

# E.SUN Tax Governance Report 2018

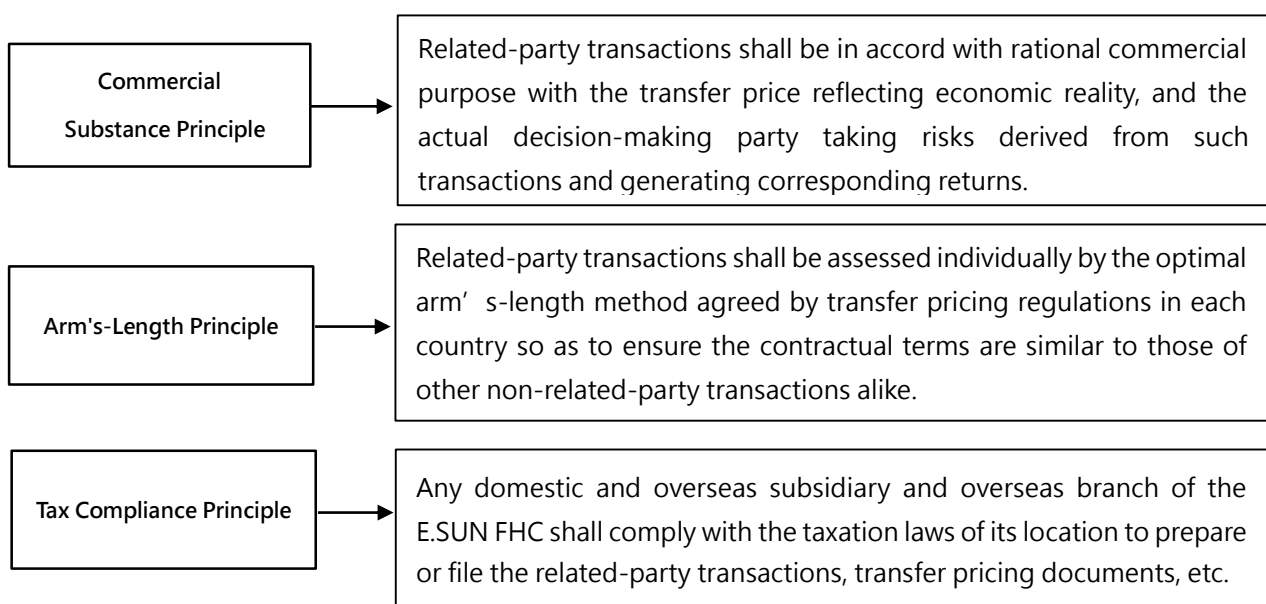
E.SUN establishes the Tax Governance Policy and Transfer Pricing Policy, guiding all its subsidiaries committing to responsible taxation, transparency, and transfer pricing principles.

## I. Tax Governance Policy

1. Tax compliance: E.SUN shall calculate correctly the tax amounts and file tax returns by statutory deadlines according to local tax laws, as well as shall comply with international taxation rules in order to effectively adhere to Arm's-Length Principle of Transfer Pricing.
2. Comprehensive decision making process: E.SUN shall conduct overall impact evaluation on the changes in local and international tax laws and quickly develop strategies responding to the changes.
3. Information transparency: E.SUN shall regularly disclose Tax related information to stakeholders in financial reports and annual reports or via other public channels to promote transparency.
4. Proactive communication: E.SUN shall maintain an open and honest communication pipeline with tax authorities, as well as may proactively participate in tax seminars by providing practical perspectives and insights of the industry, which in turn enhances the tax environment and taxation system.
5. In-house tax profession: E.SUN shall develop talents and enhance the expertise of tax function unit with continually domestic and overseas tax training.



## II. Transfer Pricing Policy



Based on the above tax governance and transfer pricing policies:

1. E.SUN Group is committed to complying with local tax rules and international taxation rules based on the tax compliance principle of tax governance policy and transfer pricing policy.
2. E.SUN Group is committed to not transferring value to low-tax jurisdictions by related-party transactions unless such transactions are in accord with economic reality based on the commercial substance principle of transfer pricing policy.
3. E.SUN Group is committed not using tax structures for tax avoidance.
4. E.SUN Group is committed not using transfer pricing approach for tax avoidance based on the main principles of transfer pricing policy.
5. E.SUN Group does not have oversea subsidiaries or branches in tax havens.

### III. Tax and Financial figures of E.SUN FHC Group

#### l) Financial figures of E.SUN FHC Group by country of operation

Table 1: Revenue, operating profit, income tax and tax rate of E.SUN Group in 2018

Unit: NT\$ millions

Country of operation	Revenue	Operating Profit	Income tax expense	Income tax paid	Reported tax rate <sup>b,d</sup>	Expected tax rate <sup>e</sup>
Taiwan	42,879	17,002	2,557	2,707	15.04%	20.00%
China	948	48	14	1	29.49%	25.00%
Hong Kong	3,235	2,321	464	398	20.01%	16.50%
United States	508	399	100	101	25.07%	29.56%
Australia	180	97	31	35	31.89%	30.00%
Singapore	476	259	41	53	15.77%	17.00%
Vietnam	79	32	7	0	21.04%	20.00%
Cambodia	974	172	40	13	23.14%	20.00%
Myanmar	100	40	6	2	15.46%	25.00%
Japan <sup>a</sup>	50	-33	-5	-	-	-
Total <sup>e, f</sup>	49,429	20,337	3,255	3,310	16.00%	19.83%

Note:

- a. The calculation of tax rates excludes the amount of Japan in Table 1 since net operating loss in Japan may distort the number of expected tax rate.
- b. The reported tax rate means the income tax expense that should be recognized for every one dollar of pretax income; that is, (income tax expense)/ (pretax income).

- c. Total expected tax rate<sup>1</sup>  
 $19.83\% = (2,557/3,255) * 20\% + (14/3,255) * 25\% + (464/3,255) * 16.5\% + (100/3,255) * 29.56\% + (31/3,255) * 30\% + (41/3,255) * 17\% + (7/3,255) * 20\% + (40/3,255) * 20\% + (6/3,255) * 25\%$
- d. Regarding the reported tax rates for the main operating areas of E.SUN FHC Group, Taiwan is 15.04% principally due to the tax-exempt income, reasonably falling between the alternative minimum tax rate of 12.00% and the statutory tax rate of 20.00%. As for China, Hong Kong and Cambodia the temporary difference leads to the divergence from expected tax rate of 25.00%, 16.50% and 20.00%. In United States, permanent difference (such as head office expense allocation) lowers the reported tax rate to 25.07%, comparing to the statutory tax rate of 29.56%. In Myanmar, net operating loss in previous years is utilized to offset the income tax expense in 2018, leading to the reported tax rate of 15.46%.
- e. Operating profit "20,337" and income tax expense "3,255" are reported on the income statement. (Page 8 of 2018 consolidated financial report of E.SUN FHC)
- f. Income tax paid "3,310" is reported on the cash flow statement. (Page 13 of 2018 consolidated financial report of E.SUN FHC)

Chart 1: Revenue by country in 2018



Chart 2: Operating income by country in 2018



## II) All Tax Paid to Governments

E.SUN FHC Group is dedicated in high standards of tax compliance in all jurisdictions as a socially responsible corporate citizen, where corporate income tax returns are reviewed by local certified accounts and filed within statutory period. The total tax paid to governments worldwide in 2018 is NT\$5,350 million.

<sup>1</sup> The expected income tax rate means the weighted average statutory tax rate based on pretax income in each country; that is, (pretax income in country A\*statutory tax rate in country A + pretax income in country B\*statutory tax rate in country B...)/ (pretax income of the country A, B and so on). If the revenue or operating profit generated is negative in certain countries, such negative figures are excluded from the table so as to avoid distortion.

As there are divergences in statutory tax rates<sup>2</sup> and tax years in the countries where E.SUN FHC operates, the tax payment status in 2018 disclosed in Table 2 is based on the actual payment time

**Table 2: All Tax paid to governments**

Unit: NT\$ millions

Tax Type	Income Tax	GBRT <sup>3</sup> &VAT	Stamp Duty	Other Taxes <sup>4</sup>
Taiwan	2,707	1,664	111	149
China	1	31	3	4
Hong Kong	398	0	0	0
United States	101	0	0	0
Australia	35	0	0	3
Singapore	53	0	0	0
Vietnam	0	1	0	0
Cambodia	13	1	0	73
Myanmar	2	0	0	0
Japan	0	0	0	0
Total	3,310	1,697	114	229

### III) Analysis of Income Tax Expense & Income Tax Paid

- (1) E.SUN Group regularly discloses information of corporate income tax expenses ( "ITE" ) and corporate income tax paid ( "ITP" ) in the financial statements. According to the 2018 annual report, ITE and ITP of the E.SUN Group is NT\$3,255 million and NT\$3,310 million, respectively, resulting in the reported tax rate "16.00%" and cash tax rate "16.28%" .

**Table 3: Income tax expense and income tax paid  
of E.SUN Group in 2017 and 2018**

Unit: NT\$ millions

	2018	2017	Calculated average
Earnings before tax	20,337	16,873	18,605
Reported taxes	3,255	2,218	2,737
Reported tax rate	16.00%	13.15%	14.71%
Cash taxes paid	3,310	2,549	2,930
Cash tax rate	16.28%	15.11%	15.75%

Note: Earnings before tax, reported taxes and cash tax paid are reported in 2018 consolidated financial report of E.SUN FHC.

<sup>2</sup> The statutory tax rate could range from 16.5% to 30% in different countries

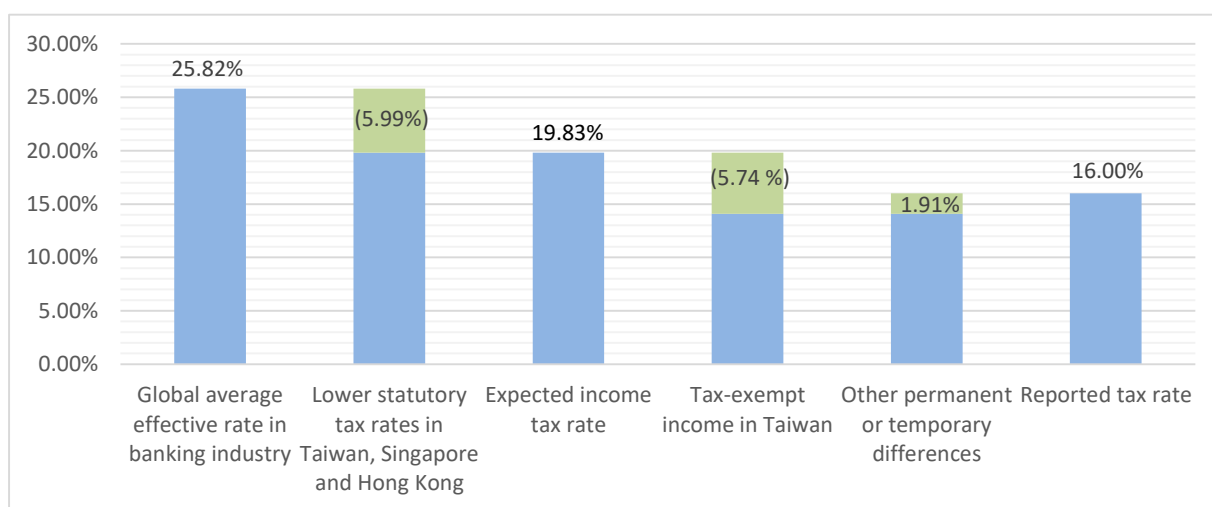
<sup>3</sup> Financial institutions in Taiwan are not charged with value-added tax but another type called Gross Business Receipts Tax (GBRT), where there is no input tax available and total revenue is taxed at 2%/5%. The nature of GBRT emphasizes the taxation on all amounts of revenue rather than the value added portion, indicating the similarity with income tax for the tax burden on income

<sup>4</sup> Items under "Other Taxes" include security transaction tax, property tax, land tax, etc

In consideration that some tax filing payments incur half a year earlier or up to one year later than the fiscal year ended, leading to the timing difference, the average reported tax rate and average cash tax rate in two straight years are calculated, which is 14.71% and 15.75%, respectively. With the slight difference of 1.04%, indicating that the reported tax rate is broadly in accordance with the cash tax rate.

When comparing the aforesaid reported tax rate (16.00%), the expected income tax rate<sup>5</sup> (19.83%) with the global average effective tax rate in banking industry (25.82%) in 2018, and comparing cash tax rate (16.28%) with global average cash tax rate (21.28%) in 2018, two main factors explain the difference. One is the lower statutory income tax rates in Taiwan (20%), Singapore (17.00%) and Hong Kong (16.50%), leading to the difference between the expected income tax rate and the global average effective rate in banking industry, while the other is the tax-exempt income in Taiwan, mainly derived from the offshore banking unit, amounting NT\$1,167 million with minus 5.74% tax effect on reported tax rate, generally explaining the gap between the reported tax rate and the expected income tax rate. Please see the reconciliation in Chart 4 below.

**Chart 4: A reconciliation among the reported tax rate, the expected income tax rate and the global average effective rate in banking industry in 2018**



Note:

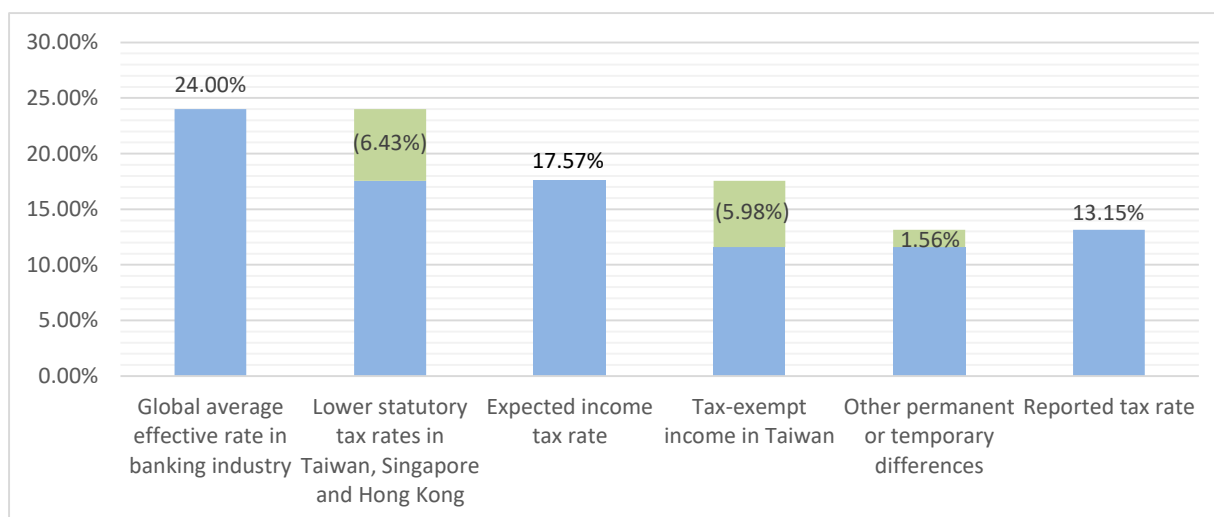
- a. 5.74%=1,167/20,337(tax-exempt income from offshore banking unit/ pretax income, unit: NT\$ millions)
- b. 1.91%=389/20,337(other permanent and temporary differences/ pretax income, unit: NT\$ millions)

As for 2017, two same main factors explain the difference between reported tax rate, cash tax rate and global average tax rates. One is the lower statutory income tax rates in Taiwan (20%), Singapore (17%) and Hong

<sup>5</sup> The expected income tax rate means the weighted average statutory tax rate based on pretax income in each country; that is, (pretax income in country A\*statutory tax rate in country A + pretax income in country B\*statutory tax rate in country B...)/(pretax income of the country A, B and so on). If the revenue or operating profit generated is negative in certain countries, such negative figures are excluded from the table so as to avoid distortion.

Kong (16.50%), leading to the difference between the expected income tax rate and the global average effective rate in banking industry, while the other is the tax-exempt income in Taiwan, mainly derived from the offshore banking unit, amounting NT\$1,009 million with minus 5.98% tax effect on reported tax rate, generally explaining the gap between the reported tax rate and the expected income tax rate. Please see the reconciliation in Chart 5 below.

**Chart 5: A reconciliation among the reported tax rate, the expected income tax rate and the global average effective rate in banking industry in 2017**



Note:

- a.  $5.98\% = 1,009 / 16,873$  (tax-exempt income from offshore banking unit/ pretax income, unit: NT\$ millions)
- b.  $1.56\% = 263 / 16,873$  (other permanent and temporary differences/ pretax income, unit: NT\$ millions)

(2) Income Tax Expense Reconciliation

Please see the income tax expense reconciliation of E.SUN Group in 2017 and 2018 in Table 4.

**Table 4: A reconciliation of accounting profit and income tax expenses**

Unit: NT\$ millions

	2018	2017
Income before tax from continuing operations	\$20,337	\$16,873

	Tax Amount	Tax Amount
ITE at 20%,17% statutory rate of Taiwan	\$ 4,067	\$ 2,868
Effect of different tax rates in other jurisdictions.	87	105
Subtotal:		
Expected ITE without permanent or temporary difference	4,154	2,973
Add: Permanent differences		
Tax-exempt income	( 1,167)	( 1,009)

Others <sup>6</sup>	86	186
Temporary differences	182	68
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Total ITE recognized in profit or loss	\$ 3,255	\$ 2,218
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Note:

- a. The reconciliation table is reported on page 66 of 2018 consolidated financial report of E.SUN FHC. (Note35)
- b. Table 4 shows the reconciliation of the income tax expense at statutory rate and the income tax expense on the income statement.

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<sup>6</sup> Items under "Others" include nondeductible expenses in determining taxable income, additional income tax under the Alternative Minimum Tax Act, additional 10% income tax on unappropriated earnings and adjustments for prior year income tax.