by Securities &amp; Futures Institute, and the “Corporate Governance Forum – Corporate Sustainable Operation” held by Taiwan Academy of Banking and Finance.</p> <p>C. The company has established a SER Promoting Committee to be responsible for the planning, promotion, inspection, review, and improvement of the company’s social and environment policies in December 2013. The committee is directly under the jurisdiction of the President. All the policies made are announced and promulgated to all the related parties after obtaining approvals from the Chairman. Besides equipping with one execution member, the “SER Promoting Committee” also contains 8 major functional units in various professional fields to be responsible for collecting interested party related issues, establishing implementation plans, executing, reviewing and making improvements in accordance with the operational cycle of PDCA to support the Company in the progress of sustainable development.</p> <p>D. Fu Hsing’s remuneration and work conditions are fully in compliance with local labor law and standards made by the International Bill of Human Rights. Besides, Fu Hsing does its best to assure all the employees having a stabilized salary income and based on a certain basis finds ways to promote and encourage employees to challenge for higher salaries and remunerations.</p>	

List of <u>Assessments</u>	Implementation Status <u>(Note 1)</u>			Divergence from the regulated Best Practices and
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation (Note 2)</u>	Reasons of the Divergence
			<p>The overall pay includes salary, rewards and employee compensation. Employee's salary is determined by his education background, past experiences, individual's professional ability, and work performance. The company never determines employees' salary by their gender, religion, racial, nationality, political party, etc...</p> <p>Fu Hsing's "Work Practices" already includes the company's reward and disciplinary system. All the new employees shall be distributed a copy of "Work Practices" when they first report to the company.</p>	
<p>2. Development for Environmental Sustainability</p> <p>A. Whether the company devotes to enhancing the utilization efficiency of all the resources and adopts recycled materials that cause less impact to the environment?</p> <p>B. Whether the company establishes a proper environment management system based on the industry characteristics?</p> <p>C. Whether the company notices changing weather's impact on the company's operation activities and investigates greenhouse gas evaluation, sets up strategies to save energy, reduce carbon and greenhouse gas production?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>A. The company considers risk control factors for the environment based on ISO14001 environment management system and uses this to establish improvement goal and management policies in order to continuously make improvements. The company devotes to continuously promoting the execution efficacy on promoting resources utilization efficiency:</p> <ol style="list-style-type: none"> <li>1. Water conservation proposal: a continuous execution in reducing water for cleaning purpose during manufacturing procedures and replacing water purifying facility to reduce water usage.</li> <li>2. Energy saving proposal: the execution includes replacing old lighting system with energy saving lighting facilities, utilizing natural light optical system to reduce electricity used for lighting purpose in order to continuously reduce the use of electricity.</li> <li>3. Alternative fuel proposal: replacing heavy oil with natural gas to be the process fuel to reduce impact to the environment.</li> <li>4. Wastage reduction proposal: improving manufacturing facilities, reducing the use of sandpaper and packaging materials, and changing to use recycled paper material to make product manuals.</li> <li>5. VOC solvents replacement proposal: to reduce stationary air pollution sources, lower its environmental impacts, and reduce advert influences to employee's health.</li> </ol>	No significant divergence

List of <u>Assessments</u>	Implementation Status <u>(Note 1)</u>			Divergence from the regulated Best Practices and
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation (Note 2)</u>	Reasons of the Divergence
			<p>B. The company's Environmental Protection Promotion System has obtained ISO 14001 certifications and is verified regularly every year.</p> <p>C. The company has a environmental protection strategy that connects to the concepts of saving energy, reducing carbon and green house air production:</p> <ol style="list-style-type: none"> <li>1. To effectively operate the company's environment management system, truly carry out environment management, pollution prevention and control system based on the spirit of continuously improvement, so as to reduce environmental impacts.</li> <li>2. To strengthen the improvements on manufacturing procedures, intensify the control on pollution prevention facility's work procedures, periodically exam work procedures as environmental protection regulation requested and make sure the regulations are met.</li> <li>3. To save energy and reduce carbon production. Resources are recycled and re-utilized to reduce the consumption wastes and solidify pollution prevention system.</li> <li>4. To strengthen education training and promote all employees' environmental awareness in order to fulfill our responsibility to the environment.</li> <li>5. To review and examine greenhouse gas situation according to the Greenhouse gas reduction and management act and greenhouse gas inventory report management principle by the Environmental Protection Administration of the Executive Yuan, R.O.C. and voluntarily disclose the result in the Company's CSR report. The implementation of energy saving results is as below: in 2017, the total greenhouse gas emission was 5562.18tons, a Co<sub>2</sub>emission reduction of 21% comparing to total emissions of 7039.88 tons in 2016.</li> </ol>	
<p>3. The Care for Social Welfare</p> <p>A. Whether the company makes related management policy and procedures according to laws and International Bill of Human Rights?</p> <p>B. Whether the company constructs complaint mechanism and channels for</p>	✓		<p>A. The company's regulations and management system not only meets conditions requested by laws and regulations but also treats all the employees fairly and protects all's labor rights.</p> <p>B. The company has already established employee's complaint mechanism,</p>	

List of Assessments	Implementation Status (Note 1)			Divergence from the regulated Best Practices and
	Yes	No	Summary & Explanation (Note 2)	Reasons of the Divergence
employees and properly handle employee's complaints?	✓		which included employee's opinion box, external email system and complaint hot line. The complaint hot line is directly managed by the superintendents of the Administration Department and Legal Affairs Department respectively.	No significant divergence
C. Whether the company provides a safe and healthy work environment to employees and regularly holds employee's' safety and health education training?	✓		C. The company sets up a unit that is exclusively responsible for the management of career safety and health, regularly convenes safety and health committee meeting, establishes and puts into effect of the "safety and health practices" for managing employee's work environment and facilities, periodically handles education trainings on labor safety and health in order to ensure providing a safe and healthy environment and a continuous improvement mechanism.	
D. Whether the company builds a regular communication mechanism with employees and notifies employees about operational changes that might be having significant influences on the company?	✓		D. (1) The company convenes a monthly morning meeting that requests the participation of all the Fu Hsing employees on every first week's Monday morning each month. During the morning meeting, the management can make important announcements, such as the company's operation status and major issues, to all the employees.	
E. Whether the company establishes effective professional skill development training plans for employees?	✓		(2) The company also uses meetings at all levels such as monthly operation meeting, weekly factory level meetings, weekly department morning meetings to pass down operation related information to all the levels.	
F. Whether the company establishes policies that are able to properly reflect the company's operation performance or achievements on remunerations paid to employees?	✓		(3) The company has Labor-Management Meeting mechanism. 7 representatives are elected from the management side and 7 representatives are elected by and representing all the employees. The meeting is convened regularly once a quarter. During the meeting, basic information including the company's operation status, total numbers of employees, etc... are reported, and also motions such as labor conditions, employee's benefits, and other employee's rights related issues are also brought up for discussions.	
G. Whether the company develops related consumer rights protection policy and complaint procedures in the light of R&D, procurement, production, work, and service procedures?	✓		E. The company has constructed a multi-directional training system for employees. The system includes introductory training sessions for new employees, on-job training, real-time practices with assistance, job	
H. Whether the company follows regulations and international standards to market and label the company's products and services?		✓		
I. Whether the company assesses supplier's past record to see if the supplier has bad history in influencing the environment and the society before the company takes the supplier?				
J. Whether the company, while signing supplier's contract with major				

List of <u>Assessments</u>	Implementation Status <u>(Note 1)</u>			Divergence from the regulated Best Practices and
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation (Note 2)</u>	Reasons of the Divergence
suppliers, includes a provision requesting suppliers not to violate the company's social responsibility or cause any significant impacts to the environment or the society, and clearly stating that if suppliers breach the provision, the company may terminate or cease the contract at any time?		✓	<p>rotation system, and lectures with multiple topics. It is hoped by rich and diversified learning channels and proper career development plan, all the Fu Hsing employees have opportunities to utilize their expertise to work for the company and grow with the company.</p> <p>F. According to Article 26-1 of the Company's Articles of Incorporation, the Company should distribute no less than five percent of the Company's earning of the current year to employees as remunerations. The overall employee salary includes base wage, over-time pay, year-end and holiday bonuses, and employee bonus. Employee's base wage is determined by his/her educational background, work experiences, professional ability, and work performance.</p> <p>G. The company has after-sale services for all the products and also carries out an effective customer complaint channel to assure all customers' rights.</p> <p>H. Products manufactured by Fu Hsing have obtained various international production tests and certifications. For example, the ANSI standard and fireproof certification by the UL in the North America, and the CE certification in Europe, etc...</p> <p>I. Fu Hsing evaluated 14 suppliers in 2017, among which 14 were qualified and 11 new suppliers signed "Declaration of Social and Environment Responsibility". Up until the end of 2017, 48% of Fu Hsing suppliers have signed the "Declaration of Social and Environment Responsibility".</p> <p>J. During the 2017 fiscal year, there was no supplier relationship termination due to social impacts by the company or its suppliers.</p>	



List of <u>Assessments</u>	Implementation Status <u>(Note 1)</u>			Divergence from the regulated Best Practices and
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation (Note 2)</u>	Reasons of the Divergence
4. Information Disclosure Enhancement  A. Whether the company discloses relevant and reliable CSR related information on the company's website and on the Market Observation Post System?	✓		A. The company discloses a Sustainable Operation Reporting on the company's website ( <a href="http://www.fuhsing.com.tw">http://www.fuhsing.com.tw</a> ) and also discloses related information on the M.O.P.S. system of the Taiwan Stock Exchange.	No significant divergence
5. If the company follows "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" to establish the company's CSR rules, then the company should also state the implementation status and the divergence between the real practices and the rules: The company has established a "Corporate Social and Environment Responsibility (SER) Execution Booklet" based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM listed Companies" and formed an execution committee to carry out the planning, promotion, auditing, reviewing, and improvements of the company's SER policies and ensure the execution status is in conformity with the requested principles.				
6. Other important information that might help to understand the operation of the CSR practices: The company set up "Taiwan Fu Hsing Cultural and Educational Foundation" as early as in the year of 2001 to make devotions in cultural education and social care. Till today, the Foundation has obtained Excellence Grade in the Comprehensive Evaluation by the Education Bureau, Kaohsiung City Government for the 8 <sup>th</sup> consecutive years and has gained praises in public for many times.				
7. If the company's CSR report passes the verification standard of related verification institution, the company should also make explanations: The Company is not required by law to edit and make the Corporate Social Responsibility Report because Fu Hsing is not in the criteria set by the Financial Supervisory Commission. However, the Company has voluntarily completed the CSR report for continuous three years based on the principles of self-discipline and continuous operation. In 2014, Taiwan Fu Hsing's Corporate Social Responsibility Report has been verified by SGS's AA1000 certification and the 2016 report also had been uploaded to the Company's web page under the Social Responsibility Section for all the interested parties to view and check.				

7. The implementation of ethical operation and the implementation manners used

List of <u>Assessments</u>	<u>Implementation Status (Note 1)</u>			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
<p>1. Ethical Management Policy and Plan</p> <p>A. Whether the company explicitly states the company's policy and method toward ethical management and also the promise made by the Board of Directors and the company's management of carrying out ethical management policies actively and honestly?</p> <p>B. Whether the company prescribes prevention programs to guard against unethical conducts and clearly stipulates work procedures, behavioral guidance, punishment at violation, and complaint system in each program and truly executes the stipulation?</p> <p>C. Whether the company adopts any prevention programs to forestall any activity stated in Article 7-2 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies or other operation activities that might have higher unethical conducts in other business scope?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>A. The company has its own "Ethical Management Principles". A legal unit is empowered to handle the work procedures and the amendment, execution, explanation, consulting, recording &amp; filing, and execution under supervision of such behavior guidance. While encountering with unethical conducts, the handling and follow up discussions on the improvements should be reported to the Board of Directors.</p> <p>B. The company established SER (Social &amp; Environment Responsibility) Promotion Committee in December 2013 to establish, audit, review and improve the company's social and environmental strategy policies. The Committee is directly in charged by the President, authorized by the Chairman. All the related policies should be approved by the Chairman and then released to all related persons. Under orders by the President, the committee should convene meetings regularly (in every four months).</p> <p>C. For assuring the implementation of ethical operation, the company has established effective accounting system and internal control system. The internal audit personnel also regularly inspect and review the compliant status.</p>	No significant divergence
<p>2. Ethical Operation Implementation</p> <p>A. Whether the company assesses corresponding parties' past credit histories and</p>			<p>A. The company has not yet set up ethical behavior clauses in business contracts with corresponding parties. But this is under planning.</p>	No significant divergence

List of <u>Assessments</u>	<u>Implementation Status (Note 1)</u>			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
<p>explicitly sets up ethical behavior clause in any of the contracts signed with the corresponding parties?</p> <p>B. Whether the company establishes a unit that is exclusively (concurrently) responsible for promoting corporate ethical management and operation and reporting to the execution status to Board of Directors regularly?</p> <p>C. Whether the company establishes conflicts of interest prevention policy, provides proper declaration channels, and truly carries out the policy?</p> <p>D. Whether the company has established effective accounting system and internal control system, and empowers internal audit unit to carry out periodic inspection or entrusted accountants to carry out inspections on the systems in order to carry out ethical operation?</p> <p>E. Whether the company regularly holds internal or external education training in the light of ethical operations?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>✓</p> <p>✓</p>	<p>B. The company has not yet set up a special unit that is exclusively or concurrently responsible for corporate social responsibility. All the groups and departments carry out the corporate social responsibility according to their functions and operations.</p> <p>C. The company has “Work Rules” that clearly states that Fu Hsing employees cannot use their authority of office to gain benefits for themselves or for others and Fu Hsing employees cannot accept gifts and services, collect rebates or have other illegitimate benefits due to official conducts or infringed official conducts.</p> <p>D. The company has established effective accounting system and internal control system, and empowers internal audit unit to carry out periodic inspection on the systems in order to carry out ethical operation.</p> <p>E. The annual retraining sessions with regard to the “declaration of corporate social and environment responsibility”, which was held on Apr. 10, 2017, and the “Fu Hsing superintendents SER annual retraining session”, which was held on May 8<sup>th</sup>, 2017, included the training of corporate ethical operations.</p>	
<p>3. The Operation of Accusation (Whistle-Blowing) System</p> <p>A. Whether the company establishes specific accusation and awarding system and creates convenient accusation channels, and whether proper personnel are appointed to investigate the being reported person and handle the case?</p> <p>B. Whether the company sets up standardized investigation work procedures and related security system while handing the accusation cases?</p> <p>C. Whether the company adopts some protection mechanism to protect reporter from encountering improper punishment?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>A. The already made “Social and Environment Responsibility Statement” is explicitly expressed specific the company’s whistle blowing system. The Administration Department is assigned to be the accusation receiving unit.</p> <p>B. The company has set up “Social and Environment Responsibility Statement”. Complaints made by the company’s employees should be directly sent to the highest level superintendent of the Administration Department. Superintendent of the Administration Department may convene “Complaints Review Committee” depends on the complaint contents to discuss and make further process on the complaint cases. However, the superintendent of the complainant should not be included as one of the Complaint Review Committee members.</p>	No significant divergence

List of <u>Assessments</u>	<u>Implementation Status (Note 1)</u>			Divergence from the regulated Best Practices and Reasons of the Divergence
	<u>Yes</u>	<u>No</u>	<u>Summary &amp; Explanation</u>	
			C. The company has set up “Social and Environment Statement” to serve as a guideline to process all the complaint cases. In order to protect complainant’s personal information, all the process and handled in anonymous manner during the process. All the progress and results are secretly protected to prevent the complainant from differential treatments.	
4. Information Disclosure Enhancement A. Whether the company discloses the contents of ethical operation criteria and the implementation efficacy on the company’s website and on the Market Observation Post System?	✓		The company has established “Guidance for Ethical Operation Procedures and Behaviors” and disclosed it on the company’s website and on the M.O.P.S. Meanwhile, following other related laws and regulations, the company also uses the guidance as a basis of the company’s ethical operation and management.	No significant divergence
5. If the company follows “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” to establish the company’s ethical management rules, then the company should also state the implementation status and the divergence between the real practices and the rules: None.				
6. Other important information that might help to understand the operation of ethical management practices:  A. The company follows the regulations and rules stated in the Company Act, Securities and Exchange Act, Business Entity Accounting Act, related chapters for TWSE/GTSM listed companies and regulations relating to other commercial behaviors and takes such rules and regulations as basis to carry out ethical management practices. B. The company has established Board of Director’s conflict of interest system in its “Rules of Procedures for Board of Director’s Meeting”. During the Board of Director’s Meetings, if any director or director’s represented corporation has conflict of interest on motions submitted on the meeting and such conflict of interests matter may bring risks to harm the company’s benefit, then the director must state his comment on the motions and answer all related question. Besides, the director should not enter in to the motion’s discussion or voting and should avoid his presence while the motion is brought up for discussion and voting. He cannot execute any voting right on the motion even if acting for directors. C. The company has established “Management Procedures to Prevent Insider Trading”. The company carries out education trainings and guidance on the company’s directors, supervisors, managers, employees, important information related units, and objects of the important information, and signs confidentiality agreement with them. Besides, the company also irregularly checks on insider’s security trading information to see if there is any extraordinary trading circumstances and pays special attention on the management and storing of document, files, and e-records relating to the company’s important information.				

8. If the company has established its own ethical corporate management principles and related policies, then the inquiry method should also be addressed: The company has promulgated Social and Environment Statement, Ethical Corporate Management Principles, Rules of Procedures for Shareholders' Meeting, Rules of Procedures for Board of Director's Meeting, Internal Whistle Blowing Guidelines, Work Procedures to Handle Significant and Important Information, and a comprehensive internal control and internal audit system. All the related information has been disclosed on the company's website for meeting with employees' inquiries and truly carrying out and promoting Fu Hsing's corporate governance system.
9. Other significant information that will provide a better understanding of the state of the company's implementation of corporate governance may also be disclosed: No.
10. Corporate governance related continuing education listed below were courses taken by managers:  
The Business Weekly's CEO Club, held by Business Institute  
2017 Good Performance on Lean Management Company Open Day – to Hotai Auto plant, held by Chinese Lean Management Association  
Continuous Advanced Curriculum for accounting managers (2017), held by National Cheng Kung University Department of Accountancy  
2017 Corporate Conference Practice Seminar, held by TWSE

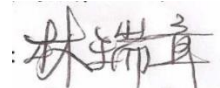
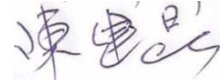
## 11. The implementation of internal control system

### (i) Statement of internal control system

Date: March 23<sup>rd</sup>, 2018

In the light of the Company's 2017 internal control system, the Company is hereby made the following statement based on the results of self-assessment.

- A. The company acknowledges that the Board of Directors and management personnel are responsible for establishing, performing, and maintaining an Internal Control System. The system has already been duly established in the company with purposes to provide a reasonable assurance of the company's efficient and effective operations (including the profits, performance and safeguard of assets, etc...), to ensure the reliability of financial reports, and to reasonably assure the compliance to applicable laws and regulations.
- B. The company also acknowledges that the Internal Control System has inherent constraints irrespective of how comprehensive the system design is and therefore could only provide a reasonable assurance on the three above-mentioned goals. In addition, due to changes in the environment and circumstances, the effectiveness of the Internal Control System may vary accordingly. Nevertheless, the Internal Control System is equipped with self-monitoring mechanisms. Should any flaws be recognized, the company would enforce corrective measures immediately.
- C. The company evaluates the effectiveness and execution of its Internal Control System according to the guidelines defined in the "Regulations Governing Establishment of Internal Control Systems by Public Companies ("the Guidelines" hereinafter) set forth by the Financial Supervisory Commission. The Guidelines divide the internal control system into 5 major elements: 1) Control environment; 2) Risk assessments; 3) Control operations; 4) Information and communication; 5) Monitoring. Each element includes certain factors. Please refer to "the Guidelines" for the detailed factors.
- D. The company has assessed and evaluated the design and execution effectiveness based on above-mentioned internal control system assessing elements.
- E. On the basis of the self-assessment, the company is of the opinion that the company's Internal Control System (including the governance to its subsidiaries) on Dec. 31<sup>st</sup>, 2017, including the understanding of the efficiency and effectiveness of operations and achievements, reliability, timing, and transparency of the company's report, and the compliance to applicable laws and regulations due to the design and execution of its Internal Control System, is effective and provides a reasonable assurance of achieving the above-mentioned goals.
- F. The Statement of Internal Control System will be a prominent feature of the company's annual report and prospectus. It will also be released to the public. Should any statement herein involve forgery, concealment or any other illegalities, liabilities stated in Articles 20, 32, 171, and 174 of the Securities and Exchange Act shall apply.
- G. The statement has been approved in the Board of Director's Meeting on March 23<sup>rd</sup>, 2018 with 7 directors presenting at the meeting and 0 holding objection opinion on the contents of this Statement of Internal Control System.

Chairman	Taiwan Fu Hsing Industrial Co., Ltd.	Signature
		
President :		Signature

(ii) If the company is requested by the Securities and Futures Bureau to entrust accountants to audit its internal control system, the company should also disclose the accountant's audit report: Not applicable

12. Regulatory authorities' legal penalties to the company and its employees, and the company's punishment to its employees due to violation to the company's internal control policy in the most current fiscal year and the current fiscal year until the printing date of this annual report: None.
13. Important resolutions made in the Shareholders Meeting and Board of Director's Meeting in the most recent fiscal year and up until the printing date of this annual report
  - (1) General Shareholders' Meeting

Date	Important Resolutions	Execution Status
June 19 <sup>th</sup> , 2017	Adoption of the 2016 business report, financial statements and earnings distribution proposal.	On Jun. 26 <sup>th</sup> , 2017, the Chairman resolved to set the ex-dividend date on Jul. 19 <sup>th</sup> , 2017 and Aug. 11 <sup>th</sup> , 2017 as the cash dividend distribution date.

(2) Board of Director's Meeting

Date	Important Resolutions
Jan. 13, 2017	Review of "2016 Total Remuneration paid to Employees"
	Review of "Remunerations paid to Managers and Employees in 2016"
Mar. 27 <sup>th</sup> , 2017	Acknowledge on the 2016 Business Report and Financial Statements
	Resolve on the 2016 Earnings Distribution
	The Proposal for subsidiary, Tong Hsing Enterprise Co., Ltd. (Tong Hsing Company) to Raise Capital with Cash Funding
	Draft on the 2016 earnings allocation percentage for directors and supervisors' remuneration
	The proposal of Complete Re-election of Directors and Supervisors
May 08 <sup>th</sup> , 2017	Proposal to review candidate list of independent directors in the General Shareholders' Meeting
Jun 19 <sup>th</sup> , 2017	The proposal to elect the Chairman of the Board of Directors. This was the very first board meeting after the current complete re-election of directors
Aug. 7 <sup>th</sup> , 2017	The proposal to lend fund to subsidiary FU HSING AMERICAS, INC
	The proposal to re-elect committee members of the Remuneration Committee
	The proposal to amend "Rules of Procedures for Board of Directors Meetings"
Nov. 1 <sup>st</sup> , 2017	The proposal regarding 2018 audit plan
Jan. 29 <sup>th</sup> , 2018	Review of "2017 Total Remuneration paid to Employees"
Mar.23, 2018	Acknowledge on the 2017 Business Report and Financial Statements
	Resolve on the 2017 Earnings Distribution

14. Whether any director or supervisor ha different opinions on the approved important resolutions during the Board of Directors' Meetings in the most recent fiscal year and up until the date of printing of this annual report and such different opinions were recorded or taken down as written statement: None.
15. The summary of post resignation or dismissal of personnel whose job might be relating to the company's financial reports in the most recent fiscal year and up until the date of printing of this annual report: None



(5) Information on certifying accountants

Name of Accounting Firm	Name of Accountant		Review Period	Remark
PwC Taiwan	WANG, Kuo-Hua	LIAO, A-Shen	2017	

(6) Information on certifying accountant's professional fees

(1) Information on accountant's professional fees

Unit: NTD1,000

Type		Audit fee	Non-Audit fee	Total
Fee Range				
1	Below NT\$2,000	-	\$1,300	\$1,300
2	NT\$2,000 (including)~NT\$4,000	\$3,660	-	\$3,660
3	NT\$4,000(including)~NT\$6,000	-	-	-
4	NT\$6,000 (including)~NT\$8,000	-	-	-
5	NT\$8,000(including)~NT\$10,000	-	-	-
6	NT\$10,000 and above	-	-	-

(2) Non-Audit fee that accounted to one fourth or above of the auditing fees:

Unit: NTD1,000

Name of Accounting Firm	Name of Accountant		Audit Fee	Non-Audit Fee					Review Period	Remark
				System design	Business registration	Human resource	Others	Total		
PwC Taiwan	WANG, Kuo-Hua	LIAO, A-Shen	\$3,660	-	-	-	\$1,300	\$1,300	2017	Transfer pricing and other related services \$1,300
Note: the Company does not have issues that are required by the regulations listed in Article 5-1, Clause 10 of this Accounting Principles to be disclosed on the Annual Report.										

(3) Change of accounting firm and the audit fee paid is less than previous year before the change of accounting firm: Not applicable.

(4) Audit fee is 15% or more less than the previous year: Not applicable.

(7) Information on the change of certifying accountants in the most two recent fiscal years and any subsequent interim period: Not applicable.

(8) Whether the company's chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: No

(9) Change of shareholding for directors, supervisors, manager, and major shareholders

Title	Name	2017		Jan. 1 <sup>st</sup> , 2018 ~ Apr. 18 <sup>th</sup> , 2018	
		Increase (Decrease) of shares held	Increase (Decrease) of shares pledged	Increase (Decrease) of shares held	Increase (Decrease) of shares pledged
Chairman	LIN, Jui-Chang	0	0	0	0
Director & President	CHEN, Chien-Kun	0	0	0	0
Director	Representative of Fu Zhi Investment Co., Ltd.: CHU, Jung-Ho	0	0	0	0
Director	Representative of Fu Zhi Investment Development Co., Ltd.: Michael A.Hoer	0	0	0	0
Director	Representative of Hong Cheng Investment Co., Ltd.: LIN, Tzu-Hsuan	0	0	0	0
Independent Director	CHANG, Ling-Ling	0	0	0	0
Independent Director	CHEN, Yung-Chun	0	0	0	0
Supervisor	Representative of Fu Zhi Investment Co., Ltd.: LIU, Ju-Shan	0	0	0	0
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: LIN, Wen-Hsing	0	0	0	0
Supervisor	Representative of Fu Yuan Investment Co., Ltd.: HUANG, Fu-Ti	0	0	0	0
Group President	CHU, Jung-Ho	0	0	0	0
Group President	LIN, Teng-Tsai	0	0	0	0
Vice President	CHANG, Jui-Pi	0	0	0	0
Vice President	WANG, Han-Ting	0	0	0	0
Director	LIN, Tzu-Hsuan	0	0	0	0
Director	LI, Chen-Hui	0	0	0	0
Director	LIN, Shih-Huang	0	0	0	0
Director	CHANG, Chin-Sheng	0	0	0	0
Chief Finance Officer	LI, Kuo-Wei	0	0	0	0
Plant Manager	CHUNG, Hsuan-Tung	0	0	0	0

## (10) Information on the top ten shareholders and their interrelationships

Name	Shares held in person		Shares held by spouse and minor children		Shares held under others name		Relationship among top 10 shareholders including spouse and within 2 <sup>nd</sup> degree relative as stated in No.6 of the Accounting Standard		Remark
Person in Charge	Shares	%	Shares	%	Shares	%	Title / Name	Relationship	-
HSBC Depository BNP Paribas Wealth Management (Singapore)	11,261,000	5.98%	-	-	-	-	-	-	-
Fu Zhi Investment Development Co., Ltd.	10,091,307	5.35%	-	-	-	-	Hong Cheng Investment Co., Ltd.	Both companies' Chairman is LIN, Chao-Hung.	-
							Fu Ding Investment Enterprise, Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Xun Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Lian Guang Investment Co.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Sheng International Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
LIN, Chao-Hung									
Fu Ding Investment Enterprise, Co., Ltd.	9,428,254	5%	-	-	-	-	Lian Guang Investment Co.	Both companies' Chairman is LIN, Wen-Hsing	-
							Fu Zhi Investment Development Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Hong Cheng Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Xun Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Sheng International Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
LIN, Wen-Hsing									
Fubon Life Insurance Co., Ltd.	9,400,000	4.99%	-	-	-	-	-	-	-
Chinatrust Commercial Bank Trust Account	8,000,000	4.25%	-	-	-	-	-	-	-
Nan Shan Life Insurance Company Ltd.	6,861,000	3.64%	-	-	-	-	-	-	-
Hong Cheng Investment Co., Ltd.	5,721,451	3.04%	-	-	-	-	Fu Zhi Investment Development Co., Ltd.	Both companies' Chairman is LIN, Chao-Hung	-
							Fu Ding Investment Enterprise, Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Xun Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Lian Guang Investment Co.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Sheng International Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
LIN, Chao-Hung									
Fu Xun Investment Co., Ltd.	4,697,300	2.49%	-	-	-	-	Fu Zhi Investment Development Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Ding Investment Enterprise, Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Hong Cheng Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Lian Guang Investment Co.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Sheng International Investment Co., Ltd.	The company's Chairman is the spouse's relative	-
CHANG, Jui-Pi									
Lian Guang Investment Co.	4,210,417	2.23%	-	-	-	-	Fu Ding Investment Enterprise, Co., Ltd.	Both companies' Chairman is LIN, Wen-Hsing	-
							Fu Zhi Investment Development Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Hong Cheng Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Xun Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Sheng International Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
LIN, Wen-Hsing									
Fu Sheng Investment Development Co., Ltd.	3,758,000	1.99%	-	-	-	-	Fu Zhi Investment Development Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Hong Cheng Investment Co., Ltd.	Both companies' Chairman is LIN, Chao-Hung	-
							Fu Ding Investment Enterprise, Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Fu Xun Investment Co., Ltd.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
							Lian Guang Investment Co.	A 2 <sup>nd</sup> degree relative with the company's Chairman	-
LIN, Jui-Chang									

## (11) Composite share holding percentage

Unit: Share; %

Invested Enterprise (Note 1)	Fu Hsing's stake		Stake of Fu Hsing's directors, supervisors, managers and enterprise that Fu Hsing directly or indirectly has controlling power over		Composite holding	
	Shares	%	Shares	%	Shares	%
FORMFLEX ENTERPRISE CO., LTD.	23,704,000	100%	-	-	23,704,000	100%
MASTER UNITED INVESTMENT GROUP LTD.	1,560,000	100%	-	-	1,560,000	100%
Fortress Industrial Co., Ltd.	33,000,000	100%	-	-	33,000,000	100%
Tong Hsing Enterprise Co., Ltd.	50,000,000	100%	-	-	50,000,000	100%
FU HSING AMERICAS INC.	300,000	100%	-	-	300,000	100%
ARCTEK Industrial Co., Ltd.	4,865	70%	-	-	4,865	70%
Hundure Technology Co., Ltd.	3,513,482	51%	-	-	3,513,482	51%
ALLEGION FU HSING LTD.	(Note 2)	49%	-	-	(Note2)	49%
ARCTEK TECHNOLOGY LTD.	10,000	100%	-	-	10,000	100%

Note 1: Refers to investment under equity method.

Note 2: Not applicable, the company does not issue securities.

IV. Capital Raising Activities  
(1) Source of capital stock

Time	Issuance Price	Authorized Capital Stock		Paid-In Capital		Remarks		
		Number of shares	Amount	Number of shares	Amount	Source of capital stock	Non-cash stock subscription	Others
March 2004	10	242,400,000	2,424,000,000	177,257,541	1,772,575,410	Common stocks converted from convertible bonds \$70,893,250	—	—
April 2004	10	242,400,000	2,424,000,000	166,643,832	1,666,438,320	Capital reduction of \$106,137,090 when merged a subsidiary	—	—
July 2004	10	242,400,000	2,424,000,000	187,375,650	1,873,756,500	Common stocks converted from convertible bonds \$20,731,818	—	—
October 2004	10	242,400,000	2,424,000,000	187,443,733	1,874,437,330	Common stocks converted from convertible bonds \$680,830	—	—
August 2005	10	242,400,000	2,424,000,000	191,991,170	1,919,911,700	Capital increased deriving from stock dividends and employee's stock bonus \$45,474,370	—	Approved by Correspondence Jin-Shou-Shang-Zi No.09401165300 on Aug. 29, 2005
April 2009	10	242,400,000	2,424,000,000	188,452,170	1,884,521,700	Capital reduction of \$35,390,000 by treasury stock retirement	—	Approved by Correspondence Jin-Shou-Shang-Zi No.09801062510 on Apr. 1, 2009

Type of Shares	Authorized Capital Stock			Remarks
	Outstanding shares	Un-Issued shares	Total	
Common Stock	188,452,170	53,947,830	242,400,000	-

(2) Shareholding structure

Shareholding Structure Amount	Government & Institutional Holder	Financial Institution	Other Juridical Persons	Individuals	Foreign Institutions & Investors	Total
Numbers	1	5	83	13,808	68	13,965
Shares Hold	10,000	18,432,000	70,201,135	72,831,797	26,977,238	188,452,170
Shareholding %	0%	10%	37%	39%	14%	100%

(3) Dispersion of shareholding

NT\$10/share / Apr. 18, 2018

Range	Number of Shareholders	Number of Shares Held	Shareholding %
1 ~ 999	3,897	640,813	0.34%
10,000 ~ 50,000	7,684	16,533,320	8.77%
50,001 ~ 100,000	1,254	9,966,539	5.29%
100,001 ~ 150,000	346	4,462,741	2.37%
150,001 ~ 200,000	258	4,859,945	2.58%
200,001 ~ 300,000	191	4,819,873	2.56%
300,001 ~ 400,000	82	2,930,643	1.56%
400,001 ~ 500,000	51	2,383,526	1.26%
500,001 ~ 1,000,000	86	5,978,075	3.17%
1,000,001 ~ 2,000,000	38	5,032,941	2.67%
2,000,001 ~ 4,000,000	22	6,249,927	3.32%
4,000,001 ~ 6,000,000	12	6,113,227	3.24%
6,000,001 ~ 8,000,000	9	6,492,368	3.45%
8,000,001 ~ 1,000,000	3	2,658,000	1.41%
≥1,000,001	32	109,330,232	58.01%
Total	13,965	188,452,170	100.00%

(4) Name list of major shareholders

Name of Major Shareholder	Shares Held	Shareholding %
HSBC Depository BNP Paribas Wealth Management (Singapore)	11,261,000	5.98%
Fu Zhi Investment Development Co., Ltd.	10,091,307	5.35%
Fu Ding Investment Enterprise, Co., Ltd.	9,428,254	5.00%
Fubon Life Insurance Co., Ltd.	9,400,000	4.99%
Chinatrust Commercial Bank Trust Account	8,000,000	4.25%
Nan Shan Life Insurance Company Ltd.	6,861,000	3.64%
Hong Cheng Investment Co., Ltd.	5,721,451	3.04%
Fu Xun Investment Co., Ltd.	4,697,300	2.49%
Lian Guang Investment Co., Ltd.	4,210,417	2.23%
Fu Sheng Investment Co., Ltd.	3,758,000	1.99 %

Share prices, net worth, earnings, dividends, and other related information in the most recent two fiscal years

List \ Year		2016	2017	Current year until Apr. 18th, 2018
Price per Share	Highest	55.30	44.30	38.55
	Lowest	38.45	36.50	35.50
	Average	43.82	40.29	37.30
Book Value per Share	Before profit distribution	27.24	26.71	26.71
	After profit distribution	24.44	Note 1	Note 1
Earnings per Shares	Weighted Average Shares	188,452,170	188,452,170	188,452,170
	EPS	4.35	2.92	—
Dividend per Share	Cash dividend	2.8	2.0	—
	Stock grants	—	—	—
		—	—	—
	Accrued unpaid dividend	—	—	—
Return on Investment	PE Ratio (Note 2)	10.07	13.80	—
	Price to Dividend Ratio (Note 3)	15.65	20.15	—
	Cash Dividend Yield (Note 4)	6.39%	4.96%	—

Note 1: Until the printing date of the annual report, the proposal of 2017 earnings distribution has not yet been resolved in Shareholders' Meeting.

Note 2: PE Ratio= Averaged share price of the year / EPS.

Note 3: Price to Dividend Ratio = Average share price of the year / Cash Dividend per share.

Note 4: Cash Dividend Yield = Cash dividend per share / Averaged share price of the year.

## (5) Dividend policy and the implementation

### (1) Dividend policy

According to the amended Corporate Act on May 20<sup>th</sup>, 2015, a proposal was brought up to resolve the amendment of the Company's Articles of Incorporation on November 9, 2015. According to the amended Articles of Incorporation, the Company shall distribute no less than five percent of the current fiscal year's profit to its employees as employee remunerations and shall distribute no more than five percent of the current fiscal year's profit to its directors and supervisors as remunerations. Nevertheless, the company shall make up the accumulated loss, if any, first before such remuneration distribution.

The Company's bonus for employees may be distributed in cash or with stocks, and the distribution objects may include employees of the company's affiliated companies; in this case, the Chairman has the right to define the distribution conditions.

Each year, if there is surplus after closing, the Company shall, after paying income tax and covering all losses till then, set aside 10 percent of the surplus profits as legal reserve, except when such legal reserve amounts to the total capital. The Board of Directors shall then propose an earning distribution proposal and send to the Shareholders' Meeting for resolution. The appropriate of the aforementioned legal reserve may not be required when the accumulated legal reserve has amounted to the total capital.

The Company adopts the policy of surplus dividends in consideration of funding needs in future and overall investment situation, long-term financial planning, domestic and global competition situation, and as well as shareholders' needs for cash inflow. Each year, the company shall appropriate no less than thirty percent of earning surplus for shareholders as dividends, which may be distributed in case or with stock, only that the cash dividend should not be less than fifty percent of the total payout.

2. Earnings distribution proposal in the current Shareholder's Meeting:

(1) Shareholder's cash dividend: NT\$2.0 per share (for a total of \$376,904,340).

(6) Effects of proposed stock dividend distribution to the company's operation performance and earnings per share: None

(7) Employee's bonuses and remunerations paid to directors and supervisors

1. The percentages or ranges with respect to employee bonuses and director/supervisor compensation, as set forth in the Article 27 of the company's Articles of Incorporation: The detailed information can be looked up in the Handbook distributed in the Shareholders' Meeting of the year.

2. The basis for estimating the amount of employee bonuses and director/supervisor compensation, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period: The amount of discrepancy shall be handled in accordance with the following principles:

A. According to the Company's Articles of Incorporation, the Company shall distribute not lower than five percent of current year's profit to its employees as employee remunerations and to distribute not more than five percent of current year's profit to its directors and supervisors as remunerations. As for fiscal year 2017, the Company estimates to distribute a total amount that is 16.23% of current year's earnings to its employees and a total amount that is 1.68% of the current year's earnings to its directors and supervisors.

B. No applicable, because this year the Company does not propose to distribute stock bonus to its employees.

3. Information on any employee bonus distribution proposal approved by the board of directors:

A. Distribution of cash bonuses or stock bonuses to employees, and compensation for directors and supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed.

i. The Board of Directors' Meeting on Jan. 29<sup>th</sup>, 2018 resolved a total amount of remuneration paid to employees, directors and supervisors are equal to the amount estimated and reserved in 2017.

ii. The above-mentioned cash bonus and remunerations paid to employees are 127,737 thousand dollars and to directors and supervisors are 13,200 thousand dollars.

B. The amount of proposed distribution of employee stock bonuses, and the size of such an amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee bonuses: Not applicable, because the company does not distribute any stock bonus to employees this year.

4. The actual distribution of employee bonuses and director/supervisor compensation for the previous fiscal year (with an indication of the number, dollar amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee bonuses and director/supervisor compensation, additionally the discrepancy, cause, and how it is treated.

A. The actually distributed cash was the same as the Company estimated and reserved amount. There was no discrepancy.

B. The above-mentioned cash bonus and remunerations paid to employees were 90,758 thousand dollars and paid to directors and supervisors were 15,000 thousand dollars.

(8) Share buyback situation: None.

(9) Issuance of corporate bond: None.

(10) Issuance of preferred stock: None.

(11) Issuance of global depository receipt: None.

(12) Employee stock option: None.

(13) Mergers or acquisitions, and issuance of new shares due to acquisition of shares of other companies: None.



(14) The implementation of capital allocation plan:

For the period as of the quarter preceding the date of printing of the annual report, with respect to each uncompleted public issue or private placement of securities, and to such issues and placements that were completed in the most recent 3 years but have not yet fully yielded the planned benefits, the annual report shall provide a detailed description of the plan for each such public issue and private placement: None.

V. The Operations  
(1) Operation content

i. Scope of Business

1. Main contents of the business

- A. CA04010 Metal Surface Treating
- B. CA02070 Lock Manufacturing
- C. CA02990 Other Fabricated Metal Products Manufacturing Not Elsewhere Classified
- D. CD01030 Automobiles and Parts Manufacturing
- E. CD01040 Motor Vehicles and Parts Manufacturing
- F. F214030 Retail Sale of Motor Vehicle Parts and Supplies
- G. CQ01010 Die Manufacturing
- H. F206030 Retail Sale of Die
- I. F401021 Restrained Telecom Radio Frequency Equipments and Materials Import
- J. CC01101 Restrained Telecom Radio Frequency Equipments and Materials Manufacturing
- K. CA02080 Metal Forging Industry
- L. CA01090 Aluminum Casting Manufacturing
- M. CA01990 Other Non-Ferrous Metal Basics Industries
- N. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

2. Analysis of operation revenues

Item	% of Total Revenue
Door related parts	100%

3. Current Products and Services

Name of Products	Services
High-end door locks	To provide traditional/electronic door lock. Under the premise of safety assurance to enhance our products' use flexibility and promote users' living quality.
Door closers and hinges	To provide door related hardware products other than door locks to enhance the convenience of use environment
Panic exit device	To provide customers with complete solutions in relation to fire exit door lock to reduce damages during fire disasters

4. Planned new products and services

- a) In the business of door lock and panic exit devices
  - a. Residential complex's access control system
  - b. To launch more IoT and home automation system related products
  - c. Touch screen lock and push bottom electronic lock.
  - d. Provide more lock appearances selections for US standard home lock products
  - e. The expansion on functions of the U.S. grade commercial locks.

- f. Lock products that meet U.S. new standards.
- g. To provide ANSI qualified commercial use toilet auxiliary lock
- h. Electronic parts relating to panic exit devices.

b) In the business of door closers

- a. Highly efficient door closers and the accessories that meet EU's EN standard.
- b. Door closers that meet U.S. ANSI Grade 1 standard.
- c. Door closer arranging in pairs with electronic accessories.
- d. EU standard heavy type door/floor hinge related products.

ii. The industry

I. Current status and development of the industry

As time goes by and people's notions change along the time, door lock is no longer simply playing the role as a safety manager. In current days, artistic look, convenience, and even the function to connect with IoT technology are major factors that affect consumers' decision while purchasing door locks.

In the world, the major hardware product markets still focus in North America, Germany, Japan and China, among which the U.S. market is the largest. Also due to the popularity of D.I.Y. trend, consumers nowadays like to shop and choose their favorite products directly in hypermarkets. Thus, providing various choices has become a fundamental need for hypermarkets.

After the 2008 financial crises, the U.S. housing market gradually recovers, driving the need for door type hardware products. Also, the increasing cost of land and changes in house purchasing habits make the market of residential complex become the leading product in current market. Thus, how to provide door lock product according to market demands timely is going to be one important lesson in developing door lock products.

In recent years, lock's function has been further developed horizontally with the integration with computer software and cell phone app. The market opportunity in relation to Smart Home also gradually rises. The application, acceptance, and functions of electronic locks not only are significantly promoted but on the contrary also create a better flexibility for suppliers in product development, combination, and pricing strategy.

Taiwan now has higher level production technology and R&D capability. Moreover, robust and elastic marketing strategies and internationalized professional division of labor in production operation has enabled Taiwan's lock manufacturing industry to become the market leader in global markets.

II. Interrelationship of the upstream, midstream and downstream industries

Upstream Industry
Basic metal industry
Midstream Industry
Mold design and manufacturing industry
Metal product manufacturing industry
Downstream Industry
Retail market
OEM factories
Construction related industries

III. Product development trend and market competitions

A. High-end door lock and panic exit device business

a. Product development trend

For meeting with the growth of global economy, consumer's need and notion in door lock products is no longer limited in traditional lower cost products with single function. Product's artistic looks, safety, convenience, functions, or even the collectability with other toiletries are now major factors affecting consumer's purchasing decision. As for the door closer products, now are paying more attention on fire-proof and high efficiency in order to meet fire regulations and disability regulations.

b. Market competition

Based on product market segmentation, current major competitors are as follows:

b-1. High-Price Products

Major customers include locksmith market and distribution channels for certified and standardized architectural hardware products. Major competitors are manufacturers of local famous brands in Europe and North America.

b-2. Mid-Price Products

Major customers include architectural hardware products importers (to meet the demands from new construction projects or replacement market) in the U.S. and Canada and also large DIY products related retail channels. The major suppliers for this segmentation are Taiwan Fu Hsing Industrial Co., Ltd. and other lock manufacturers in Asia.

b-3. Low-Price Products

Major customers include customers in replacement market that do not stress on the safety and low-priced construction market. The major supplying area is Mainland China or India.

B. Door closer business

- a. From mid- and low-end rack and pinion door closer to the developing high-end CAM action door closer, the R&D ability, production ability, and product's added value are all enhanced.
- b. Research and develop high-end full functional and highly durable door closer, panic exit devices and accessories, and invest in higher technologies to meet the accuracy demands for manufacturing high end door closers. It is hoped to utilize a complete product line with high quality to take the lead among other manufacturers.
- c. Connect with electronic technology to develop high-end electronic gate controller products, including electronic door closer, electronic Hold Open, and smoke detectors to meet with future trend and market demands.
- d. Self-manufacturing and processing high end door closer's key parts to ensure product quality and secure core technology. Also, part's self-production rate and automation procedures are also increased to reduce cost and enhance market competitiveness.

C. Profile of technology and R&D

In the current year (2017), the company invested in 171,474 thousand NT dollars in R&D and obtained 26 domestic patents and 56 international patents, for a total of 82 patents domestically and internationally. The accumulated number of patents obtained is nearly 1255.

D. Long-term and Short-term business development plan

Continued from 2016, the new house sales in the North America and its construction market still continued recovering well in 2017. Good employment rate and wage growth rate also helped drive up the new house sales. Consumer's purchasing willingness and household's repair rate

were also enhanced. The demand in residential complex and rental housing market also increased and so as to pushed forward the demands in door related hardware market. With the strength in good economy situation, new products are launched for customers in the main retail market and construction market to provide more choices for customers.

The Company now is planning to enhance its competitive strength in four strategic facets, including products, pricing, branding, and channels. In a short term, we will continue to stabilize and further strengthen current OEM and ODM customer's sales channels. For long term, we will also use progressive strategy to continue integrating all the possible win-win cooperation projects and business partners and try to keep creating better profits and growth.

a) as for product strategy:

Will cooperate with the market growth trend, further analyze the purchasing habits and trends for customers of all the different ages and continue to construct more diversified products lines in facets of tradition/modern appearance and residential/public applications. We hope to provide customers with more diversified products such as products of pricing friendliness/high technology, products to meet with different architectural styles or products to be applied in all the different kinds of areas with different specs. The final purpose is to provide the most suitable products for our customers, so that Fu Hsing products are able to meet customers of all the ages' needs and expectation.

Electronic locks are the key point for R&D as home automation has become a trend. Our continuous focus will be on the mainstream -smart phone, Bluetooth, near-site communication, touch panel, biometric recognition system's development, and expansion the collaboration with electronic lock manufacturers, while at the same time to connect to the plan to draw a blueprint to develop home automation system and intelligent access control system.

In the mean time, we will develop wider and broader products in different sectors to meet with demands of different pricing develop and specs. Vertically we will extend the depth of products as well as also horizontally increase the width of our products.

- For short term, we will continue to increase the basic kind of product line and cultivate deeper in the market in order to enhance the market share:
  - a. have its fine basic function;
  - b. Is easier to install;
  - c. Is friendly in its pricing;
  - d. With various design
- In the long term, in high-end product line, we will connect with electronic technology trend, manage the new standards in this industry, attach closer to customer's favorite, and maintain close and good cooperation with global major door lock business groups.
  - a. To carry out near appearance design and the promotion of electronic functions in the light of current electronic lock products (touch panel & keypad)
  - b. To connect to the trend of home automation and continuous put attention on the main-stream products such as smart phones, Bluetooth technology, NFC, touch screen, and biometric system. Will develop and expand the collaboration with electronic lock manufacturer and drawing a blueprint to foot at home automation system and intelligent access control through the integration with access control system.

- c. To develop various grades of door lock products according to U.S. ANSI's newly regulated standard on family locks in order to meet the demands from different customer bases.
- d. Two main appearance designing directions themed at "classical design" and "contemporary avant-garde design".

b) As for pricing strategy:

Since now younger customers gradually become one of the main consuming force, we will fully utilize our strength in modulization design and keep studying customer's preference trend, analyze important key factors in segment preference, maintain our agilely flexibility and best competitive strength regardless in product appearance, spec or packaging, continue to expand, the economic scale, and strength cost advantages. We will continue to cooperate with the analysis on the market trend in order to provide quantities promotions at the right moment to stimulate purchasing willingness and promote sales.

- a. In the short term, we will utilize the strategy of diversified product mix and packaging with different pricing plans to promote sales.
- b. In the long term, we will continue to study consumer's use habit and integrate global market trend in order to obtain the most efficient cost advantage with scale economy.

c) as for branding strategy:

In the short term, Fu Hsing will keep expanding the cooperation with global main streams to provide stable, high quality and cost competitive products to promote customer's brand image, so as to enhance market share together.

In the long term, Fu Hsing will integrate its own brands. For Taiwan domestic market, "Jia An (加安)" will still be the primary brand. For exports, Fu Hsing integrates and forms a complete product line by promoting its door lock brand "Faultless" and the associate brand "Arctek" for commercial use door locks, door closers and hinges to provide customers with more diversified and comprehensive services.

d) as for distribution strategy:

In the short term, we will continue to cooperate with the characters of retail channel and construction channels and provide more differentiated products. For new construction channels, we will strengthen product's high value added functions and specs. For retail channels, we will continue to stress on the basic function and pricing friendliness. Also, we will also occasionally launch short term promotion programs in the light of various products in order to catch customer's attention.

In the long term, we will continue to develop new distribution channels especially in areas of:

- a. On-line shopping: to launch products with more style selections (including traditional appearance style and modern trendy style, mechanical lock and electronic lock), actively participate in sample-giving promotional activities in major on-line shopping platforms to accumulate high opinions on our products and also regularly launch limited time discounts to stimulate purchasing willingness, analyze further the characteristics of sales growth, pricing, and sales region distribution to launch appropriate products in specific areas, as we as provide new product information in time.
- b. Non-traditional sales channel: to promote the cooperation with 3C sales channels, manufacturers

of home security systems, and suppliers.

## (2) Market and the Production-Marketing Situation

### 1. Major marketing area and the market share

The company targets at global market. The exporting amount was about 95% of the Company's total revenue. Among the export sales, sales to the North America market was the largest part and accounted to 60% of total sales, China sales was about 15%, and sales from all other areas (Asia (exclude China), Europe, New Zealand and Australia, central South America, etc...) was about 20%. By providing superior products and complete services, Fu Hsing has successfully promoted its products into international market and plays a significant role in global door-type hardware product market.

### 2. Future Market Demand and the Growth

- (i) North America: in 2017 the continuous recovering U.S. economy and busy new housing market drove up the demands in hardware market. However, due to raising material prices and currency fluctuations, the Company's 2017 revenues declined slightly comparing to 2016 sales. In 2018 when the government invests more in public infrastructure, which will add more growing power to the whole economy, we expect the demands coming from new housing, retail, and construction related markets will still continue to grow and bring significantly positive effects to our sales in Fu Hsing's main products.
- (ii) EU market: continue to develop strategic customers in Euro Zone. It is expected to drive the growth further by promoting niche products.
- (iii) South-East Asia & Central South America: China products have tariff benefits in this area and come with low price competition. Fu Hsing will work with its regional partners to continue strengthen product's quality image and added value and launch more diversified products. Further growth is pursued by locking on strategic partners of the region and aggressively strengthen mutual cooperation and regional strategic arrangement.
- (iv) New Zealand and Australia: Besides current channels, we will actively cooperate with strategic partners to penetrate the retail channels and keep expanding market share to ladle out new growth factor.
- (v) Domestic market: By optimizing high value-added products and advancing into the electronic lock product and comprehensive security system, Fu Hsing uses a more complete product line to create new sales opportunities and markets.
- (vi) Emerging markets: This includes Mainland China and India. The growth in these areas is still strong. We expect the family door lock products and commercial door lock products can have a stable growth.

### 3. Favorable factors and unfavorable factors that might affect the company's future operations

#### (1) Favorable factors

A. The strength of internationalized production division: 3 production bases in Taiwan (Fu Hsing Kangshan plant, Fortress plant, and ARCTEK plant) and 2 in China (Taichang plant and Changshu plant) are favorable for vertical integration of parts supplying and production coordination of different parts to ultimately meet customer's needs.

- B. Cross-industry integration to create new business opportunities: By working with Hundure Technology to expand the product width and further complete the security system.
- C. Strengthen U.S. subsidiary's services to provide in-time shopping suggestions for local customers, strengthen inventory dispatching support, after-sale services, and the stock delivery functions for on-line business in order to effectively cut into the new E-marketing field and promote market share in full scale.
- D. China market continues to grow. This includes demands from large-scale construction projects, public infrastructure, and urban development, especially in the 2<sup>nd</sup> and 3<sup>rd</sup> tier cities. Fu Hsing has started its China layout in a few years ago, and the early involvement is favorable to Fu Hsing's growth in China.
- E. The new plant, which was invested in Kangshan Benzhou Industrial Zone in Kaohsiung in 2017, is planned to complete construction at the end of 2018. The new plant is expected to increase the capacity and promote the quality of Zinc Alloy die casting and surface processing productions.
- F. Continuous investment is carried out into all plants' automation process to complete further lean-production concept and promote product's added value, quality and competitiveness.

(2) Unfavorable factors

- A. China secondary product's low-price competition results in the irrational pricing competition in the market.
- B. The depreciation of US dollar impairs profits.
- C. Technology changes all the time. Electronic product's life cycle is relatively short.
- D. Bulk materials and energy prices continue to go up. Cost pressure still exists.

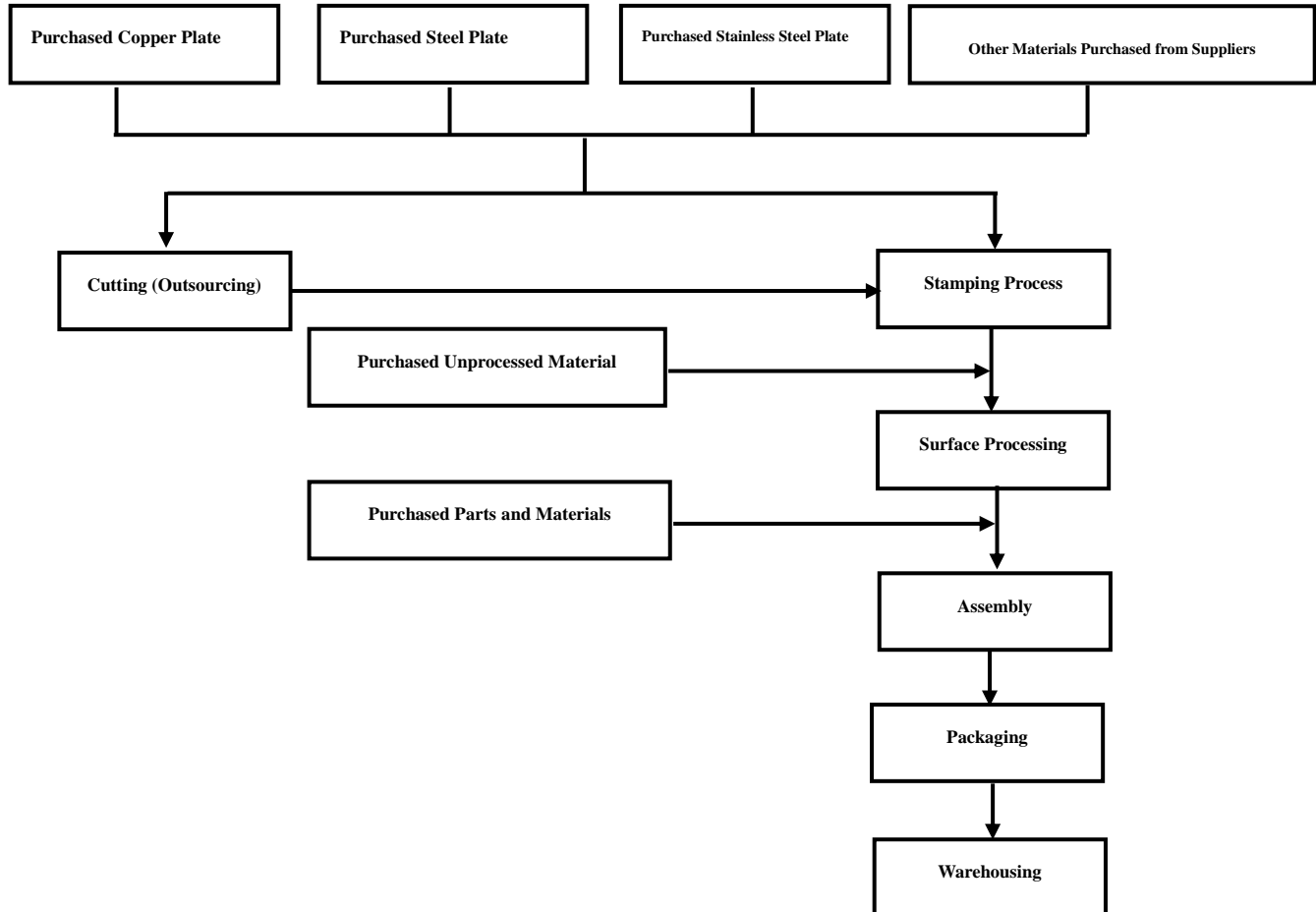
The international political and economic situation changes all the time. By holding the spirit of vigilant operation, Fu Hsing will continue to utilize its R&D design and lean production to decrease its cost and increase competitiveness. We will put more efforts into high value-added products like commercial use high-end product and electronic products, especially the foreseeable market trend-electronic locks will be the area for us to put in more efforts.



#### 4.Important functions of major products and the production process

Major Product	Main Use
Door related parts	To be installed as lock on wood door, plastic door, metal carved door

#### Production process of metal door locks



#### 5. Supply of major raw materials

Product Name	Major Materials		
	Name	Main Source	Supplying Condition
Door related parts	Steel Plate/Steel Strip	China Steel Corporation	Good
	Stainless Steel	Sinkang Industries Co., Ltd.	Good
	Copper Plate	First Copper Technology Co., Ltd.	Good
	Aluminum Alloy	Chiao Tai Aluminum Industry Co., Ltd. Crown Aluminum Co., Ltd.	Good

6. List of major suppliers and customers in the most recent 2 years

i. Suppliers that accounted to 10% or above of the total procurement amount in any of the most recent 2 years.

Unit: NT\$1,000 / %

List	2017				2016			
	Name	Amount	% of total procurement in the year	Relation to the Issuer	Name	Amount	% of total procurement in the year	Relation to the Issuer
	Others	\$6,296,664	100%	-	Others	\$6,298,728	100%	-
	Net Purchase	6,296,664	100%		Net Purchase	6,298,728	100%	

ii. Customers that accounted to 10% or above of the total sales revenues in any of the most recent 2 years.

Unit: NT\$1,000 / %

List	2017				2016			
	Name	Amount	% of total sales in the year	Relation to the Issuer	Name	Amount	% of total sales in the year	Relation to the Issuer
1	Customer C	\$2,124,614	27%	None	Customer C	\$1,828,315	22%	None
2	Customer B	1,107,965	14%	None	Customer B	1,083,627	13%	None
3	Customer D	64,090	1%	None	Customer D	970,418	12%	None
	Others	4,709,732	58%	-	Others	4,516,372	53%	-
	Net Sales	8,006,401	100%		Net Sales	8,398,732	100%	

### 7. Production volume and value over the past two years

Unit: 1,000 pcs / NT\$1,000

Product volume & value Main Product	Year	2017		2016	
		Volume	Value	Volume	Value
Door related Metal Parts		42,682	\$6,143,480	45,534	\$6,322,299
Total		42,682	6,143,480	45,534	6,322,299

### 8. Sales volume and value over the past two years

Unit: 1,000 pcs / NT\$1,000

Sales volume & value Main product	Year	2017				2016			
		Domestic		Export		Domestic		Export	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Door related Metal Parts		2,141	\$617,247	40,690	\$7,389,154	1,810	\$577,936	43,583	\$7,820,796
Total		2,141	617,247	40,690	7,389,154	1,810	577,936	43,583	7,820,796

(3) Number of employees, the average years of services, average age, and education analysis over the past two years and during the current fiscal year until the date of printing of this annual report.

Year		2016	2017	Jan. 1 ~ Apr. 18, 2018
Total Number of Employees	Director Labor	1,498	1,541	1,554
	Indirect Labor	618	645	647
	Management	186	186	190
	Total	2,302	2,372	2,391
Average Age		37.54	38.30	38.19
Average Year of Service		4.58	5.76	5.59
Education Analysis	Doctor	1	1	1
	Master	46	51	50
	University	734	783	783
	High School	745	782	783
	Below High School	776	755	774

#### (4) Expenditures on environmental protection

1. Significant expenditures or losses from environmental pollution in the most recent fiscal year and the current fiscal year until the printing date of this annual report: because the company has devoted to promoting environment improvement to reduce impact to the environment, there were no significant issues in the recent three years. And yet, in 2017 the newly added machinery as backup was inconsistent with the original certification, so a penalty of One hundred thousand New Taiwan Dollars was given by the Environmental Protection Department.
2. The company has a special unit that is exclusively responsible for the management of career safety and health, regularly convenes safety and health committee meeting, establishes and puts into effect of the “safety and health practices” for managing employee’s work environment and facilities, regularly carries out employee health check and inspection on the work environment, and periodically handles education trainings on labor safety and hygiene to make sure the company is able to provide a safe and healthy work environment and seek for continuous improvement.
3. Responding actions
  - (1) The company is engaged in the selling and manufacturing of door locks and related metal accessories. The major production processes include stamping, grinding, powder coating, and assembling. While is continuing promoting environment management system and straightening pollution prevention facilities, we should also take laws and regulations into consideration. We must add new system/facilities after obtaining authorities’ approval. This will not only decrease impacts to the environment caused by our manufacturing procedures but also minimize risks of having penalties.
  - (2) Future improvement focus: Will solidify the training and management to operators of the environment protection facilities and such facilities’ maintenance, will keep carrying out process wastage reduction and pollution prevention, and will strictly implement all the management works to enhance the company’s pollution management capacity. The company hopes and will do its best to reduce environment pollution to a minimum level and will try very hard to promote green production related concept to fulfill corporate special responsibility that every enterprise should have. Besides, the RoHs (Restrictions of the use of hazardous substances) related regulations by the European Union have no effects on the company.

#### 4. Projected expenditures

The projected expenditures in the next 2 fiscal years

Unit: NT\$1,000

Name of Facility	2018	2017
The improvement and operation of air pollution prevention facility	8,680	1,650
The improvement and operation of water pollution prevention facility	6,937	5,674
Removal and process of business wastes	4,891	4,871

#### (5) Work environment and measures adopted to protect employee's safety

##### I. Specific manners adopted to manage labor safety and health

In light of work environment and labor safety and protection, the company elaborated various labor safety and health risk control elements and sets up related managing plans and specific manners based on job safety and health management system to make continuous improvements. All the plans and manners achieved good results and control. The following table is a summary for the company's managing plans and specific manners:

No.	Direction	Plan	Specific Manner
1	Set up Safety and Health Bulletin and Policy	Set up safety and Health Bulletin and Safety and Health Policy	Establishes "Safety and Health Bulletin" and makes "Safety and Health Policy" according to corporate social responsibility and the government regulated safety and health requirements to continuously promote the performance achievement in labor safety and health.
2	Safety and Healthy Management System	Periodically review by the "Safety and Health Management Committee"	According to the guidance of the TOSHMS, the Safety and Health Management Committee periodically review and follow the execution results.
3	Risk assessment and the countermeasures	Assess related risks and makes the control policy	Periodically review related regional manufacturing procedures, work risks and the related regulations. Unacceptable risks and issues that do not meet regulated requirements will be reviewed for improvements, and associated management plan or manner will be made and executed. The execution results will be brought up for discussion in the safety and health meeting.
4	Electricity leakage protection	Facilities to carry out grounding to prevent leakage risks.	Set up grounding for facility's power system to prevent electricity leakage risk.
5	Chemical management	Establish safety standard for chemical's storing and use to prevent chemical spill risks	Establish hazardous goods general guidelines, regulate to store chemicals in anti-spill tanks to prevent chemical dispersion or spill, periodically carry out hazardous goods general guideline related training and provide and require operators to wear proper protection guards.
6	Work environment Monitoring	Regularly monitor work environment and carry out control and improvement based on the measuring results	Entrust external institution that has been certified by the Labor Safety and Health Committee to regularly monitor the work environment focusing on dusts, noise, and specific chemical substances according to the "Implementation Method to Carry Out Labor Work Environment Monitoring". Determination then is made to see whether the measurement results meet regulatory requirements. Any extraordinary factors found will be corrected and improved immediately to protect employee's health.
7	Regular health check	Implement employee health check regularly	Two kinds of health examinations are carried out two work condition, extra hazardous work and ordinary work, according to "Labor Safety and Health Protection Principle". Special examinations are carried out for statutory particular workplace hazards such as noise, dusts, and specific chemical substances. The examination results are classified in different levels for further managing labor's health condition and continuous improving the company's work environment.
8	Occupational accident prevention programs	Establish occupational accident prevention program	Establish the occupational accident prevention program of the year and develop detailed execution plans according to the program. The plans are implemented, audited and tracked, and are brought up for discussion and correction in a regular basis during the safety and health committee meeting to gradually reduce all the dangerous factors and risks.
9	Automatic inspection	Carry out automatic inspection	Promote automatic inspection to identify possible and potential hazardous factors in different work environments, procedures, operations, and production. Then such potential risk factors are improved and effectively controlled. Items being inspected include facility, the use of materials, work environment, operating equipment and machinery.

## II. The Implementation of Work Safety Control

- (1)Control on special operations and work permit: according to the requirements regulated in Occupational Safety and Health Act and the company's safety and health assessing results, the company implements control and work permits on special operations such as overhead operation, hot work, confined space operation, and hoisting operation.
  - (2)Supervision on safety and health condition: All work units in the factory site including contractors must submit application before carrying out high risk operations. Besides, the operating unit should appoint safety and healthy supervisory staff to carry out full supervision during the process of high risk operation for ensuring work safety.
  - (3)Inspection of dangerous machinery and facility: according to statutory regulations, dangerous machinery and facility in the plant should be regularly inspection to meet qualifications. Besides, all the operators must acquire related operation license and regularly receive the company's on-job training to ensure the operation safety.
  - (4)Accidents investigation, tracking, and improvement: for any accidents, regardless with or without injuries or only a false alarm, are discussed for improvements and tracked to eliminate potential dangers and prevent from injuries.
  - (5)Safe operation standards revision: carry out the revision and modification on all operations' standard procedures. During the process, the involving operating personnel are requested to present and participate in the full review on the standard procedures in order to diminish chances of accidents due to improper operation procedures.
  - (6)Plant site patrol and inspection: inspect the operation situation in the plant site without a fixed schedule. The inspection aims at the work environment around factory worker's activity area, work content, possible hazards. Extraordinary issues are reported and provided with suggestions for improvements in order to maintain workplace and labor safety.
  - (7)Emergency response training: trainings are regularly held in light of emergency responses subjects including specific operation area, fire safety equipment, and evacuations. All the employees have to participate in the training and practices for solidifying the training in emergency responses.
3. In addition to above-mentioned manners, FU HSING AMERICAS INC. also provide its worker with work environment that meets OSHA (Occupational Safety and Health Administration) regulations made by U.S. Department of Labor and work with SCC Security and local police department to provide security services. Inspection on work safety, environment health and fire inspection are carried out per annum to make sure all meet regulated requirements.

## (6) Labor relations

Taiwan Fu Hsing considers its employees as a dynamic source of corporate sustainable operation and treats every employee as its partner. Based on the principle of profit sharing, Taiwan Fu Hsing provides its employees with complete pay compensation, benefits, and friendly work environment and strictly follows Taiwan's Labor Standards Act and related rules to provide complete protection to its labors. We also regularly adjusts employee's remuneration and benefits to be more competitive based on the price level, the human resources' demand and supply situation, the salary average in the same industry, etc... We hope every Fu Hsing employees to learn and devote with no worries and meanwhile are able to pursue a stable and happy life.

In 2015, Taiwan Fu Hsing, due to its honest business culture, devotions in promoting labor conditions, efforts to create happy working environment and labor-capital's win-win situation, was highly recognized and was recognized as one of the top ten happiness enterprises in Kaohsiung City by the Labor Affairs Bureau of Kaohsiung City Government. In 2016, the Sports Administration, Ministry of Education started to promote the "Sports Enterprise" certification program and in the first year there were only 50 enterprises certified. Taiwan Fu Hsing with its years of support in social sports event and our inner cultural to promote health and exercises was received the honor as one of the fifties "sport enterprises" in Taiwan in the very first year, and received the same honor for the 2<sup>nd</sup> time in 2017 after on-site review by the Sports Administration, Ministry of Education.

In the area of building a healthy work environment, Fu Hsing has for three consecutive years obtained the three phase healthy work environment certification promoted by the Health Promotion Administration. The three phase certification includes "2014 smoke control label" → "2015 health start label" → "2016 health promote label". Taiwan Fu Hsing has already completed the highest level certification in healthy work place. All these official certifications just prove that our long term effort into the promotion of healthy labor and the culture of continuous operation is able to stand the strictest test.

In general we have the following characteristics in the field of "labor relations":

### 1. Competitive overall remuneration:

While designing the remuneration system, the direction aims at stimulating employees to challenge higher remunerations based on a fixed salary base. The overall remuneration includes basic salary, rewards, and employee bonuses. The basic salary is determined by education, experiences, professional skills, and work performance. The company will never determine employees' salary by their gender, religion, racial, nationality, political party, etc... The remuneration and protection of work conditions for every Fu Hsing staff are completely in compliance with local labor law and standards made by the International Bill of Human Rights.

2. Stable and healthy labor structure

We value gender equality and make every effort to treat employees equally regardless in the appointment or promotion. According statistic records, Fu Hsing in 2017 had 2,372 employees. The numbers of male and female employees were quite similar.

3. Recruitment through multiple channels

Fu Hsing recruits only professional and talented employees. All the recruitment and appointment information are through public and transparent channels. Currently, besides using internet recruitment, such as the 104 Bank in Taiwan, we also flexibly adopt different recruiting channels according to the vacant posts. For example, for the recruitment of direct labors, most of the time we use newspaper advertisement, leaflets, electronic signboard, career station, etc...to publicize the recruiting information. For special, higher level and professional manpower, we also collaborate with high-level manpower agency (head hunters) to recruit. For others, we will look for sufficient and good quality human resources through university's career expo, professional institution's talents recommendation, or through employee's recommendation. All these channels are able to provide better human resources for the Company. In addition, for meeting the trend of fertility decline and professional deficiency in mechanical field, the Mother company cooperated with National Kaohsiung University of Technology and Science (the originally the National Kaohsiung First University of Science) to provide internship opportunities for senior students in the 2<sup>nd</sup> semester starting from October 2017. The internship program covers professional fields including: mold, R&D, quality assurance, and industrial engineering. We hope the internship program can also help cultivate technical manpower in an early stage. In addition, starting from May 2017 we also worked with Kao-Yuan Vocational High School of Technology and Commerce to provide one month practical training in the production lines for graduate students, so that students are able to accumulate real-time experiences and be recruited right after graduation. This also helps realize government's plan in reducing the phenomenon of skill and educational mismatch. Following Fu Hsing's SER policy, we will never recruit child labor that is under 16 years old and forced labor. We treat all employee fairly and equally regardless their origin, gender, religion, racial, nationality, or political attribute.

4. Fair and objective performance evaluation system

The company has a comprehensive and thorough performance management structure. For new employees that hold the post for 3-6 months, we will carry out a "probation assessment" to understand the employee's adaptation situation and provide necessary support if there is any. For all the current employees, a year end "Annual Performance Assessment" is given to carry out performance evaluation. The Annual



Performance Assessment stresses on “objectivity”, “Fairness”, and “Two-way communication. Starting from 2017, besides assessing unit’s KPI, the Mother company also takes a step further to carry out personal KPI assessment and evaluate the achievement of KPI, and finally conducts a performance interview. We hope by open and consistent assessing standard as well as a direct two-way communication, superintendents and employees are able to obtain a consensus. In addition, results of the assessment are provided as a basis for individual’s training and development and are also directly connecting to promotion and rewards. We hope by the assessment system, we can stimulate all employees work motivation continuously.

5. Transparent communication and harmonious relationship

The company has proposal-making system. Employees can propose suggestions for improvement at any time. The proposal, once being adopted, is given rewards according to its significance level, hoping to stimulate employees to have better creativity. Besides, according to laws the company convenes labor conference every quarter (in March, June, September, and December). Through the meeting, the company thoroughly communicates the operation information, labor benefits and other situation with its employees to build a consensus between the company and its employees and create a good relationship to maintain labor-capital harmony and establish consensus. In 2017, the Mother company convened 6 labor conferences in total. Also, the company vigorously promotes corporate SER (social and environment responsibility) implementation. The company not only advocates the SER concept with its employees through different seminars and propaganda, but also establishes compliant channels for employees to report any SER violation issues to ensure the implementation and promulgation of the company’s SER policy.

During the past fiscal year and current year until the printing date of this annual report, the company did have not any labor disputes, because the company’s system follows laws and regulations and actively protects labor rights. In the future, the company expects to maintain the good tradition in keeping harmonious labor-capital relationship.

6. Education training

As for employee’s training and education, besides establishing “Method to subsidize on-job training in graduate level” and various subsidies provided by the Staff Welfare Committee to various on-job trainings, for encouraging employees to pursue higher education the company also establishes a comprehensive on-job training system to assist employee with professional skills and knowledge and expand their expertise. Comparing to last year, the education training in 2017 paid more focus on a more in-depth and finer training content. The execution of education trainings in Mother Company and subsidiaries in 2017 is summarized in the following table:

Taiwan Fu Hsing 2017 Education Training Program												
Category	Female				Male				Total			
	Number of people	Number of people under the training	Training Hours	Course Fees	Number of people	Number of people under the training	Training Hours	Course Fees	Number of people	Number of people under the training	Training Hours	Course Fees
Director Labor	1,061	7,773	5,082	42,796	965	19,092	4,556	58,879	1,730	1,730	1,730	1,730
Indirect Labor	318	1,523	3,230	312,645	370	5,185	4,544	533,640	405	405	405	405
Management	36	333	1,036	224,923	143	1,233	3,344	1,469,576	179	1,566	4,378	1,694,499
Not course training related training expense	/				/				/			
Total	1,415	9,629	9,348	580,364	1,478	25,510	12,401	2,062,095	2,314	3,701	20,629	1,696,634

7. Certifications obtained by the company and the transparent financial information related persons:

- (1) R.O.C. Accountant: 2 people.
- (2) International CIA (Certified Internal Auditor): 1 person.

8. A comprehensive staff welfare network:

Welfare system that provides a comprehensive care to employees	
<ul style="list-style-type: none"> <li>• Holiday bonuses given in the Dragon Boat Festival and Mid Autumn Festival and Birthday cash gift</li> <li>• Marriage allowance, maternity allowance, new house allowance</li> <li>• Funeral grant, disability grant, and hospitalization subsidy</li> <li>• A fixed amount lunch subsidy in staff restaurant</li> <li>• Year end dinner gather, raffle draw activity, show and art competition</li> <li>• Company trip</li> <li>• On-job training subsidy</li> <li>• Scholarship, grant-in-aid</li> <li>• Resignation subsidy, retirement subsidy</li> </ul>	

(i) Performance of the staff welfare committee

Fu Hsing set up Staff Welfare Committee (the “Welfare Committee” hereinafter) as early as in 1983. The committee members are elected by employees to manage the welfare funds. The Welfare Committee establishes all kinds of subsidy standards and handles various activities based on employee’s needs. In 2017, the staff welfare expenditures were totaled 10.4 million dollars. Besides giving out subsidies, the expenditures in Mother Company were mainly used to hold all kinds of activities, which were listed in the table below:

Time of the Activity	Contents of Activity	Contents of Activity
Fu Hsing 60 <sup>th</sup> Anniversary Series Activity		
January	2016 Year End Meal Gathering (Year End Party)	Employee Meal Gathering & Talent Show and Competition
April	Sports Carnival Starts_Superintendent's Race	Go Car Race by high level superintendents at the Suzuka Circuit as the start of the Sports Carnival
April	First Game: Bowling Ball	First Game__The Let's Roll Bowling Arena at Taroko Park Kaohsiung" Let's Roll-Bowling Ball"
May	2 <sup>nd</sup> Game of the Carnival: Sail on the Road	Use transportation tool from the production line to make fun tool as the transportation in the "Sail on the Road" relay game
July	3 <sup>rd</sup> Game of the Carnival: Slam Dunk	Male's 3-3 game and female's dribbling shot relay game
October	4 <sup>th</sup> Game of the Carnival: The Badminton King	Invited badminton stars, LU, Ching-Yao and Yang Po-Han, ranking in the 12 <sup>th</sup> of the global men's doubles to do a demonstration teaching to kick off the game Team competitions: men's doubles, women's doubles, and men's doubles
November	5 <sup>th</sup> Game of the Carnival: 3x3 grid baseball throw	Modified the traditional 3x3 grid game, we used team scoring game by adding up catcher and pitcher's weight
December	Taiwan Fu Hsing 60 <sup>th</sup> anniversary celebration party	Activities included memory wall with history look back, employees pray for happiness cards, giant ball with signature, and a meal party with 1,500 participants. The evening party programs included a start show by cheer squad of professional baseball team, awarding ceremony and interactive games, shows by various singers, and lottery (draw lots).
Other activities held by Employee Welfare Committee		
April	2017 Employee Tour_Miaoli	Lih Pao Land, Shang Shun World in Miaoli, Dongfeng Bicycle Green Corridor and Hinoki Village
May	2017 Employee Tour_Northern Taiwan	Yehliu, Tamsui Fisherman's Wharf, Tamsui old street, National Palace Museum, Sansia Old Street
October	"Share Handmade Happiness in Mid-Autumn Festival" and Creative package colored drawing competition	DIY pineapple cake at Baking DIY of 80's at Huarong Rd., Kaohsiung. Besides inviting children in social welfare agency to enjoy the DIY fun, we also held a creative packing colored drawing competition to be a gift from the children to Taiwan Fu Hsing in the 60 <sup>th</sup> anniversary.
December	Tangyuan at the Winter Solstice	The activity, "here comes the Winter Solstice, let's eat Tangyuan to feel the warm and sweet", was held at the employee's cafeteria. At the lunch time, higher superintendents offered red bean and longan Tangyuan and sesame oil flavored rice cake to employees.

(ii) Comprehensive staff welfare facility:

1. Multi-functional court: we had an outdoor basketball court and an indoor multi-functional court (can be used to play basketball, volleyball, and badminton).
2. PE center: The opening hour of the PE center is 17:10~19:00 every Mondays to Fridays. All the employees are free to use the facilities including multi-functional treadmill, elliptical trainer, fitness equipment, pool table, ping-pong table, a Karaoke Room, a multi-functional yoga classroom. Here is the best play for employees to carry out fitness trainings, throwing birthday parties and doing community activities.
3. Staff restaurant: The spacious, bright, and well-equipped with audiovisual equipment dining environment is able to provide hygiene, delicious, economic and diversified meals. The Company establishes and maintains facilities in the cafeteria. The Employee Welfare Committee is appointed to operate the cafeteria. For having a 6 dishes and 1 soup 1 unlimited drink at the staff restaurant, employees only pay partial cost of the meal and

the Welfare Committee subsidizes the remaining. We also have a separate dining area especially for Philippine workers for providing them with meals that suit their tastes and respects on their culture. Both receive high appraisal from employees. Sometimes even foreign internship trainees that came to Fu Hsing during only summer vacations express their memory on the company's staff restaurant.

9. During the past year and in the current year until the reporting date of this annual report, the Company and its subsidiaries did not have any labor dispute related issues. The Company made all its regulations and policies according to laws and regulations and actively maintains labors' rights. We expect in the future we will continue such a peaceful and harmonious relationship between the capital and labor.

10. Retirement benefit

Retirement reserve supervisory committee	<ul style="list-style-type: none"> <li>● In order to effectively overlook the appropriation and use of the retirement reserve, the Company elects to appoint representatives from both the capital side and labor side to be the Retirement Reserve Supervisory Committee members in every four years according to laws and regulations in order to jointly manage the retirement fund. Currently the retirement fund management committee has 6 representatives from the labor side and 3 from the capital side. In 2017, 13 retirement application were deliberated.</li> </ul>
A comprehensive pension system that also considers about humanity	<ul style="list-style-type: none"> <li>● In consideration of statutory requirements, the company fully follows regulations made in the "Labor Standards Act" and "Labor Pension Act" for both new system and old system pension plans. Besides, starting from March 2012, the company adjusted the retirement reserve appropriation rate to the highest level, 15% and appropriated sufficient fund in the retirement account of the being retired labor of that year based on his pension reserve account under old system according to requirement made by authorities, for better ensuring employee's retirement life.</li> <li>● In consideration of humanity, the company also considers that if an employee opts for old system. Under the old pension system, the employee is unable to meet the requirements once he has any significant changes in his life even though the employees has serviced in this company for many years already. In such circumstance, the employee is going to have a big loss in retirement benefit. In view of considering all the employees as Fu Hsing's relatives, the company established the "Employee Retirement Offer Method" in 2008. The Method was sent to the Labor Bureau for approval and as record. In 2017, after being reviewed by the Retirement Reserve Supervisory Committee, the age range of qualification to retirement has been lifted. It explicitly regulated that Fu Hsing employee, if his seniority and age adding together equals to or exceed 70, can apply for "voluntary early retirement application, even though his age is still under 65 years old. Once the company approves the application, the company should calculate the amount of pension depending on the seniority according to the Labor Standards Act. This Method has helped many senior employees to retire early from the company without worries, so they were able to transfer their focuses to their families.</li> </ul>

(7)Important contracts: none.

## 6. Financial Report

### (1) Condensed Balance Sheets and Statements of Income

#### 1-1. Condensed Consolidated Balance Sheet

Unit: NTDS\$1,000

Year Accounts		Financial in the Past 5 Years (Note 1)				
		2013	2014	2015	2016	2017
Current asset		\$3,286,942	\$3,557,896	\$4,651,223	\$5,120,102	\$4,674,106
Real estate, plant and facilities		1,271,743	1,765,981	1,841,250	1,715,994	2,139,098
Intangible assets		77,429	175,948	124,252	26,198	26,800
Other assets		1,562,028	1,393,219	735,706	717,544	641,534
Total assets		6,198,142	6,893,044	7,352,431	7,579,838	7,481,538
Current liability	Before distribution	1,368,666	1,768,980	1,843,052	1,949,054	1,972,780
	After distribution	1,745,570	2,145,884	2,370,718	2,476,720	(Note 2)
Non-current liability		410,935	424,963	385,715	387,247	357,179
Total liabilities	Before distribution	1,779,601	2,193,943	2,228,767	2,336,301	2,329,959
	After distribution	2,156,505	2,570,847	2,756,433	2,863,967	(Note 2)
Equity attributable to the parent company		4,383,229	4,591,718	5,002,437	5,132,660	5,034,391
Capital		1,884,521	1,884,521	1,884,521	1,884,521	1,884,521
Capital surplus		567,114	567,114	567,114	567,114	567,114
Retained Earnings	Before distribution	1,739,337	1,858,272	2,263,600	2,536,702	2,544,691
	After distribution	1,362,433	1,481,368	1,735,934	2,009,036	(Note2)
Others equity		192,257	281,811	287,202	144,323	38,065
Treasury stock		—	—	—	—	—
Non Controlling interests		35,312	107,383	121,227	110,877	117,188
Total equities	Before distribution	4,418,541	4,699,101	5,123,664	5,243,537	5,151,579
	After distribution	4,041,637	4,322,197	4,595,998	4,715,871	(Note 2)

Note 1: Reviewed and certified by CPA.

Note 2: Until the printing date of this annual report, the 2017 earnings distribution proposal has not yet approved by the shareholders in the Shareholders' Meeting.

## 1-2. Condensed individual balance sheet

Unit:: NTD\$1,000

Year		Financial in the Past 5 Years (Note 1)				
		2013	2014	2015	2016	2017
Accounts						
Current asset		\$1,654,503	\$1,573,785	\$2,431,001	\$2,414,120	\$2,357,903
Real estate, plant and facilities		361,956	883,552	913,528	902,872	738,088
Intangible assets		2,683	1,565	1,151	858	2,345
Other assets		3,525,579	3,598,013	3,177,234	3,329,837	3,331,353
Total assets		5,544,721	6,056,915	6,522,914	6,647,687	6,429,689
Current liability	Before distribution	766,773	1,076,436	1,173,779	1,203,183	1,173,162
	After distribution	1,143,677	1,453,340	1,701,445	1,730,849	(Note 2)
Non-current liability		394,719	388,761	346,698	311,844	222,136
Total liabilities	Before distribution	1,161,492	1,465,197	1,520,477	1,515,027	1,395,298
	After distribution	1,538,396	1,842,101	2,048,143	2,042,693	(Note 2)
Capital		1,884,521	1,884,521	1,884,521	1,884,521	1,884,521
Capital surplus		567,114	567,114	567,114	567,114	567,114
Retained Earnings	Before distribution	1,739,337	1,858,272	2,263,600	2,536,702	2,544,691
	After distribution	1,362,433	1,481,368	1,735,934	2,009,036	(Note 2)
Others equity		192,257	281,811	287,202	144,323	38,065
Treasury stock		—	—	—	—	—
Total equities	Before distribution	4,383,229	4,591,718	5,002,437	5,132,660	5,034,391
	After distribution	4,006,325	4,214,814	4,474,771	4,604,994	(Note 2)

Note 1: Reviewed and certified by CPA.

Note 2: Until the printing date of this annual report, the 2017 earnings distribution proposal has not yet approved by the shareholders in the Shareholders' Meeting.

## 2-1 Condensed consolidated income statement

Unit: NT\$1,000

<div>Year</div> <div>Accounts</div>	Financial in the Past 5 Years (Note 1)				
	2013	2014	2015	2016	2017
Revenue	\$5,887,680	\$7,074,752	\$7,986,554	\$8,398,732	\$8,006,401
Gross margin	952,667	1,356,386	1,811,324	2,115,361	1,642,456
Operating profit	308,501	499,433	851,495	1,106,794	808,364
Non-Operation income (Expense)	454,174	171,990	224,984	53,802	-69,766
NIBT	762,675	671,423	1,076,479	1,160,596	738,598
Continuing operation's income	592,312	526,718	816,764	825,245	569,347
Loss from discontinued operations	-	-	-	-	-
Net income (loss)	592,312	526,718	816,764	825,245	569,347
Other comprehensive income or loss (Net amount after tax)	4,901	74,912	-9,329	-163,377	-121,464
Total comprehensive Income (Loss)	597,213	601,630	807,435	661,868	447,883
Net profit attributable to owner of the parent	580,998	507,914	796,103	819,739	549,976
Net Profit attributable to minority interest	11,314	18,804	20,661	5,506	19,371
Total comprehensive income attributable to owner of the parent	585,398	585,393	787,623	657,889	429,397
Total comprehensive income attributable to minority interest	11,815	16,237	19,812	3,979	18,486
Earnings per share (Note2)	3.08	2.70	4.22	4.35	2.92

Note 1: Reviewed and certified by CPA.

Note 2: Basic EPS

## 2-2Condensed individual income statement

Unit: NT\$1,000

<div>Year</div> <div>Accounts</div>	Financial in the Past 5 Years (Note 1)				
	2013	2014	2015	2016	2017
Revenue	\$3,853,599	\$4,727,893	\$5,330,560	\$5,698,548	\$5,341,232
Gross margin	563,079	624,721	885,522	1,046,859	854,322
Operating profit	172,376	194,258	408,239	531,083	435,884
Non-Operation income (Expense)	532,712	390,891	546,043	461,454	210,232
NIBT	705,088	585,149	954,282	992,537	646,116
Continuing operation's income	580,998	507,914	796,103	819,739	549,976
Loss from discontinued operations	—	—	—	—	—
Net income (loss)	580,998	507,914	796,103	819,739	549,976
Other comprehensive income or loss (Net amount after tax)	4,400	77,479	-8,480	-161,850	-120,579
Total comprehensive Income (Loss)	585,398	585,393	787,623	657,889	429,397
EPS (Note 2)	3.08	2.70	4.22	4.35	2.92

Note 1: Reviewed and certified by CPA

Note 2: Basic EPS



### 3.Certifying accountants over the past five years and the audit opinions

Year	Accounting Firm	Name of Accountants	Audit Opinion
2017	PwC Taiwan	WANG, Kuo-Hua LIAO, A-Shen	Unqualified Opinion
2016	PwC Taiwan	WANG, Kuo-Hua LIAO, A-Shen	Unqualified Opinion
2015	PwC Taiwan	LIAO, A-Shen LIU, Tzu-Meng	Modified Unqualified Opinion
2014	PwC Taiwan	LIAO, A-Shen LIU, Tzu-Meng	Modified Unqualified Opinion
2013	PwC Taiwan	WANG, Kuo-Hua LIAO, A-Shen	Modified Unqualified Opinion

## (2) Financial analysis

### 1. Analysis on consolidated Financial

<div style="display: flex; align-items: center;"> <div style="flex: 1; text-align: center;">Year</div> <div style="flex: 1; text-align: center;">Financial analysis in the Past 5 Years (Note 1)</div> </div>						
		2013	2014	2015	2016	2017
Analysis list (Note2)						
Financial Structure %	Debt ratio	28.71	31.83	30.31	30.82	31.14
	Ratio of liabilities to assets	344.66	284.07	299.22	328.14	257.53
Solvency%	Current ratio	240.16	201.13	252.37	262.70	236.93
	Quick ratio	175.87	150.27	205.16	218.08	187.19
	Times interest earned ratio	276.93	223.40	980.51	1,852.03	530.46
operating ability	Account receivable turnover (times)	5.02	5.00	4.93	5.04	4.97
	Days sales in accountable receivable	73	73	75	73	73
	Inventory turnover (times)	6.43	6.50	6.99	7.36	7.06
	Account payable turnover (times)	6.06	5.78	5.58	5.43	5.27
	Average days in sales	57	56	53	50	52
	Fixed properties, plants and equipment turnover (times)	4.90	4.66	4.43	4.72	4.15
	Total assets turnover (times)	1.00	1.08	1.12	1.12	1.06
Profitability	Return on assets (%)	9.87	7.79	11.19	10.99	7.32
	Return on Equity (%)	13.73	11.32	16.21	15.81	10.58
	Profit before tax to capital stock (%)	40.47	35.63	57.12	61.59	39.19
	Profit ratio (%)	9.87	7.18	9.97	9.76	6.87
	EPS (dollar)	3.08	2.70	4.22	4.35	2.92
Cash Flow	Cash flow ratio (%)	48.53	49.84	57.44	75.76	39.43
	Cash flow adequacy ratio (%)	121.50	101.16	115.62	150.38	130.16
	Cash re-investment ratio (%)	6.88	8.73	10.94	14.62	3.87
Leverage	Operation leverage	6.67	4.99	3.21	2.68	2.64
	Financial leverage	1.01	1.01	1.00	1.00	1.00

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Note 1: Reviewed and certified by CPA.

Analysis on more than 20% changes in the ratios over the most recent two fiscal years:

- (1) Decreased in the ratio of long term capital to real estate, factory and facilities: mainly because the Company acquired factor and built new plant in 2017, which hugely increased capital expenditure.
  - (2) Times interest earned ratio and 5 profitability-related analytic numbers decreased: mainly because NTD appreciation and the price increase of bulk material in 2017, so the net income before tax decreased comparing to NIBT in 2016.
  - (3) Decreased in cash flow ratio and capital reinvestment ration: mainly because the decrease of net income before tax in 2017, so the cash flow generated from operating activities decreased.
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Note 2: Formulas:

1. Financial structure

- (1) Debt ratio = Total liabilities / Total assets
- (2) Ratio of liabilities to assets = (Total equity + non-current liabilities) / Net amount of fixed properties and equipment

2. Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventories – Prepaid expenses) / Current liabilities
- (3) Times interest earned ratio = Net income before tax and interests / Interest expense of the term

3. Operating ability

- (1) Account receivable turnover (including Account receivables and Notes receivables arising from operations) = Net sales / Average balance of all the receivables (including account receivables and Notes receivables arising from operations)
- (2) Days sales in account receivable = 365 / Account receivable turnover
- (3) Inventory turnover = Cost of goods sold / Average inventories
- (4) Account payable turnover (including Account payable and Notes payable arising from operations) = Cost of goods sold / Average balance of all the payable (including Account payable and Notes payable arising from operations)
- (5) Average days in sales = 365 / Inventory turnover
- (6) Fixed properties and equipment turnover = Net sales / Net amount of fixed properties and equipment
- (7) Total assets turnover = Net sales / Average total assets

4. Profitability

- (1) Return on assets = [ NIAT + Interest expense(1-tax rate) ] / Average total assets
- (2) Return on equity = NIAT / Average total stockholder's equity
- (3) Profit ratio = NIAT / Net sales
- (4) EPS = (Profit attributable to owner of the parent – dividend on preferred stock) / Weighted average total outstanding shares (Note 4)

5. Cash Flow (Note 5)

- (1) Cash flow ratio = Cash flow generated during operation activities / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow generated from operation activities in the past 5 years / (capital expenditure + increase in inventories + Cash dividend) of the past 5 years
- (3) Cash re-investment ratio = (Net cash flow generated during operation activities – Cash dividend) / (Gross amount of fixed properties and equipment + Long-term investment + Other non-current assets + Working capital)

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6. Leverage:

(1) Operation leverage = ( Net sales revenue – Variable operation cost and expenses) / Operation profit (Note 6)

(2) Financial leverage = Operation profit / (Operation profit – Interest expense)

Note 3: The followings should be cautious while calculating EPS based on above formulas:

1. Should take the weighted average total number of common shares instead of the total issued shares at the year-end as the basis.
2. Whenever there is capital increase by cash or treasury stock transaction, the calculation of weighted average shares should also take the shares during the circulation period into consideration.
3. Whenever there is capital increase by earnings or capital increase by capital surplus, the calculation of EPS during the past years and the half year should take retroactive proportional adjustment based on the proportion of capital increase without considering the period during the capital increase.
4. If the type of preferred stock is a non-convertible cumulative preferred stock, the dividend of the year (no matter distribution or not) should be deducted from net income after tax or add to the net loss after tax. If the type of preferred stock is not cumulative, when there is still net profit after tax, the dividend on such preferred stock should be deducted from the net income after tax. No adjustment should be made if there is a loss after tax.

Note 4: While doing cash flow analysis, the following issues should be especially paid attention to:

1. Net cash flow generated from operation activities refers to Net cash inflow during operation activities in the Cash Flow Statement.
2. Capital expenditure refers to Cash outflow as capital investment every year.
3. Increase in inventory should only be taken into account when the ending balance is greater than the beginning balance. If the inventory decreases during the year, use 0 to calculate.
4. Cash dividend includes cash dividend for both common stock and preferred stock.
5. Gross amount of Fixed properties and equipment refers to the total amount of fixed properties and equipment before deducting cumulative depreciation.

Note 5: The issuer should classify all the operation costs and operation expenses into fixed and variables, and should pay attention to the consistency when the classification is not easy to make.

Note 6: If the company's securities have no face value or face value other than NT\$10, the aforementioned formulas that involve calculations of paid-in capital should be replaced with the proportion of equity attributable to owners of the parent on the Balance Sheets to calculate.

## 2. Analysis on individual financial

Year Analysis list (Note 2)		Financial analysis in the Past 5 Years (Note 1)				
		2013	2014	2015	2016	2017
Financial Structure %	Debt ratio	20.95	24.19	23.31	22.79	21.70
	Ratio of liabilities to assets	1,210.98	519.69	585.55	603.02	712.18
Solvency %	Current ratio	215.77	146.20	207.11	200.64	200.99
	Quick ratio	176.53	120.16	183.01	175.25	175.66
	Times interest earned ratio	22,746	2,613	45,443	41,357	2,486
operating ability	Account receivable turnover (times)	5.02	4.94	4.98	5.37	5.29
	Days sales in accountable receivable	73	74	74	68	69
	Inventory turnover (times)	8.41	13.19	15.25	15.57	14.43
	Account payable turnover (times)	6.29	6.48	6.05	5.90	5.54
	Average days in sales	44	28	24	24	25
	Fixed properties, plants and equipment turnover (times)	8.62	7.55	5.90	6.24	6.46
	Total assets turnover (times)	0.71	0.81	0.84	0.86	0.81
Profitability	Return on assets (%)	10.80	8.76	12.66	12.45	8.41
	Return on equity (%)	13.73	11.32	16.60	16.18	10.82
	Profit before tax to capital stock (%)	37.41	31.05	50.64	52.67	34.29
	Profit ratio (%)	15.17	10.80	15.01	14.47	10.37
	EPS (dollar)	3.08	2.70	4.22	4.35	2.92
Cash Flow	Cash flow ratio (%)	57.60	59.55	52.11	73.58	76.94
	Cash flow adequacy ratio (%)	120.27	95.80	106.47	122.72	134.67
	Cash re-investment ratio (%)	3.24	5.15	4.25	6.31	6.82
Leverage	Operation leverage	14.29	8.38	4.63	3.58	3.95
	Financial leverage	1.00	1.00	1.00	1.00	1.00

Note1. Reviewed and certified by CPA.

Analysis on more than 20% changes in the ratios over the most recent two fiscal years:

Times interest earned ratio and 5 profitability-related analytic numbers decreased: mainly because NTD appreciation and the price increase of bulk material in 2017, so the next income before tax decreased comparing to NIBT in 2016.

Note 2: Formulas:

1. Financial structure

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(1) Debt ratio = Total liabilities / Total assets

(2) Ratio of liabilities to assets = (Total equity + non-current liabilities) / Net amount of fixed properties and equipment

## 2. Solvency

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets – Inventories – Prepaid expenses) / Current liabilities

(3) Times interest earned ratio = Net income before tax and interests / Interest expense of the term

## 3. Operating ability

(1) Account receivable turnover (including Account receivables and Notes receivables arising from operations) = Net sales / Average balance of all the receivables (including account receivables and Notes receivables arising from operations)

(2) Days sales in accountable receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventories

(4) Account payable turnover (including Account payable and Notes payable arising from operations) = Cost of goods sold / Average balance of all the payable (including Account payable and Notes payable arising from operations)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed properties and equipment turnover = Net sales / Net amount of fixed properties and equipment

(7) Total assets turnover = Net sales / Average total assets

## 4. Profitability

(1) Return on assets = [ NIAT + Interest expense(1-tax rate) ] / Average total assets

(2) Return on shareholder's equity = NIAT / Average total stockholder's equity

(3) Profit ratio = NIAT / Net sales

(4) EPS = (Profit attributable to owner of the parent – dividend on preferred stock) / Weighted average total outstanding shares (Note 4)

## 5. Cash Flow (Note 5)

(1) Cash flow ratio = Cash flow generated during operation activities / Current liabilities

(2) Cash flow adequacy ratio = Net cash flow generated from operation activities in the past 5 years / (capital expenditure + increase in inventories + Cash dividend) of the past 5 years

(3) Cash re-investment ratio = (Net cash flow generated during operation activities – Cash dividend) / (Gross amount of fixed properties and equipment + Long-term investment + Other non-current assets + Working capital)

## 6. Leverage:

(1) Operation leverage = ( Net sales revenue – Variable operation cost and expenses) / Operation profit (Note 6)

(2) Financial leverage = Operation profit / (Operation profit – Interest expense)

Note 3. The followings should be cautious while calculating EPS based on above formulas:

1. Should take the weighted average total number of common shares instead of the total issued shares at the year-end as the basis.
2. Whenever there is capital increase by cash or treasury stock transaction, the calculation of weighted average shares should also take the shares during the circulation period into consideration.
3. Whenever there is capital increase by earnings or capital increase by capital surplus, the calculation of EPS during the past years and the half year should take retroactive proportional adjustment based on the proportion of capital increase without considering the period during the capital increase.
4. If the type of preferred stock is a non-convertible cumulative preferred stock, the dividend of the year (no matter distribution or not) should be

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deducted from net income after tax or add to the net loss after tax. If the type of preferred stock is not cumulative, when there is still net profit after tax, the dividend on such preferred stock should be deducted from the net income after tax. No adjustment should be made if there is a loss after tax.

Note 4: While doing cash flow analysis, the following issues should be especially paid attention to:

1. Net cash flow generated from operation activities refers to Net cash inflow during operation activities in the Cash Flow Statement.
2. Capital expenditure refers to Cash outflow as capital investment every year.
3. Increase in inventory should only be taken into account when the ending balance is greater than the beginning balance. If the inventory decreases during the year, use 0 to calculate.
4. Cash dividend includes cash dividend for both common stock and preferred stock.
5. Gross amount of Fixed properties and equipment refers to the total amount of fixed properties and equipment before deducting cumulative depreciation.

Note 5: The issuer should classify all the operation costs and operation expenses into fixed and variables, and should pay attention to the consistency when the classification is not easy to make.

Note 6: If the company's securities have no face value or face value other than NT\$10, the aforementioned formulas that involve calculations of paid-in capital should be replaced with the proportion of equity attributable to owners of the parent on the Balance Sheets to calculate.

(3) Supervisor's report on the most recent fiscal year's financial report

Supervisor's Audit Statement

Attn: Taiwan Fu Hsing Industrial Co., Ltd. 2018 General Shareholders' Meeting

In accordance with the Article 219 of the Company Act, we have examined the company's operation report and motions of earnings distribution along with the mother company's financial report and the consolidated financial report that were audited and signed by Accountants WANG Kuo-Hua and LIAO A-Shen of the PwC Taiwan and submitted by the Board of Directors for the year ending 2017, and found them in order.

Supervisor:

HUANG, Fu-Ti

(Representative of Fu Yuan Investment Co., Ltd.)

LIN, Wen-Hsing

(Representative of Fu Yuan Investment Co., Ltd.)

LIU, Ju-Shan

(Representative of Fu Yuan Investment Co., Ltd.)

March 23<sup>rd</sup>, 2018



(4) Financial statements of the most recent fiscal year: please refer to Attachment I.

(5) The CPA certified consolidated financial statements of the most recent fiscal year: please refer to Attachment II.

(6) In the most fiscal year and up until the printing date of this annual report, should the company and

its affiliated companies have financial difficulties; the influences on the company's financial situation

should be disclosed: None.

## VII Financial situation and discussions and analysis on the year's operation results and the risk management

### 1. Two year comparisons on financial situation

Unit: NT\$1,000

Item \ Year	2017	2016	Difference	
			Amount	%
Current assets	\$4,674,106	\$5,120,102	\$-445,996	-9%
Fund & Investments	474,842	518,011	-43,169	-8%
Real estate, factory and equipment	2,139,098	1,715,994	423,104	25%
Intangible assets	26,800	26,198	602	2%
Other assets	166,692	199,533	-32,841	-16%
Total assets	7,481,538	7,579,838	-98,300	-1%
Current liabilities	1,972,780	1,949,054	23,726	1%
Non-current liabilities	357,179	387,247	-30,068	-8%
Total liabilities	2,329,959	2,336,301	-6,342	-
Capital	1,884,521	1,884,521	-	-
Capital surplus	567,114	567,114	-	-
Retained earnings	2,544,691	2,536,702	7,989	-
Other equity	38,065	144,323	-106,258	-74%
Minor interests	117,188	110,877	6,311	6%
Total shareholder's equity	5,151,579	5,243,537	-91,958	-2%
<p>1. Analysis on more than 20% changes in %:</p> <p>(1) Real estate, factory and facilities increased 25%: mainly due to factory acquirement and new factory establishment in 2017, and so hugely increased capital expenditures.</p> <p>(2) Other equity decreased 74%: mainly due to current translations resulting from USD currency fluctuations.</p> <p>2. Impacts of the changes: No significant influence to the company's financial situation.</p> <p>3. Future plan to meet the changes: Not applicable.</p>				

## 2. Two year comparison on the financial performance

Unit: NT\$1,000

Item \ Year	2017	2016	Increase (Decrease)	Change %
Total sales revenue	\$8,051,495	\$8,446,600	\$-395,105	-5%
Sales return and discount	45,094	47,868	-2,774	-6%
Total sales revenue – net	8,006,401	8,398,732	-392,331	-5%
Operating Cost	6,363,945	6,283,371	80,574	1%
Gross Margin	1,642,456	2,115,361	-472,905	-22%
Operating Expenses	834,092	1,008,567	-174,475	-17%
Operating Profit	808,364	1,106,794	-298,430	-27%
Non-operating income and expenses	-69,766	53,802	-123,568	-230%
Net income before tax	738,598	1,160,596	-421,998	-36%
Tax	169,251	335,351	-166,100	-50%
Net income after tax	569,347	825,245	-255,898	-31%
Other comprehensive income after tax – net	-121,464	-163,377	41,913	-26%
Total comprehensive income	447,883	661,868	-213,985	-32%
<p>1. Analysis on more than 20% changes in %:</p> <p>(1) Gross margin decreased 22%; operation profit decreased 27%: mainly due to NTD and RMB appreciation and price increase of bulk materials in 2017.</p> <p>(2) Non-operating income and expenses decreased 230%: mainly due to forex loss of 160mn resulted from the appreciation of NTD and RMB in 2017.</p> <p>(3) Net income before tax decreased about 36%: was mainly influenced by (1) and (2).</p> <p>(4) Income tax decreased about 50%: was mainly influenced by (3).</p> <p>(5) Net income of the current period decreased: was mainly influenced by (3) and (4).</p> <p>(6) Other comprehensive income increased about 26%: mainly resulted from the increase in the difference in exchange rates recorded on 2017 accounting reports in overseas operations.</p> <p>(7) Total comprehensive income of this period decreased about 32%: was mainly influenced by (5) and (6).</p> <p>2. Estimated sales volume in the future year and the basis: according to our experiences in the past and the observations in trend of future industrial growth, we expect to sell 45,434 thousand units in 2018.</p> <p>3. Possible influences on the company's future financial situation and the encountering measures: No significant changes.</p> <p>4. Future plan to meet the changes: Not applicable.</p>				

### 3. Review and analysis Table on Cash Flows

#### 1. Analysis on the changes in cash flow in current year

Unit: NT\$1,000

Year Item	2017	2016	Changes	
			Amount	%
Net cash flow	\$-279,088	\$686,883	\$-965,971	-141
(1) Net cash inflow decreased in 2017 comparing to 2016 mainly due to cash outflows in new factory investments.				
(2) Improvement on insufficient liquidity: The company has sufficient cash on hand. We do not have insufficient liquidity situation.				

#### 2. Cash flow analysis for the future year:

Unit: NT\$1,000

Beginning cash balance	Estimated cash inflow from operating activities of the year	Estimated cash outflow of the year	Estimate amount of cash surplus (insufficient)	Supplement measures for insufficient cash	
				Investment planning	Financial planning
\$2,036,236	\$8,679,382	\$9,206,377	\$1,509,241	-	-
(1) Analysis on the estimated cash flow changes in 2018:					
A. Operation activity: No significant changes estimated.					
B. Investment activity: Continued expenditures on factory construction and equipment procurement.					
C. Financing activity: Expected to have cash outflows due to cash dividend distribution.					
(2) The make-up plan for insufficient cash, and the analysis on solvency: We expect cash is enough in 2018.					

#### 4. Influences of major capital expenditure plan in the recent fiscal year:

The new construction of subsidiary, Tong Hsing Enterprise Co., Ltd. in Benzhou Industrial Zone started in March 2017. The total investment amounted to 1 billion New Taiwan Dollars. The construction is estimated to be completed at the end of 2018.

The investment fund mainly comes from working capital from operations and partially from bank loans. The Company has healthy financial structure and low debt rate. The investment project does not cause significant influence to the Company's financial situation.

The Company expects to further vertically integrate the manufacturing processes of Zinc alloy die casting and surface process to enhance overall operational efficiency after the construction of Tong Hsing plant is completed.

#### 5. Main reason for the profit or loss of its invested company in the current year, and the improvement plan and investment plan in the future year:

Current strategy to make investment is focus on the expansion of product lines, promotion of operation synergy and overall competitiveness.

In 2017, the Company recognized NT\$ 222,736 thousand dollars as profits from re-investments under equity method.

In this year, we will continue to carefully evaluate investment projects based on our long-term strategic view to meet the need of operational development.

## 6. Risk management & assessment

### 1. Organization structure for risk management:

Important risk assessment directions	1 <sup>st</sup> layer - risk control unit	2 <sup>nd</sup> layer – Deliberation and control mechanism	Board of Directors/ Internal Audit Office
Interest, exchange rate and financial risks	Financial Dept.	President Office	The Board: (Risk assessment & Final strategy mechanism) Internal Audit Office: (Risk review, assessment, improvement tracking, report)
Changes on material prices	Purchasing Dept.	Business Group	
New product's development, improvement, and substitute materials	R&D Center	R&D Meeting	
Extraordinary quality	R&D Center	Quality Control Meeting	
Production Arrangement	Production planning Dept.	Production & Sales Meeting	
Re-investment assessment	Financial Dept.	CEO Office	
Compliance to company standards and regulations	Superintendents of all the levels	Audit	
Litigation & Non-litigation issues	Legal affairs	President Office	
Shareholding changes among directors, supervisors, and major shareholders	Stock Affairs	Financial Dept.	
Execution and management of the Board Meeting	Stock Affairs	President Office	

### 2. Influences of the changes in interest rate, exchange rate and inflation on the company's profits, and the future response measures:

In the past year, NTD and RMB appreciated a lot, and the pricing of international crude oil and bulk materials also increased. The overall situation brought big challenge to our operation. Hence, the Company will continue to adopt appropriate hedge policies on currency and materials procurement and actively keep on promoting VA/VE and developing new products to improve and enhance the Company's overall value and strengthen further our competitiveness. The responses to risks are listed as below:

(1) Response to risks of interest rate: With stable profits and sufficient operational cash, the Company does not have big amount of bank loans. Thus, the influences of changing interest rates mainly will affect the return rate on fund utilization. Currently, besides fixed deposits or quasi money bond funds, some of the operation funds are invested in stable-yield value stock in order to increase the return rate of

capital utilization.

(2) Response to risks of exchange rate: The Company is mainly doing exporting business, so exchange rate fluctuation does have certain effects on the company. We will continue to carry out appropriate hedge strategy by forward selling with the expectation to reduce the exchange rate fluctuation risk to the minimal.

(3) Response to risks of inflation: The price of international energy and bulk materials are still in fluctuation. We continue to discuss the relevance of the consumed energies and try to develop alternative materials to control our procurement cost and reduce unnecessary wastes during the manufacturing procedure with the expectation of reducing the operational pressure caused by increasing material costs.

3. Main cause of profit or loss resulted from carrying out high risk, high leverage investment, loaning fund to others, endorsements and guarantees, and strategy on derivative merchandises transactions; and the countermeasures in the future:

The company has established “procedures to involve in derivative merchandise transactions” and strictly prohibit the transaction on high risk and high leverage investments. Loaning funds to others and endorsement and guarantees must be handled in accordance with the company’s related work procedures.

Derivative merchandise transactions include forex option, forward foreign exchange transactions, and bulk materials metal future options. The purpose is to evade risks in relation to foreign exchange rate fluctuation and reduce risks of metal materials cost increase due to huge price changes in the market. The main purpose is to evade a greater amount of price risks in the market.

4. Planned product development and estimated capital investment in product R&D:

(1) Mechanic door lock:

a. For home use door lock, the focus is put on the market of residential complex in the North America. Using current Grade 2 and Grade 3 structure as the base, the product R&D aims at providing wider range of product combinations to fulfill customers in different market and channels in the needs of product appearance, mechanical strength, fitting, and others. We will especially focus on the design of product appearances and the development of special surface process (such as antimicrobial coating) in order to provide more flexible choices.

b. For commercially medium to heavy door products, the focus will be put on ANSI Grade 1 and UL fire proof products. We will continuously adding new functions to further expand market coverage, and also keep moving toward products with higher technology barrier and higher values.

c. Fu Hsing has become one of the members in the Builders Hardware Manufacturer Association (BHMA), thus we can react more timely and quickly to product certification updates, regulation changes, and others. Besides having obtained the

highest grade ANSI Grade 1 certification in commercial door lock products, in the future we plan to further extend downward to cultivate Grade 2 commercial door lock products in order to further enhance Fu Hsing's competitiveness in the construction market.

(2) Electronic door lock:

1. Current production line is going to be a more complete production line. Besides currently existing push-bottom lock and electronic touch lock, we will also customize products with different appearance to satisfy customers from different group in order to increase the marketing breadth.
2. While more and more electronic products are able to connect to smart phones, we plan to develop electronic door locks with NFC (near field communication) or Bluetooth functions, and furthermore design APP interface to connect products with cell phones to create a completely new user experience.
3. The home automation market in North America is gradually going into a mature market. Taiwan Fu Hsing also follows major customer's footprint to develop electronic products that are compatible with Z-wave/Zig-bee technology and are integrated into customer's platform to provide end users with a more comprehensive access security management system.
4. For commercial use electronic door locks, the market always requires more intense integration power in electro-mechanical technology and software. With the strengths in the mechanic door lock's manufacturing ability, R&D ability, and professional supports from its partners, Taiwan Fu Hsing is able to develop a complete door lock system in the light of commercial door lock's use environment like condominium to reduce customer's cost in the public access management.

(3) The planned R&D investment: The planned R&D expense in 2018 was 202,597 thousand New Taiwan Dollars.

5. Effect on the company's financial operations of important policies adopted and changes in the legal environment at home and abroad, and measures to be taken in response:

The changes on domestic political policy and laws did not affect the company's financial and business operations in recent years. Besides, the Company is centering on developed nations such as U.S. and EU, where are having relatively stable regulations and policies. Thus, foreign policies and regulations did not have significant influence on our Financial and business. However, we will still keep an eye on the changes at home and abroad.

6. Effect on the company's financial operations of developments in science and technology as well as industrial change, and measures to be taken in response:

(1) The company has introduced in the ERP system at several years ago in order to provide timely and integrated information for responding quickly to market demand

and needs to modify the company's operation strategy.

(2) In recent years, a significant trend in the demand of door lock showing that consumers now are requesting more from door lock products, no matter in its safety, function, or looks. Especially the market of electronic door lock, different from traditional mechanical locks, also shows signs of growing. In order to develop this new door lock blue sea market and keep maintaining our leading position, the Company is planning to actively expand the higher value-added electronic door lock market. We expect electronic door lock products are going to be a major niche type product in the future.

7. Effect on the company's crisis management of changes in the company's corporate image, and measures to be taken in response: Not applicable.

8. Expected benefits and possible risks associated with any merger and acquisitions, and mitigation measures being or to be taken: No significant merger or acquisition projects.

9 Expected benefits and possible risks associated with any plant expansion, and mitigation measures being or to be taken:

In consideration of future operational needs and further enhance self-production proportion and control key manufacturing process, the Company resolved on Board of Directors' Meeting to build new factory for Tong Hsing Enterprise Co., Ltd. in Benzhou Industrial. It is expected to enhance the overall operational efficiency after the plant construction is completed. Nevertheless, the external operation environment changes quite fast and there are highs and lows in market demand; hence the Company will carefully observe the market changes and work closely with customers to minimize risks.

10. Risks associated with any centralized sales or procurement, and mitigation measures being or to be taken: Not applicable.

11. Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than a 10 percent stake in the company has been transferred or has otherwise changed hands, and mitigation measures being or to be taken: Not applicable.

12. Effect upon and risk to company associated with any change in governance personnel or top management, and mitigation measures being or to be taken: Not applicable.

13. Litigious and non-litigious matters:

Major litigious, non-litigious or administrative disputes, regardless of being



concluded by means of a final and un-appealable judgment or is still under the litigation process, that involves the company and/or the company's director, supervisor, the President, any person with actual responsibility for the company, any major shareholder holding a stake of greater than 10 percent, and a subordinate company, and is possibly materially affect shareholders' equity or the prices of the company's securities: No such situation until the printing date of this annual report.

14. Other significant risk and mitigation measures being or to be taken: No other significant risks.

7. Other important matters: None.

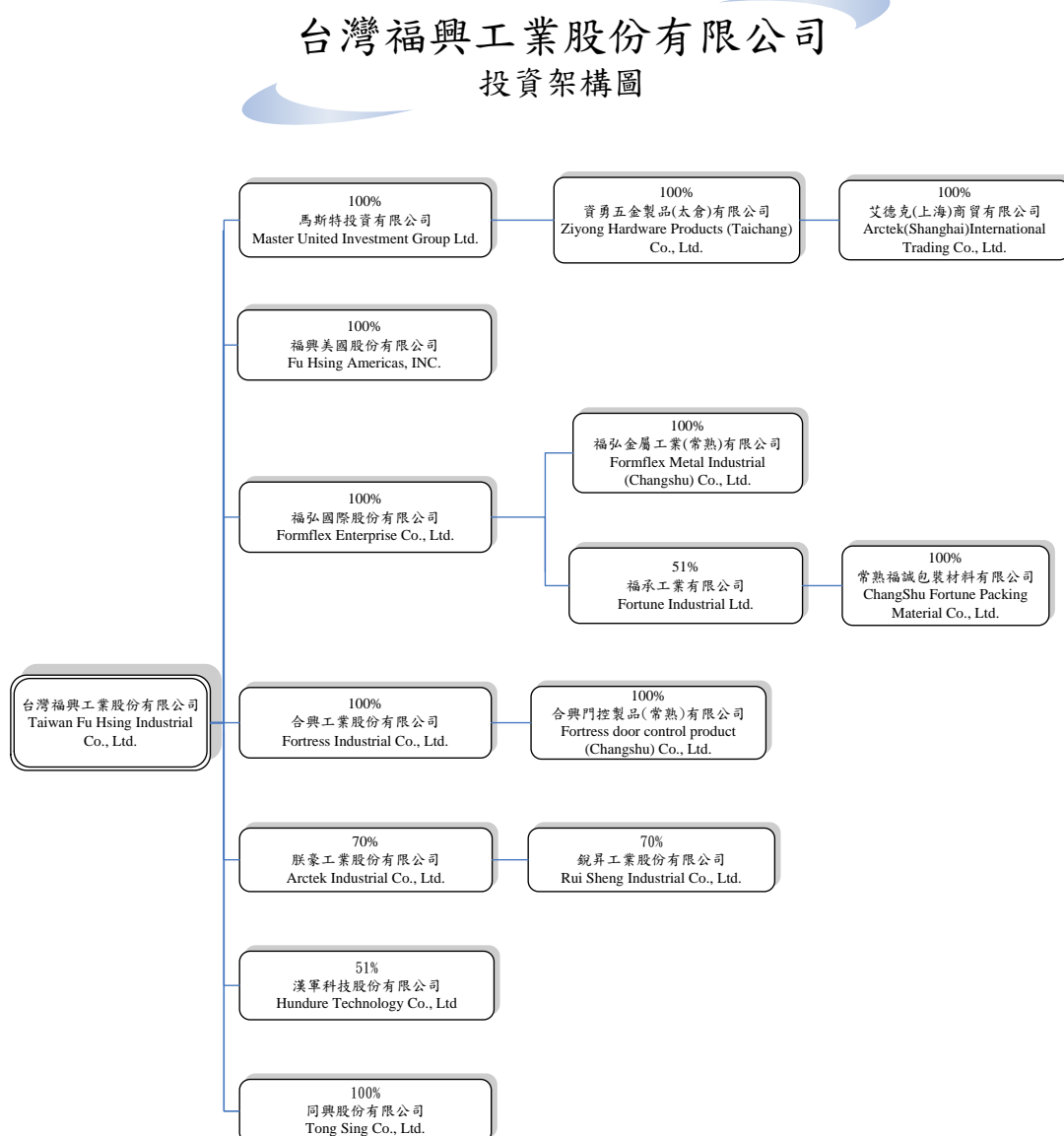
## VIII. Special Notes

### (1) Disclosure regarding affiliated companies

#### I. Organization status of the affiliated companies

##### (1) Organization chart of the affiliated companies

Data drawn on Dec. 31<sup>st</sup>, 2017



(2) Company that is concluded as the existence of the controlling and subordinate relation according to Article 369-3 of the Company Act: No such situation.

(3) Company that is determined having a relationship of subordination or having control power as

subordinate according to Article 6 of the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises:  
No such situation.

## II. Information on affiliated companies

Date Drawn on Dec. 31<sup>st</sup>, 2017

Unit: NT\$1,000

企業名稱 Name of Enterprise	設立日期 Founding Date	地址 Address	實收資本額 capital	主要營業或生產專案 Business Scope
台灣福興工業股份有限公司 Taiwan Fu Hsing Industrial Co., Ltd.	Nov. 23 <sup>rd</sup> , 1957	No.88, Yucal Rd., Kangshan Dist., Kaohsiung City, Taiwan R.O.C.	1,884,521	Mainly work for the manufacturing and sale of door lock, electronic door lock, family metal products, and dies.
FU HSING AMERICAS, INC. 福興美國股份有限公司	May 25 <sup>th</sup> , 1999	1424 Buford Business Boulevard Suite #100 Buford, GA 30518	9,637	Distribution of door locks and door closer related products.
Master United Investment Group Ltd. 馬斯特投資有限公司	Jan. 23 <sup>rd</sup> , 1998	P.O.BOX3321,Road Town,Tortola,BRITISH VIRGIN ISLANDS	538,240	Reinvestment business.
Ziyong Hardware Products (Taichang) Co., Ltd. 資勇五金製品(太倉)有限公司	Mar. 27 <sup>th</sup> , 1998	Next to National Highway 204 in Nanjiao Dist., Chengxiang Town, Taichang City, Jiangsu Province, P.R.C.	512,839	The production and processing of metal die casting products and the related surface processing (electroplating, painting)
Fortress Industrial Co., Ltd. 合興工業股份有限公司	May 16 <sup>th</sup> , 2012	No.103, Hsingong 1 <sup>st</sup> Rd., Dahsing Village, Beidou Township, Changhua County, Taiwan R.O.C.	330,000	The production and sale of door closer, panic exits and hinges related products.
Arctek (Shanghai) Safety Protection Technology Co., Ltd. 艾德克安防科技(上海)有限公司	Mar. 16 <sup>th</sup> , 2012	No.11, 4F, Room 412, Allay 4666, Gonghexin Rd., Xiabei Dist., Shanghai City, P.R.C.	107,746	The sale of door closer and door hinge and floor hinge related products.
Formflex Enterprise Co., Ltd. 福弘國際股份有限公司	Feb. 1 <sup>st</sup> , 2005	Level2, Lotemau Centre, Vaea Street, Apia, Samoa	741,744	Reinvestment business.
Formflex Metal Industrial (Changshu) Co., Ltd. 福弘金屬工業(常熟)有限公司	May 12 <sup>th</sup> , 2005	No.68, Huangpujiang Rd., Southeast Economic Development Zone, Changshu, Jiangsu Province, P.R.C.	735,090	The production and sale of door locks and related parts
Fortune Industrial Ltd. 福承工業有限公司	Aug. 3 <sup>rd</sup> , 2007	Level2, Lotemau Centre, Vaea Street, Apia, Samoa	13,133	Reinvestment business.
ChangShu Fortune Packing Material Co., Ltd. 常熟福誠包裝材料有限公司	Oct. 11 <sup>th</sup> , 2007	No.68, Huangpujiang Rd., Southeast Economic Development Zone, Changshu, Jiangsu Province, P.R.C.	13,133	The production of packaging materials and plastic parts
Arctek Industrial Co., Ltd. 朕豪工業股份有限公司	Jul. 27, 1994	No. 76, Hsingong Rd., Beidou Township, Changhua County, Taiwan R.O.C.	69,500	The production and sale of door hinge and floor hinge related products.
Rui Sheng Industrial Co., Ltd. 銳昇工業股份有限公司	Apr. 28 <sup>th</sup> , 2009	No. 76, Hsingong Rd., Beidou Township, Changhua County, Taiwan R.O.C.	7,200	The production and sale of door hinge and floor hinge related products.
Hundure Technology co., ltd. 漢軍科技股份有限公司	Apr. 10, 1989	No.47-1, 2 <sup>nd</sup> Sec., Guangfu Rd., Sanchong Dist., New Taipei City, R.O.C.	68,890	The production and sale of electronic control facility, electronic fire protection and monitoring system

Fortress Door Control Product (Changshu) Co., Ltd. 合興門控制品(常熟)有限公司	Mar. 12, 2014	High Tech Industrial Development Zone in Huangpujiang Rd., Changshu, Jiangsu Province, P.R.C.	90,750	The manufacturing of door closer related products
Tong Hsing Enterprise Co., Ltd. 同興股份有限公司	Dec. 16, 2014	No.18, Benzhou Rd., Kangshan Dist., Kaohsiung, R.O.C.	500,000	The processing and sale of hardware products
H&C Econ Tech Engineering Co., Ltd. 艾德克科技有限公司	Apr. 27, 2016	2nd Floor, Building B, SNPF Plaza, Savalalo, Apia, Samoa	320	Investment on all I businesses

### III. Having the same shareholders in the controlling and affiliated company defined in the Company

Act: None.

### IV. Industries involved by the overall affiliated companies

- i. Business of the company and affiliated companies: including manufacturing industry and investment industry.
- ii. The company is mainly working for the manufacturing and sales of door lock and door related metal accessories. Based on 2017 operations, the sales and procurement information involving affiliated companies are stated as below:

#### The transaction among affiliated companies:

#### A.

Unit:NTD1,000

Item	Affiliated Party		2017
Merchandises sales	Subsidiary	FHA	\$38,972
		Others	1,657
Labor sales	Subsidiary	Ziyoung (Taichung)	24,084
		Formflex (Changshu)	9,110
		Others	6,976
Total			80,799

#### B.

Unit: NTD1,000

Item	Affiliated Party		2017
Merchandises Procurement	Subsidiary	FORMFLEX	\$1,902,272
		Others	170,922
Labor expenditures	Associate	ALLEGION	69,743
Total			2,142,937

## V. Endorsement and guarantees provided for affiliated companies

Unit: NT1,000

Endorsee	Accounts	Whether the endorsee is a related party	The highest amount endorsed during the period	Ending balance in the period	Amount actually used	The range of interest rate	Type of the endorsement	Amount of business transaction involved	Reason for short term financial needs	Allowance for bad debt amount appropriated	Collateral		Ceiling of the endorsement to a single company	Ceiling of Total endorsements	Remark
											Name	Value			
FU HSING AMERICAS INC.	Other Account Receivable – Related Party	Yes	\$15,088	\$15,088	\$15,088	2.50%	Note 1(1)	\$38,972	-	-	None	-	\$38,972	\$1,006,878	Note2
Arctek Security Technologies (Shanghai) Co., Ltd.	Other Account Receivable – Related Party	Yes	119,576	71,568	71,568	2.50%	Note1(2)	-	As working capital	-	None	-	156,053	234,079	Note3
FU HSING AMERICAS INC.	Other Account Receivable – Related Party	Yes	15,088	15,088	15,088	2.50%	Note1(1)	64,909	-	-	None	-	64,909	164,428	Note3
ARCTEK Industrial Co., Ltd.	Other Account Receivable – Related Party	Yes	60,000	60,000	-	2.826%	Note1(1)	169,204	-	-	None	-	115,419	115,419	Note3

Note 1. Meaning of marks on the cell of Type of the Endorsement

(1) Has business relationship; (2) Has short time financing need

Note 2. The Company's operational procedures for the making of endorsement/guarantee to others are listed as below:

- 1: The total fund lent to company or enterprise that has business relationship with the Company should not exceed 20% of the Company's net worth stated on the most recent financial report. Total fund lent to a single company must not exceed the total business transaction amount with the Company in the most recent year.
- 2: The total fund lent to company or enterprise that has short term financing needs should not exceed 10% of the Company's net worth stated on the most recent financial report. Total fund lent to a single company must not exceed 50% of the borrower's net worth stated in the most recent audited financial report.

Note 3. According to the Company's operational procedures for the making of endorsement/guarantee to others, the ceiling of total lending amount and the reason of borrowings are listed as below:

1. The total fund lent to company or enterprise that has business relationship with the Company should not exceed 20% of the borrower's net worth.  
Total fund lent to a single company must not exceed the total business transaction amount with the Company in the most recent year.
- 2: The total fund lent to company or enterprise that has short term financing needs should not exceed 10% of the borrower's net worth.  
Total fund lent to a single company must not exceed 50% of the borrower's net worth stated in the most recent audited financial report.
3. Total fund transferred among subsidiaries that have the same parent company and have short term financial needs for operation should not exceed 30% of the subsidiary's net worth. The total amount lend to an individual company must not exceed 20% of the subsidiary's net worth.

## 6. Directors, supervisors, presidents of the affiliated companies

Data drawn on Dec. 31, 2017				
Name of Business	Title	Name or Representative	Holding Shares	
			Shares	Holding %
Taiwan Fu Hsing Industrial Co., Ltd.	Chairman	LIN, Jui-Chang	1,624,978	0.86
	Director and President	CHEN, Chien-Kun	675,132	0.36
	Director (Representative of Fu Zhi Investment Development Co., Ltd.)	Michael A.Hoer	10,091,307	5.35
	Director and Group President (Representative of Fu Zhi Investment Development Co., Ltd.)	CHU, Jung-Ho	1,827,000	0.97
	Director and Group Vice President (Representative of Hong He Investment Co., Ltd.)	LIN, Tzu-Hsuan	5,721,451	3.04
	Independent Director	CHANG, Ling-Ling	0	0
	Independent Director	CHEN, Yung-Chun	0	0
	Supervisor (Fu Yuan Investment Co., Ltd.)	LIN, Wen-Hsing	2,697,185	1.43
	Supervisor (Fu Yuan investment Co., Ltd.)	HUANG, Fu-Ti	2,697,185	1.43
	Supervisor (Fu Yuan Investment Co., Ltd.)	LIU, Ju-Shan	2,697,185	1.43
FU HSING AMERICAS, INC.	Chairman (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHU, Jung-Ho	300,000	100
	Director (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIN, Jui-Chang		
Master United Investment Group Ltd.	Chairman (representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHEN, Chien-Kun	1,560,000	100
Ziyong Hardware Products (Taichang) Co., Ltd.	Chairman (Representative of Master United Investment Group Ltd.)	CHEN, Chien-Kun	Limited company, not applicable	100
	Director (Representative of Master United Investment Group Ltd.)	LIN, Teng-Tsai		
	Director (Representative of Master United Investment Group Ltd.)	LIN, Wen-Yu		
	Director (Representative of Master United Investment Group Ltd.)	CHU, Jung-Ho		
	Director (Representative of Master United Investment Group Ltd.)			
Formflex Enterprise Co., Ltd.	Chairman (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHEN, Chien-Kun	23,704,000	100
Fortress Industrial Co., Ltd.	Chairman (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIN, Jui-Chang	33,000,000	100
	Vice Chairman (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHU, Jung-Ho	33,000,000	100
	Director (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHEN, Chien-Kun	33,000,000	100
	Director (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIU, Ju-Shan	33,000,000	100
	Director (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIN, Tzu-Hsuan	33,000,000	100
	Supervisor (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	HUANG, Fu-Ti	33,000,000	100
	Supervisor (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LI, Kuo-Wei	33,000,000	100

Arctek (Shanghai) Safety Protection Technology Co., Ltd.	Chairman (Representative of Ziyong Hardware Products (Taichang) Co., Ltd.	CHU, Jung-Ho		100
	Director (Representative of Ziyong Hardware Products (Taichang) Co., Ltd.	LIN, Jui-Chang	Limited company, not applicable	100
	Director (Representative of Ziyong Hardware Products (Taichang) Co., Ltd.	CHEN, Chien-Kun		100
	Director (Representative of Ziyong Hardware Products (Taichang) Co., Ltd.	LIN, Teng-Tsai		100
H&C Econ Tech Engineering Co., Ltd.	Chairman (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHU, Jung-Ho	10,000	100
Formflex Metal Industrial (Changshu) Co., Ltd.	Chairman (Representative of Formflex Enterprise Co., Ltd.)	CHEN, Chien-Kun	Limited company, not applicable	100
	Director (Representative of Formflex Enterprise Co., Ltd.)	LIN, Wen-Yu		
	Director (Representative of Formflex Enterprise Co., Ltd.)	LIN, Teng-Tsai		
	Director (Representative of Formflex Enterprise Co., Ltd.)	CHU, Jung-Ho		
	Director (Representative of Formflex Enterprise Co., Ltd.)	LIN, Wen-Hsing		
	Supervisor (Representative of Formflex Enterprise Co., Ltd.)	HUANG, Chun-Mei		
Fortune Industrial Ltd.	Chairman	TSAI, Ching-Chin	204,000	49
	Director (Representative of Formflex Enterprise Co., Ltd.)	LIN, Teng-Tsai		51
	Director (Representative of Formflex Enterprise Co., Ltd.)	CHEN, Yung-Chih		—
Changshu Fortune Packing Material Co., Ltd.	Chairman	TSAI, Ching-Chin	Limited company, not applicable	100
	Director (Representative of Formflex Enterprise Co., Ltd.)	LIN, Teng-Tsai		100
	Director (Representative of Formflex Enterprise Co., Ltd.)	LIN, Wen-Yu		--
ARCTEK Industrial Co., Ltd.	Chairman	LIN, Jui-Chang	0	0
	Director	CHEN, Chien-Kun	0	0
	Director	CHU, Jung-Ho	0	0
	Director	LIN, Chou-Hsien	0	0
	Director	TSAO, Yung-Chuan	0	10
	Supervisor	LIN, Tzu-Hsuan	0	0
	Supervisor	LI, Kuo-Wei	0	0
Rui Sheng Industrial Co, Ltd.	Chairman	CHEN, Chien-Kun	0	0
	Director	CHU, Jung-Ho	0	0
	Director	TSAO, Yung-Chuan	0	0
	Director	TAI, Hsu-Sung	144,000	20
	Director	TAI, Li-Kai	72,000	10
	Supervisor (Representative of ARCTEK Industrial Co., Ltd.)	LIU, Kuo-Wei	504,000	0
	Supervisor (Representative of ARCTEK Industrial Co., Ltd.)	TAI, TZU-Chin	504,000	0
Hundure Technology Co., Ltd.	Chairman	LIN, Chao-Hung	0	0
	Director	LIN, Tzu-Yang	0	0
	Director	LI, Chi-Chih	374,600	5
	Director (Representative of Taiwan Shin Kong Security Co., Ltd.)	HSU, Chen-Yen	452,000	6
	Director	CHU, Jung-Ho	0	0
	Supervisor (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LI, Kuo-Wei	3,513,482	51
	Supervisor (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	TAI, Tzu-Chin	3,513,482	51
Fortress Door Control Product (Changshu) Co., Ltd.	Chairman (Representative of Fortress Industrial Co., Ltd.)	CHEN, Chien-Kun	Limited company, not applicable	100
	Director (Representative of Fortress Industrial Co., Ltd.)	CHU, Jung-Ho		100
	Director (Representative of Fortress Industrial Co., Ltd.)	LIN, Teng-Tsai		100
	Director Representative of Fortress Industrial Co., Ltd.)	LIN, Wen-Hsing		100
	Director Representative of Fortress Industrial Co., Ltd.)	LIN, Tzu-Hsuan		100
	Supervisor Representative of Fortress Industrial Co., Ltd.)	LI, Kuo-Wei		100



Tong Hsing Enterprise Co., Ltd.	Chairman(Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIN, Jui-Chang	50,000,000	100
	Director(Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	CHEN, -Chien-Kun	50,000,000	100
	Director(Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIN, Teng-Tsai	50,000,000	100
	Supervisor (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LIN, Tzu-Hsuan	50,000,000	100
	Supervisor (Representative of Taiwan Fu Hsing Industrial Co., Ltd.)	LI, Kuo-Wei	50,000,000	100

## 7. Financial situation and operation results of the company and its affiliated companies

Data drawn on Dec. 31<sup>st</sup>, 2017

Unit: NT\$1,000

Name of Business	Capital	Total Asset	Total Liability	Net Worth	Revenues	Operation Profits	Net Income	EPS (loss))
							(After Tax)	(in NTD) (after tax)
Taiwan Fu Hsing Industrial Co., Ltd.	1,884,521	6,429,689	1,395,298	5,034,391	5,341,232	435,884	549,976	2.92
FU HSING AMERICAS, INC.	9,637	167,339	60,863	106,476	94,177	19,592	11,975	39.92
Master United Investment Group Ltd.	538,240	705,951	73,120	632,831	3	6,090	6,090	3.90
Ziyong Hardware Products (Taichang) Co., Ltd.	512,839	1,187,993	555,196	632,797	1,597,786	59,945	6,087	Note
Arctek (Shanghai) Safety Protection Technology Co., Ltd. (the original Arctek (Shanghai) International Trading Co., Ltd.)	107,746	51,279	81,042	(29,763)	22,055	(16,744)	(17,594)	"
Formflex Enterprise Co, Ltd.	741,744	1,313,016	490,877	822,139	2,055,961	5,493	107,774	4.55
Formflex Metal Industrial (Changshu) Co., Ltd.	735,090	1,437,050	656,789	780,261	2,069,143	168,540	101,007	Note
Fortune Industrial Ltd.	13,133	19,281	-	19,281	1,823	1,772	1,772	8.69
Changshu Fortune Packing Material Co., Ltd.	13,133	29,666	10,468	19,198	46,532	2,020	1,823	Note
H&C Econ Tech Engineering Co., Ltd.	320	247	-	247	-	(3)	(3)	(0.30)
ARCTEK Industrial Co., Ltd.	69,500	286,527	171,041	115,486	279,663	11,374	15,502	2,230.50
Rui Sheng Industrial Co., Ltd.	7,200	33,731	6,337	27,394	30,846	7,700	7,000	9.72
Fortress Industrial Co., Ltd.	330,000	838,870	261,776	577,094	1,212,329	75,210	45,857	1.39

Hundure Technology co., Ltd.	68,890	204,637	69,552	135,085	205,168	30,926	23,810	3.46
Fortress Door Control Product (Changshu) Co., Ltd.	90,750	149,697	63,664	86,033	244,156	(754)	(3,430)	Note
Tong Hsing Enterprise Co., Ltd.	500,000	539,365	40,034	499,331	-	(608)	(477)	(0.01)

Note: Limited company, not applicable

(2)Private placement of securities: None.

(3)The holding or disposal of shares in the company by the company's subsidiaries during the most recent fiscal year and during the current fiscal year up to the date of printing of the annual report: None.

(4)Other matters that require additional explanation: None.

IX. Situations Listed in Article 36, Paragraph 2, Sub-paragraph 2 of the Securities and Exchange Act that Might Materially Affect Shareholder's Equity or The Company's Stock Price:None