

KMC (Kuei Meng) International Inc.

2017 Annual Report

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- IV. Auditors
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Tel:+886-6-2139988
Website: www.deloitte.com.tw
- V. Name of exchanges in foreign countries where the Company is listed for securities trade and the means of access to information on overseas securities: None.
- VI. Company website: <http://www.kmc-international.com/index.php?lang=en>

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I. Letter to the Shareholders

Dear Shareholders,

In 2017, the 40th anniversary of the founding of KMC (KUEI MENG); it's also a harvest year and the first year of KMC's plan of the next golden decade. In addition to the operating performance in 2017, the leading among the top of the peers in the industry, we have completed the investment in KMC Automobile Transmission Co., Ltd.; Shenzhen Transton Company LTD.; and KMC Automotive Transmission (Shenzhen) Co., Ltd. at the same time. It's to apply the company's core technology to more fields; also, the monopoly purchase of material with the original business, upgrading the cross-industry technology integration allow us to enter the market of Automotive Timing System (ATS) and the market of Garage Door Opener System.

Ever since 2011, KMC has always upheld the principle of "from small to large, from simple and complex and resource integration" to carry out the integration plan. In 2012, the first-phase of the integration plan started by investing Taiwan KMC, who has been dedicating to the research and development, production and sales of high-end bicycle chains. In 2013, the second-phase of the integration plan was completed by more sales channels to Europe, the United States and Indonesia markets and enhancing the brand marketing capabilities as well as getting closer to the advantages of market services. In 2014, investing KMC Tianjin was the first step for the KMC to officially enter the bicycle market in Mainland China. In 2015, another investment of KMC Shenzhen acquired the production site in Huanan Region in Mainland China, and the client base was expanded. Besides, above mentioned achievements and the previously integrated export business and channels can have effective resource sharing. In 2016, in order to further expand the company's business layout, the acquisition the shares of KMC Suzhou and the bicycle chain production site in Huadong region in Mainland China was completed; also, the client base and the previously integrated export business and channels were expanded. In 2017, in order to enable KMC operation to get more versatile, the acquisition of the shares of KMC Automobile Transmission, Shenzhen Transton Company, and KMC Automotive Transmission (Shenzhen) was completed. The acquisition has made the company's techniques applied to the field of automobile industry and household transmission market. In particular, the output value of automotive parts or transmission system is far greater than that of the current KMC's engagement in bicycle industry and motorcycle industry. Therefore, it has made a stronger foundation for the company's future development. In the future, the company's Operation Headquarter in China will further expand the scale of operation as well as the capacity of research and development. KMC will build a complete chain business layout of China and the world including bicycle, motorcycle, automotive parts and home transmission market.

1. Business results of 2017:

(1) The implementation results of business plan:

KMC's total consolidated operating revenue of 2017 was TWD 5 billion and 51 million, the consolidated cross profit was TWD 2 billion and 122 million, the consolidated net income after taxes was TWD 1 billion and 43 million and the basic earnings per share was TWD 8.69.

(2) The year of 2017 Budget Implementation Status:

in TWD thousand

Item	Actual amount	Budget amount	Achieved rate %
Operating revenue	5,050,603	4,850,000	104%
Gross profit	2,122,446	2,000,000	106%
Operating profit	1,319,533	1,240,000	106%
Net profit after tax	1,042,941	960,000	108%

(3) Financial and Profitability analysis:

in TWD thousand

Item	2017	2016	The percentage change in the increase(decrease)
Operating revenue	5,050,603	4,012,789	25.9%
Gross profit	2,122,446	1,792,093	18.4%
Operating profit	1,319,533	1,093,618	20.7%
Net profit after tax	1,042,941	856,621	21.8%
Cross profit margin	42.0%	44.7%	
Net profit (loss) margin	26.1%	27.3%	
Pure income rate	20.6%	21.3%	
EPS in NT\$	8.69	7.14	

(4) Research and Development Status:

To ensure a leading position in the industry, to understand the needs of consumers and continuous upgrading advanced technology are most important tasks we have been doing over the past many years. KMC integrates its deep cultivation of the basic metal materials with self-developed unique structure of chain piece and high-precision molds supplemented by a variety of heat treatment and surface treatment to create KMC's leading position in the chain market.

As a part of the green transporting industry, KMC understands we have the obligations to the environmental protection; consequently, KMC's green commitment including the product production and the acts of all KMC people will take green competitiveness as the direction of effort to provide more optimized and environmental friendly products, thus allowing all consumers using KMC products to get the benefit of green economy.

2. Summary of 2018 Business Plan:

(1) Business principles and important policies of production and marketing:

The year of 2018 is the 40th anniversary of KMC, management levels take the year as a new start point; therefore, a "golden decade plan" was setup as the core guidelines for next phase of company's development. The first-phase of golden decade plan started with KMC's strong foundation on the bicycle chain, then furthered to the market of motorcycle and automotive transmission parts. Bigger and deeper we expect to create another career peak. Meanwhile, in the field of KMC's bicycle chain, we will deepen the business of chains exclusively made for high-end and electric-powered bicycles and the repairing market, KMC's brand image will thus be enhanced.

In the important policies of production and marketing, continuous and stable improvement over advanced production capacity can provide clients with faster and more real-time support in production and marketing. It has always been KMC's goal in its efforts. At the same time, with KMC's ultimate goal of becoming the "world's most valuable chain brand", the company has been focused on chain design and manufacturing for almost 40 years. The integration of the needs from different types of bicycle, the constant upgrading production capacity, improvement of manufacturing technology and the research and development of new products that have a wide range of applications and high performance are KMC's insurances that have never changed for a long time.

(2) Sales volume forecast and the accordance of fact

Bicycle and motorcycle market has shown steady growth for many year; however, the sales volume forecast will be evaluated and properly adjusted according to the current industrial environment, market supply and demand and the business exploration ability.

3. Company's development strategy in the future:

KMC has set the goal of "becoming the most valuable chain brand"; therefore, constantly insisting on refinement of product design and innovative manufacturing process is the way to provide consumers and clients with the chain products featuring the highest quality and the best compatible transmission systems. A heart of pursuing endless perfection has been planted in KMC employee's minds over the past 40 years. It's a potential DNA driving KMC marching forward and shaping the soul of KMC, thus KMC becoming Taiwan's invisible hero in the bicycle chain industry.

In the 21st century, global manufacturing industry has jointly marched toward Industry 4.0, in which computers and automation will come together in an entirely new way as well as higher product precision. KMC is ahead of global chain industry by being the first company setting up research and development department of automation machinery, thus with the self-development, the productivity and product quality will be able to cope with a more and more refined chain industry. Passing through the biggest change in 40 years in the chain industry, KMC will challenge to become the leader of the global chain industry in the future. As a pioneer enterprise in the past and an identity of specification regulator, KMC has been listening to what is really the needs of consumers, and is dedicated and fully focused on the chain industry to provide solutions of various kinds of special needs and creating infinite possibilities.

4. Being Influenced by external environment, regulatory environment and overall business environment

As well as getting along with the rising of global urbanization level, those issues getting more serious including environmental protection, traffic, public health, the governments worldwide have gradually included bicycle as the best option of green vehicle. The bicycle is also the best outdoor leisure and sports equipment in tourism due to its great benefit to physical and mental health; also, riding bicycle has become a current high-class life style. With above mentioned facts, the growing trend of cycling has been promoted. These facts are believed make contribution to long-term and stable development of bicycle. Tracing back to 2017, the overall business environment might be affected by the emergence of new business model as well as new products and new sports; however, these changing factors will eventually become another drive that promotes industrial upgrading. The company's management team should adapt prudent and pragmatic attitude in respond to various possible changes in the future. Besides, with all the staffs

have deep recognition of the ardent expectations from the shareholders and the general public, we will look forward to the future by actively enhancing operational performance as the returns to shareholders' supports.

I'd like to express my sincere gratitude for your support!

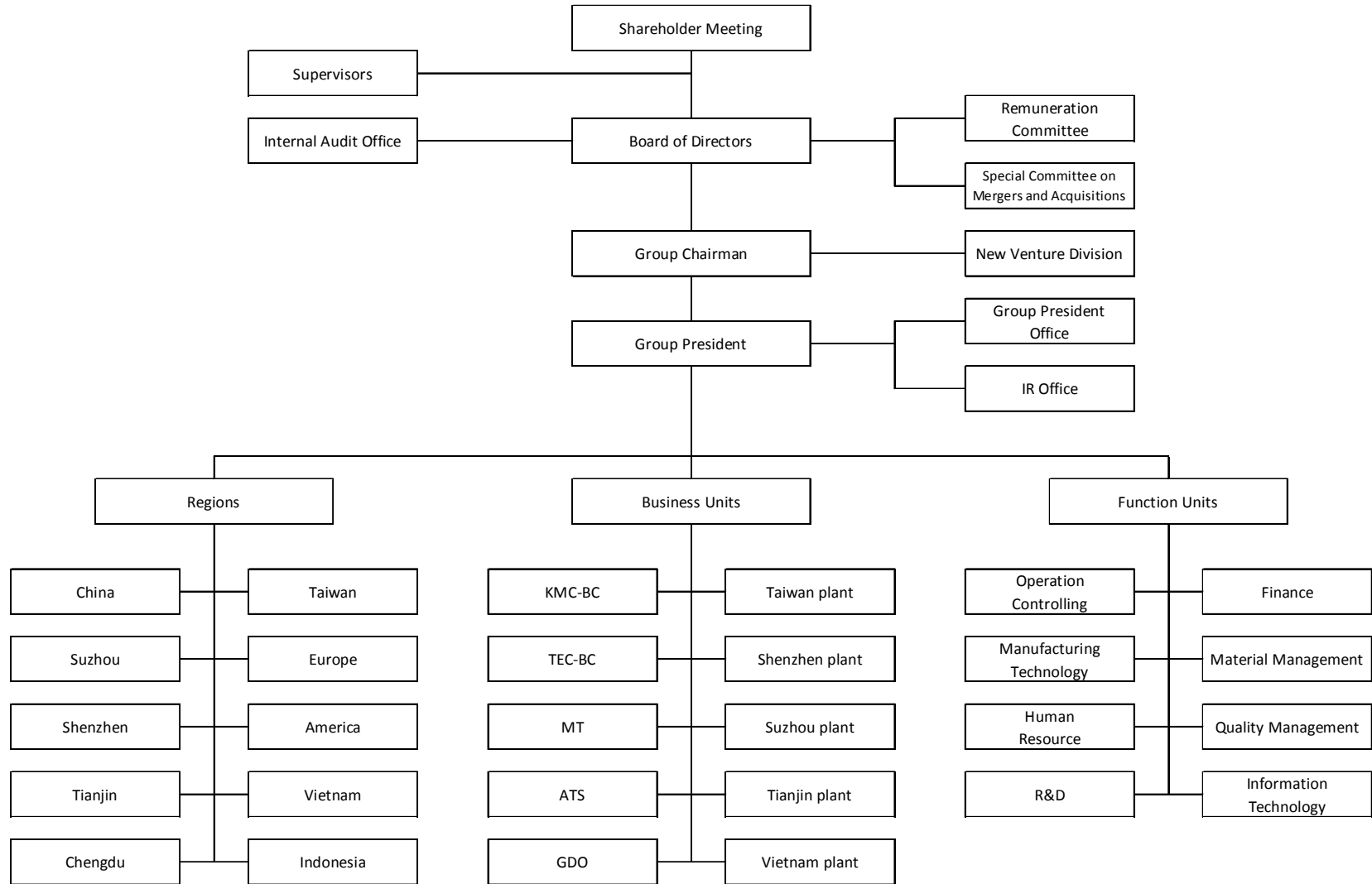
KMC (Kuei Meng) International Inc.
Chairman: Wu, Ying-chin

II. Company Overview

1. Date of incorporation: April 20th, 1989
2. Company milestone

April, 1989	The company was established in Hsinchu Science Park and named "CNet Technology Co., Ltd."
August 1993	Public offering
December 1995	Stock listed and traded on Taipei Exchange (Gretai Securities Market)
August 2011	<ol style="list-style-type: none">1. Conduct private equity fund raising of 60,000 thousand shares, invite strategy-cooperate investor "KMC TRANSTON Industries Limited."2. Newly established "Transmission Business Department", introduced transmission products for bicycle and motorcycle, activate transformation project.
October 2011	<ol style="list-style-type: none">1. Re-elect overall Directors, Supervisors in extra-ordinary shareholders' meeting2. Elect new Chairperson of the Board of Directors3. Relocated to YongKang District
May 2012	The resolution of the Board of Directors decided to acquire 100% of shareholdings of KMC Chain Industrial Co., Ltd. and KMC Chain (Vietnam) Co., Ltd.
July 2012	The resolution of annual shareholdings' decided to rename the company to "KMC Chain Industrial Co., Ltd."
August 2013.	In order to retain talent, the Board of Directors resolved to conduct "Employee Stock Ownership Trust".
September 2013	The Board of Directors resolved to acquire 100% shareholdings of KMC Europe, 100% shareholdings of KMC USA and 99% shareholdings of KMC Indonesia.
March 2014	The Board of Directors resolved to acquire 100% shareholdings of Chaohui Guimeng Transmission (Tianjin) Co., Ltd.
May 2014	<ol style="list-style-type: none">1. To introduce the benchmark companies in bicycle industries as the strategic investors, the Board of Directors resolved to conduct private equity capital raising for cash and issuing 3,600 thousand shares of common stock. The strategic investors for the private equity funds raising are SHIMANO, GIANT and MERIDA.2. New KMC Investment (China) Co., Ltd. will be the operating headquarters of the group in China.
March 2015	Was awarded 3rd "Taiwan Mittelstand Award." The Board of Directors resolved to acquire 100% of shareholdings of "KMC Chain (Shenzhen) Co., Ltd." and another company.
May 2015	The Board of Directors resolved to issue new stock of 10,780 thousand shares for capital increase by cash.
January 2016	To establish the joint venture company "PRO (TAIWAN) PROCUREMENT CO., LTD." with strategic cooperation partner SHIMANO to conduct selling business of parts and accessories.
March 2016	The Board of Directors resolved to acquire 100% shareholdings of "Chaohui Guimeng Transmission (Suzhou) Co., Ltd. and another two companies.
May 2017	The Board of Directors resolved to acquire 100% shareholdings of "Shenzhen Kenes Automotive Parts Co., Ltd. ", "KMC Automobile Transmission Co., Ltd." and "Shenzhen Transton Co., Ltd."

III. Corporate Governance
 1. Organizational Structure
 (1) Organizational Chart



(2) Main Duties of Each Division

Department name	Major business responsibilities
Audit office	<ol style="list-style-type: none"> 1. To assist the Board of Directors and Managers to examine and review the defect of internal control system and assess the effectiveness and efficiency of operation. 2. Provide timely suggestions for improvement and assist the company to achieve the goal of the internal control system, and ensure the internal control system is sustainable effectively implemented internal control system and employed as the basis when review and amendment of the internal control system.
Innovation Business Department	<ol style="list-style-type: none"> 1. To perform the strategic assessment of the new business, the collection of market information, analysis of competitor and other critical information for the reference of strategic decision making. 2. The review of investment in non-related companies, the ahead inspection of due diligence.
Group General Manager Office	To assist the group General Manager in regular review of group strategy and the execution status of the various projects.
Investor Relations Office	Build up the bridge of communication between the company, investors, media, and stakeholders, and communicate the information about the company's business philosophy, the latest status, and corporate social responsibility to the external world effectively. Facilitating the stakeholders to understand the company's financial and significant operation information completely and to consolidate the high corporate reputation.
Global deployment	<ol style="list-style-type: none"> 1. Gather and analyze the market information worldwide. 2. Responsible for the products marketing and business promotion in the various markets of the world. 3. Responsible for the products support after sales and clients technique supporting promotion in the various markets of the world.
Business unit KMC-BC/TEC-BC MT/ATS/GDO	<ol style="list-style-type: none"> 1. To provide assistance and support for the various manufacturing line of the group. 2. To support the business front-line selling activities. To study and propose marketing strategy. 3. To cooperate with global deployment, find and solve the customer's question and improve the satisfaction of the customer. 4. To cooperate with global deployment, develop the business opportunities for the various products in different market.
Taiwan KMC Plant/ Shenzhen KMC Plant Chaohui KMC Plant/ Tianjin Chaohui Plant Vietnam KMC Plant	<ol style="list-style-type: none"> 1. Manufacture all products of the group 2. Responsible for the improvement of production technique, new production process development, promote factory automation, to build up core manufacturing capability and maintain the competitive advantage for the manufacturing function of the group.
Function unit	<ol style="list-style-type: none"> 1. To assist the group General Manager to implement all management tasks for the group strategy. 2. To support all business unit, plant in daily operating tasks.

2. Information on the directors, supervisors, general manager, vice general manager, assistant vice general manager, heads of divisions and branches

(1) Profiles of Directors and Supervisors

A. Basic Profiles of Directors and Supervisors

Title	Nationality or place of incorporation	Name	Gender	Date of office	Term (year)	Initial date of office	Shareholding when Elected		Present Shareholding		Spouse & Minor Shareholding		Specific Person Shareholding		Education and important experience	Other positions in the Company and other companies	Managers, directors, or supervisors who is kindred within the 2nd tier		
							Common Shares	%	Common Shares	%	Common Shares	%	Common Shares	%			Title	Name	Relation
Chairman	Republic of China	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin	Male	June 23th, 2017	3	October 4th, 2011	45,154,530 2,832,460	37.63% 2.36%	45,154,530 416,230	37.63% 0.35%	0 416,230	0 0.35%	0 0	0 0	President of KMC CHAIN INDUSTRIAL CO., LTD EMBA, National Sun Yat-sen University	Chairman of KMC TRANSTON INDUSTRIES LIMITED Chairman of KMC CHAIN INDUSTRIAL CO.,LTD Chairman of TEC CHAINS CO.,LTD Chairman of KMC(BVI) Holding Co., Ltd. Chairman of KMC Chain (Vietnam) Co., Ltd. Chairman of PT. Kuei Meng Chain Indonesia Director of Cycling Life-Style Foundation Director of KMC Passionate Cycling Sport Foundation Director of KMC Care and Public welfare Foundation Supervisor of Taiwan Bicycle Association	Director	Wu, Jui-Chang	Brothers
Director	Republic of China	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang	Male	June 23th, 2017	3	October 4th, 2011	45,154,530 2,500,000	37.63% 2.08%	45,154,530 0	37.63% 0%	0 7,525,753	0 6.27%	0 0	0 0	CEO of KMC CHAIN INDUSTRIAL CO., LTD MBA, NANYANG TECHNOLOGICAL UNIVERSITY	Chairman of KMC CHAIN INDUSTRIAL CO., LTD Chairman of KMC Investment Investment (China) Co., Ltd Chairman of KMC Transmission (Tianjin) Co., Ltd. Chairman of KMC Chain (Suzhou) Co., Ltd. Chairman of Suzhou Kmc Industry and Trade Co., Ltd. Chairman of Taichang Tec Industry Co., Ltd.	Chairman	Wu, Ying-Chin	Brothers
Director	Republic of China	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen	Male	June 23th, 2017	3	October 4th, 2011	45,154,530 5,000	37.63% 0.004%	45,154,530 5,000	37.63% 0.004%	0 0	0 0	0 0	0 0	Chairman of PU-LO Attorneys-at-Law Department of Law, National Chung Hsing University	Chairman of Gloria Material Technology Corp. Chairman of CHIN CHIH F Asset Management Co., Ltd Chairman of TAIWAN STEEL GROUP HOLDING COMPANY Chairman of PU-LO Attorneys-at-Law Vice Chairman of CHUN ZU MACHINERY INDUSTRY CO., LTD. Independent Director and Compensation Committee Member of AEON MOTOR CO., LTD. Independent Director and Compensation Committee Member of NENG TYI PRECISION INDUSTRIES CO., LTD. Director of CHUN YU WORKS & CO., LTD. Director of HI-ACE TRADING CO., LTD. Director of CHUN YU BIO-TECH CORP. Director of CHUN YU Investment CO., LTD. Supervisor of TAIWAN WAX COMPANY LTD. Suovervisor of GAME ALL Internation Corp.	No	No	No
Independent Director	Republic of China	Wang, Ming-Lung	Male	June 23th, 2017	3	June 24th, 2014	0	0	0	0	0	0	0	0	Professor of department of Accounting and Finance in National Cheng Kung University Finance P.H.D. University of New York City	Director of Catcher Technology Supervisor and Compensation Committee Member of ChineseGamer International Corp. Independent Director and Compensation Committee Member of Bothhand Enterprise Inc. Independent Director and Compensation Committee Member of Hanpin Electron Co., Ltd Independent Director and Compensation Committee Member of Ton Yi Industrial Corp. Compensation Committee Member of Chia Her Industrial Co., Ltd	No	No	No
Independent Director	Republic of China	Lin, Ting-Ze	Male	June 23th, 2017	3	June 23th, 2017	0	0	0	0	0	0	0	0	Department of Physics - Fu Jen Catholic University President of SHANG-HUNG Investment and consultant Co., Ltd.	No	No	No	
Supervisor	Republic of China	Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan	Male	June 23th, 2017	3	June 21st, 2012	630,000 1,223,890	0.53% 1.02%	630,000 1,223,890	0.53% 1.02%	0	0	0	0	Chairman of WHOLE MAN ENTERPRISE CO., LTD.	Chairman of WHOLE MAN ENTERPRISE CO., LTD.	No	No	No
Supervisor	Republic of China	Chieh Nai Chih Investment Co., Ltd Representative Hsu, Yang-Kang	Male	June 23th, 2017	3	October 4th, 2011	397,000 0	0.33% 0	400,000 0	0.33% 0	0	0	0	0	EMBA, National Taipei University	No	No	No	

B. Profiles of dominant shareholders of institutional shareholders

Name of Institutional Shareholders	Dominant shareholders of institutional shareholders (Proportion of shareholding, %)
KMC TRANSTON INDUSTRIES LIMITED	Lai,Wan-I (21.12%) 、 Yu,Wen-Ying (21.12%) 、 Wu,Hsing-Chuan(10.55%) 、 Wu,Hui-Lan (10.55%)

C. Professional intelligence and independence of Directors: None

D. Professional intelligence and independence of Directors

Name	Qualifications	More than 5 years of experience and the following professional qualifications			Status of independence (Note)										Also an Independent Director of other public companies
	A lecturer or higher capacity in a public or private college or university in business, law, finance accounting, or related subjects in corporate management	Judge, prosecutor, lawyer, CPA, or other professional and technical personnel with certification through national examinations with the issuance of license and certificates	Experience in business, law, finance, accounting and other areas of specialization that the Company needs	1	2	3	4	5	6	7	8	9	10		
KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin			✓				✓				✓		✓		0
KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang			✓				✓				✓		✓		0
KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Wang, Ming-Lung	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Lin, Ting-Ze			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan			✓		✓	✓	✓		✓	✓	✓	✓	✓		0
CHIEH NAI CHIH Investment Co., Ltd Representative Hsu, Yang-Kang			✓		✓	✓	✓		✓	✓	✓	✓	✓		0

Note : If any of the following qualifications is applicable to the directors, in the last 2 years before and during their term of office with the Company, put a“✓”in relevant fields:

- A. Not an employee of the Company or its group companies.
- B. Not a director or supervisor of the Company or the group companies (except as an Independent Director of a subsidiary where the Company or the parent to the Company directly or indirectly holds more than 50% of its voting shares).
- C. Shareholder who is a natural person, and not the person, the spouse, underage child or under the name of a third party holding more than 1% of the total shares or one of the top 10 natural person shareholders.
- D. Not a spouse, kindred within the 2nd tier or the next of kin of kindred within the 3rd tier of the aforementioned personnel.
- E. Not a director, supervisor, or employee of an institutional shareholder directly holds more than 5% of the outstanding shares of the Company or a director, supervisor or employee of one of the top 5 institutional shareholders.
- F. Not a director, supervisor, manager of a specific company or institution that the Company has financial or business transactions or a shareholder holding more than 5% of the shares of such company or institution.
- G. Not an owner, partner, director, supervisor, manager and the spouse of the an owner, partner, director, supervisor, manager of a professional wholly-owned firm, partnership, corporation or institution, or a professional personnel providing business, legal, financial and accounting services or consultation to the Company or its group companies. However, the Remuneration Committee members shall be excluded according to Article 7 of 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.
- H. Not a spouse or kindred within the 2nd tier to another director of the Company.
- I. Any of the provisions contained in Article 30 of the Company Act shall be applied.
- J. Not being elected to the seat as a representative of the government, institution, or other parties pursuant to Article 27 of the Company Act.

(2) Profiles of the general manager, vice general manager, assistant vice general manager, heads of each division and branch:

May 21st,2018

Title	Nationality	Name	Gender	Date of office	Present Shareholding		Spouse& Minor Shareholding		Specific Person Shareholding		Education and important experienc	Positions in other companies	Managers, directors, or supervisors who is kindred within the 2nd tier		
					Common Shares	%	Common Shares	%	Common Shares	%			Title	Name	Relation
Group President	Republic of China	Wu, Jui-Chang	Male	October 4 th , 2011	0	0	7,525,753	6.27%	0	0	CEO of KMC CHAIN INDUSTRIAL CO., LTD MBA, NANYANG TECHNOLOGICAL UNIVERSITY	Chairman of KMC CHAIN INDUSTRIAL CO., LTD Chairman of KMC Investment Investment (China) Co., Ltd Chairman of KMC Transmission (Tianjin) Co., Ltd. Chairman of KMC Chain (Suzhou) Co., Ltd. Chairman of Suzhou Kmc Industry and Trade Co., Ltd. Chairman of Taichang Tec Industry Co., Ltd.	Vice President Head of ATS Division	Wu,Hsing-Chuan Hsu,Jui-Lin	Brother and Sister Affinity n-laws
Vice President	Republic of China	Wu,Hsing-Chuan	Female	July 1 st 2012	7,525,755	6.27%	0	0	0	0	Vice President of Sales Division, KMC CHAIN INDUSTRIAL CO., LTD MBA, University of California	Chairman of KMC Chain Europe B.V Chairman of KMC Chain American Corporation Director of KMC CHAIN INDUSTRIAL CO., LTD	Group President Head of ATS Division	Wu, Jui-Chang Hsu,Jui-Lin	Brother and Sister Spouse
Head of KMC-BC Division	Republic of China	Chen,Yi-Ming	Male	January 1 st 2017	0	0	0	0	0	0	Manager of KMC(Kuei Meng) International Inc. B.A. ,Providence University, Department of English Language, Literature and Linguistics	No	None	None	None
Vice President MT Division	People's Republic of China	Fang,Hsiang	Male	January 15 th 2018	0	0	0	0	0	0	East China University of Science and Technology	No	None	None	None
Head of ATS Division	Republic of China	Hsu,Jui-Lin	Male	July 1 st 2017	0	0	7,525,755	6.27%	0	0	Vice President of R&D Division, KMC CHAIN INDUSTRIAL CO., LTD M.Eng. National Cheng Kung University, Department of Aeronautics and Astronautics	No	Group President Vice President	Wu, Jui-Chang Wu,Hsing-Chuan	Affinity n-laws Spouse
Head of GDO Division	Republic of China	Hsu,Yi-Chih	Female	July 1 st 2017	0	0	0	0	0	0	B.A. ,Shih Chien University, Department of Business Administration	No	None	None	None
CFO	Republic of China	Tsai,Chu-Ying	Female	August 18 th 2011	2,000	0.002%	0	0	0	0	Manager of Finance Division, KMC CHAIN INDUSTRIAL CO., LTD MBA. , Southern Taiwan University of Science and Technology	No	None	None	None
Manager of Finance and Accounting Division	Republic of China	Chen,Yung-Jen	Male	March 19 th 2012	0	0	0	0	0	0	Section Manager of Finance Division, Contrel Technology Co., Ltd. M.A., National Cheng Kung University, Graduate Institute of Finance	No	None	None	None

3. Remunerations to the directors, supervisors, general manager and the vice general manager in the previous fiscal year

(1) Remunerations to the directors

December 31st,2017 ; in NT\$ thousands

Title	Name	Remunerations to the Directors								A+B+C+D in proportion to corporate earnings		Remunerations to employees performing routine duties								A+B+C+D+E+F+G in proportion to corporate earnings		Any remuneration from investees beyond subsidiaries
		Remuneration (A)		Pension (B)		Remuneration from distributed earnings (C)		Business subsidy (D)				Salaries, bonus, and special subsidy (E)		Pension (F)		Employee Remuneration (G)						
		KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities	KMC		All Consolidated entities		KMC	All Consolidated entities			
														Cash Dividend	Stock Dividend	Cash Dividend	Stock Dividend					
Chairman	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin	3,013	3,613	0	0	6,430	6,430	0	0	0.91%	0.96%	3,050	7,734	0	0	0	0	0	0	1.20%	1.70%	0
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang																					
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen																					
Independent Director	Wang, Ming-Lung																					
Independent Director	Lin, Ting-Ze (Elected on June 23 rd , 2017)																					
Outgoing Independent Director	Chien, Chin-Cheng (Retired on June 23 rd , 2017)																					

Remuneration Brackets

December 31st,2017

Brackets of remunerations to the directors of KMC(Kuei Meng) International Inc.	Name of Directors			
	(A+B+C+D)		(A+B+C+D+E+F+G)	
	KMC	All Consolidated entities	KMC	All Consolidated entities
Less than NT\$2,000,000	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin Representative Wu, Jui-Chang Representative Wang, Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze (Elected on June 23 rd , 2017) Chien, Chin-Cheng (Retired on June 23 rd , 2017)	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin Representative Wu, Jui-Chang Representative Wang, Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze (Elected on June 23 rd , 2017) Chien, Chin-Cheng (Retired on June 23 rd , 2017)	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze (Elected on June 23 rd , 2017) Chien, Chin-Cheng (Retired on June 23 rd , 2017)	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze (Elected on June 23 rd , 2017) Chien, Chin-Cheng (Retired on June 23 rd , 2017)
NY\$2,000,000 ~ NT\$5,000,000 (exclusive)	None	None	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin Representative Wu, Jui-Chang	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin Representative Wu, Jui-Chang
NY\$5,000,000 ~ NT\$10,000,000 (exclusive)	None	None	None	None
NY\$10,000,000 ~ NT\$15,000,000 (exclusive)	None	None	None	None
NY\$15,000,000 ~ NT\$30,000,000 (exclusive)	None	None	None	None
NY\$30,000,000 ~ NT\$50,000,000 (exclusive)	None	None	None	None
NY\$50,000,000 ~ NT\$100,000,000 (exclusive)	None	None	None	None
More than NT\$100,000,000	None	None	None	None
Total	5	5	5	5

(2) Remunerations to supervisors

December 31st, 2017 ; in NT\$ thousands

Title	Name	Remunerations to supervisors						A+B+C in proportion to corporate earnings		Any remuneration from investees beyond subsidiaries
		Remuneration (A)		Remuneration from distributed earnings (B)		Business subsidy (C)		KMC	All Consolidated entities	
		KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities			
Supervisor	Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan	1,200	1,200	0	0	0	0	0.12%	0.12%	0
Supervisor	Chieh Nai Chih Investment Co., Ltd Representative Hsu, Yang-Kang									

Brackets of remunerations to the Supervisors of KMC(Kuei Meng) International Inc.	Name	
	A+B+C	
	KMC	All Consolidated entities
Less than NT\$2,000,000	Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan Chieh Nai Chih Investment Co., Ltd Representative Hsu, Yang-Kang	Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan Chieh Nai Chih Investment Co., Ltd Representative Hsu, Yang-Kang
NT\$2,000,000~NT\$5,000,000 (exclusive)	None	None
NT\$5,000,000~NT\$10,000,000 (exclusive)	None	None
NT\$10,000,000~NT\$15,000,000 (exclusive)	None	None
NT\$15,000,000~NT\$30,000,000 (exclusive)	None	None
NT\$30,000,000~NT\$50,000,000 (exclusive)	None	None
NT\$50,000,000~NT\$100,000,000 (exclusive)	None	None
More than NT\$100,000,000	None	None
Total	2	2

(3) Remunerations to the general manager and Vice President
A. Remunerations to the general manager and Vice President

December 31st,2017 ; in NT\$ thousands

Title	Name	Salary (A)		Pension(B)		Bonus and special expense (C)		Employee Remuneration (D)				A+B+C+D in proportion to corporate earnings		Any remuneration from investees beyond subsidiarie
		KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities	KMC		All Consolidated entities		KMC	All Consolidated entities	
								Cash Dividend	Stock Dividend	Cash Dividend	Stock Dividend			
Group President	Wu, Jui-Chang	3,050	5,658	0	0	0	0	0	0	0	0	0.29%	0.54%	0
Vice President	Wu,Hsing-Chuan													

B. Brackets of remunerations

Brackets of remunerations to the general manager and vice president of KMC(Kuei Meng) International Inc.	Name	
	KMC	All Consolidated entities
Less than NT\$2,000,000	None	None
NT\$2,000,000~NT\$5,000,000 (exclusive)	Wu, Jui-Chang	Wu, Jui-Chang Wu,Hsing-Chuan
NT\$5,000,000~NT\$10,000,000 (exclusive)	None	None
NT\$10,000,000~NT\$15,000,000 (exclusive)	None	None
NT\$15,000,000~NT\$30,000,000 (exclusive)	None	None
NT\$30,000,000~NT\$50,000,000 (exclusive)	None	None
NT\$50,000,000~NT\$100,000,000 (exclusive)	None	None
More than NT\$100,000,000	None	None
Total	2	2

C. Names of managers entitled to employee remuneration and the status of distribution

Title	Name	Cash Dividend	Stock Dividend	Total	proportion to corporate earnings
Group President	Wu, Jui-Chang	0	0	0	0
Vice President	Wu,Hsing-Chuan				

D. The analysis of the remunerations to the directors, supervisors, general manager, vice general manager paid by KMC(Kuei Meng) International Inc. and all other companies in the consolidated financial statement in late two years in proportion to corporate earnings, and the association between the policy, standard, combinations and procedure of remunerations and the operating performance and the future risks are as follows:

Title	2017		2016	
	KMC	All Consolidated entities	KMC	All Consolidated entities
Directors	1.20%	1.70%	1.10%	1.17%
Supervisors	0.12%	0.12%	0.14%	0.14%
President and Vice President	0.29%	0.54%	0.45%	0.75%

Explanation:

1. The remuneration for the Directors and Supervisors include traffic allowance, professional allowance and allocation of earnings and was allocated based on the numbers of directors and supervisors. The salary structure for the General Manager and Deputy General Manager is base salary, meal allowance, and duty allowance and based on the experience, performance and the contribution to the overall operation of the company, and then decided with reference to the level in the industry.
2. The remuneration of earnings allocation for the Directors, Supervisors, General Manager and Deputy General Manager is based on the Article of Incorporation, If there is earnings for the year, the Board of Directors may resolve to attribute 3% of the earnings above as the remuneration for the Directors and Supervisors, the Directors who are also working as the Managers of the company are not entitled to the remuneration. The remuneration allocation for the Directors and Supervisors should be submitted to the Annual Shareholders' Meeting. But when there is an accumulated deficit, a certain amount should be reserved to compensate the deficiency and attribute the remuneration for Directors and Supervisors based on the ratio mentioned above.
3. The business performance is the primary factor that affects the amount of remuneration for Directors, Supervisors, and compensation for General Manager and Deputy General Manager. There is net income before tax for the year 2017, according to the Article of Incorporation, the proposed attributed remuneration for Directors and Supervisors is NT\$8,000 thousand. The Remuneration Committee had been set up by the company and reviewed the performance and remuneration/compensation policy, system, standards and structure of Directors, Supervisors, and Managers regularly, and also assesses and sets up the remuneration and compensation of Directors, Supervisors, and Managers.
4. After the implementation of transformation and integration plan, there was net income after tax for the last two (2) years, the remuneration and compensation were paid to the Directors, General Manager and Deputy General Manager based on the operation performance and referred to the remuneration and compensation standards in the industry. There is no significant change in the ratio of the total payment to the net income after tax for the last two years.

4. Corporate governance in action

(1) The Board of Directors in session

A. In the most recent fiscal period, The Board of Directors held 7 sessions (A). The attendances by the directors are shown in the table below,

Title	Name	Attendance in person (B)	Attended by proxy	Attendance rate (%) 【 B/A 】	Remark
Chairman	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin	7	0	100	None
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang	5	0	71	None
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen	6	1	100	None
Independent Director	Wang, Ming-Lung	7	0	100	None
Independent Director	Lin, Ting-Ze (Elected on June 23 rd , 2017)	3	0	75	Should attend for 4 sessions
Outgoing Independent Director	Chien, Chin-Cheng (Retired on June 23 rd , 2017)	3	0	100	Should attend for 3 sessions

B. Important Notice

(A) The enforcement of Board of Directors in any following circumstances shall be covered the meeting date, period, the content of proposal, the opinions from all the independent directors and the handling from company

(a) Minutes of Board meetings where Article 14-3 of the Securities and Exchange Act is applicable

Date	Period	Content of discussion	The opinion from Independent Directors and treatment
January 25, 2017	The 18th Session of the 10th Board of Directors Meeting	The funds loan from the subsidiary KMC Chain Industrial Co., Ltd to the company[KMC(KUEI MENG) International Inc.]	All the motions listed on the left were approved by the Independent Directors.
March 20, 2017	The 19th Session of the 10th Board of Directors Meeting	1. The motion to amend the company's "The Procedure to Acquire or Dispose the Assets". 2. The company signed an investment memorandum to acquire 100% shareholdings of "Automotive timing system" business and "Garage door opener"	
May 12, 2017	The 20th Session of the 10th Board of Directors Meeting	The company acquired 100% shareholdings of "Shenzhen Kenes Automotive Parts Co., Ltd. ", "KMC Automobile Transmission Co., Ltd." and "Shenzhen Transton Co., Ltd."	
August 10, 2017	The 3rd Session of the 11th Board of Directors Meeting	The motion for the change of independent auditor because of its internal rotation.	
May 4, 2018	The 7th Session of the 11th Board of Directors Meeting	To appoint new audit supervisor.	

(b) Except any of the above matters, other proposals on record which are made either opposite or reserve objections by independent directors: Not applicable: None

(B) The enforcement of avoiding the interested-director from making a decision of the interest-relative-proposal

The Board of Directors discussed the significant investment on May 12, 2017, and resolved to acquire 100% shareholdings of “Shenzhen Kenes Automotive Parts Co., Ltd.,” “KMC Automobile Transmission Co., Ltd.” and “Shenzhen Transton Co., Ltd.” Since Director Wu, Ying-Jin, Director Wu, Rui-Zhang are the related parties of the transaction, they didn’t participate the voting accordingly.

(C) Assessment of the objective to fortify the functions of the Board of Directors in the current period and the most recent fiscal year (such as establishment of the Audit Committee, improvement of information transparency...) and the accomplishments

- (a) The Board of Directors of the company follows the principle of diversification and set up the adequate guidelines for diversification based on the operation of the company, operation type and requirements for future development. It should include but not limited to the two primary standards: I. Primary condition and value: Gender, age, nationality, and culture, etc. II. Professional knowledge and technique: Professional background (such as Law, Accounting, Industry, Finance, Marketing or Technology), professional technique and industrial experiences, etc. All members of Board of Directors shall have knowledge, technique, and literacy that is needed for his/her works.
- (b) The company has formulated the “Procedures for Election of Directors and Supervisors” to set up fair, justice and open procedures for the election of Directors and Supervisors; and the numbers of Directors whose spouse or relatives within 2nd degree of relationship are also Directors should not be above half of the total Directors.
- (c) To improve supervision function and enhance management function, the Board of Directors of the company has established functional committee such as “Remuneration/Compensation Committee” and “Merge and Acquisition Special Committee” and submits the proposal for the resolution of the Board of Directors.
- (d) The Board meeting should be held at least every quarter based on the “Guideline for the Meeting of the Board of Directors.” 7(seven) Board meetings were held in 2017 to enable the Directors to be fully aware of the significant business situation of the company.
- (e) The meeting minutes of the Board meeting and the regulation of corporate governance are also disclosed on the company’s website to improve the transparency of the information.

(2) The operations of the Audit Committee or the participation of the Supervisors in the Board of Directors

A. In the most recent fiscal period, The Board of Directors held 7 sessions (A). The attendances by the Supervisors are shown in the table below,

Title	Name	Attendance in person (B)	Attendance rate (%) =(B)/(A)	Remark
Supervisor	Chang-Yu Investment Co., Ltd Representative Kao,Ting-Nan	6	86%	None
Supervisor	Chieh Nai Chih Investment Co., Ltd Representative Hsu,Yang-Kang	5	71%	none

B. Important Notice

(A) The composition of Supervisors and responsibilities:

- (a) The communication situation between Supervisors and employee and shareholders (such as communication channel, method, etc.) The Supervisors of the company shall understand the role and responsibility and jobs of each department, and shall be in attendance in the Board meeting to supervise how it works and express their opinion when needed. The Supervisors of the company may investigate the business and financial status of the company at any time; the related departments should cooperate and provide the supporting documents and accounting books for further review. There is "Stakeholder Relationship" section on the company's website. It serves as the complaint channel when the stakeholder's interest is infringed and to promote the full communication between the company and the stakeholders such as its employees, customers, suppliers, and investors. If there is any related information, it will be forwarded to the Supervisors. The Supervisors will have more understanding of the perception of shareholders and stakeholders.
- (b) The communication situation among the Supervisors, internal audit supervisor and independent auditors (such as the communication items, method, and results about the finance, business status.)

The internal audit supervisor should regularly (monthly, quarterly) submit the internal audit report to the Supervisors in person or by e-mail for further review. If there is any defect found regarding the internal control system, it should be explained to the related Management level for improving, and report the improved result to the Supervisors for their awareness.

The Supervisors of the company discusses the financial and business performance with independent auditors on a quarterly basis. Besides, the independent auditors shall explain entirely about the "Key Audit Matter" to improve the Supervisors' understanding of the independent auditor's audit work.

- (B) If Supervisors participating in board meetings have expressed opinions, state date and session of the board meeting, proposal content, resolution of the meeting and the response of the Company regarding the Supervisor's opinion: None.

(3) The discrepancy between the executions of Corporate Governance of KMC and the “Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies”, and the reasons for the discrepancy

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
1. Does the Company set and disclose corporate governance code of practice according to corporate governance practice principles for TWSE/GTSM-Listed companies?	✓		The company has formulated “Corporate Governance Practice Principles” , and was disclosed on the section of Investors on the company’s website (http://www.kmc-international.com)and Market Observation Post System.	No Difference
2. Equity structure and shareholder rights (1) Has the Company set internal operating procedures to deal with shareholder proposals, doubts, disputes and litigation matters, and does it implement these in accordance with its procedures? (2) Does the Company have a list of those who ultimately control the major shareholders of the Company? (3) How does the Company establish its risk management mechanism and firewalls involving related enterprises? (4) Has the Company set internal standards to prohibit the use of undisclosed insider information to trade securities on the market?	✓ ✓ ✓ ✓		1. The company has formulated “Corporate Governance Practice Principles” and implemented to ensure the interest of shareholders. Meanwhile, the company will process the suggestions, doubts, and arguments from shareholders by the spokesperson and entrust professional stock affairs agency. 2. The company has a full understanding of the principle shareholders structure through stock affairs agency regularly. 3. The related control procedures have been established in the internal control system according to the regulations. 4. The company has formulated regulations such as “Internal Control System – The Management of Prevention Insider Trading,” “Management Guideline for Internal Significant Information Processing,” “Corporate Governance Practice Principles” and “Ethical Corporate Management Principles” to inhibit insider of the company to trade securities using undisclosed information.	No Difference
3. Organization and responsibilities of the Board of Directors (1) Does the Board of Directors set and implement a diversification policy? (2) Has the Company establish other functional committees besides the Compensation Committee and Audit Committee? (3) Has the Company set performance assessment rules and methods for the BOD and does it perform this evaluation every year? (4) Does regularly evaluate the independence of the CPA?	✓ ✓ ✓ ✓		1. The company has formulated “Corporate Governance Practice Principles” to enhance the structure of the Board of Directors and regulated the diversified guideline in the composition of the Board of Directors and has been implemented. 2. The company established Merge and Acquisition Special Committee based on the operation requirement, focus on the motions discussion and decision making of a merge,	No Difference

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
			<p>acquire significant shareholdings that the company is going to conduct.</p> <p>3. The company has started to formulate the appraisal guideline and method for the performance of the Board of Directors. Perform the appraisal annually.</p> <p>4. The company assesses the independence of independent auditors regularly (annually, the latest assessment was conducted on August 10, 2017) based on the regulations of Corporate Governance Practice Principles, and formulated independent auditors assessment schedule based on Article 47 of the Certified Public Accountant Act and "Integrity, fairness, objective and independent" of Article 10 of The Norm of Professional Ethics for Certified Public Accountant and the "Independent Statement of Independent Auditors" issued by independent auditors and submit to the board of directors for assessment.</p>	

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
4. Does the TWSE/TPEX listed company have a dedicated unit/staff member in charge of the Company' corporate governance affairs (including but not limited to providing information required for director/supervisor's operations, convening board/shareholder meetings in compliance with the law, apply for/change company registry, and producing meeting minutes of board/shareholder meetings)?	✓		<ol style="list-style-type: none"> 1. The company designates "Investors Relationship Office" as a dedicated unit which is responsible for corporate governance related affairs. 2. Investors Relationship Office is the dedicated unit, which is responsible for promoting corporate governance, the spokesperson and deputy spokesperson are the critical members of the office. 3. The work plan and responsibility of Investors Relationship Office are: <ol style="list-style-type: none"> (1) Implement corporate governance, corporate social responsibility and corporate integrity management. (2) Build up the communication bridge between the company and investors, media and stakeholders. (3) Effectively communicate information about the company's business philosophy, the latest status, and corporate social responsibility to the external world. Enabling the stakeholders to understand the company's Financial and significant operation information thoroughly and to consolidate the high corporate reputation. 	No Difference

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
5. Does the Company establish communication channels and dedicate section for stakeholder on its website to respond to important issues of corporate social responsibility concerns?	✓		<ol style="list-style-type: none"> 1. The company has built up the communication channel with stakeholders and designated Investor Relations Office and spokesperson as the dedicated contact unit to keep smooth communication channel with the various stakeholders. 2. The "Stakeholders Relationship," "Corporate Social Responsibility" section was set up on the company's website to respond the corporate social responsibility issues that the stakeholders care about properly. 3. "Corporate Governance" section was also set up on the company's website for shareholders to inquiry or download related information. 	No Difference
6. Has the company appointed a professional stock affairs agency for shareholders affairs?	✓		The company entrusts professional stock affairs agency – CTBC to handle the affairs of shareholders' meeting.	No Difference
7. Disclosure of information (1) Does the Company set up website to disclose financial operations and corporate governance information? (2) Has the Company adopted other measures (such as English website, a designated person responsible for the collection and disclosure of information, implementation of the spokesman system, the legal entities announcements uploaded to website, etc.) to disclose information?	 ✓ ✓		<ol style="list-style-type: none"> 1. The company has built up the website (http://www.kmc-international.com/) to disclose the finance, business and corporate governance information. 2. The company implements spokesperson system and establishes a dedicated contact unit for shareholders' affairs. 3. There is a dedicated staff to update the Chinese and English information of the website. 4. Participate the institutional investors' conference held by the competent authority or securities firm to enable the investors to understand the finance and business information of the company; the information is also disclosed on the company's website. 5. The audio and video linkage of the institutional investors' conference is also listed on the company's website. (http://www.kmc-international.com/index.php?option=module&lang=cht&task=showlist&id=296&index=6) 	No Difference

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
8. Does the Company have other important information for better understanding the Company's corporate governance system (including but not limited to interests and rights of employees, care for employees, relation with investors, relation with suppliers, relation with interested parties, continuing education of directors and supervisors, execution of risk management policies and risk measuring standards, execution of customer policies, liability insurance for the Company's directors and supervisors)?	✓		<ol style="list-style-type: none"> 1. The company has established the communication channel with stakeholders and designated Investors Relationship Office and spokesman as the dedicated contact unit to keep smooth communication channel with the various stakeholders. The "Stakeholders Relationship, "Corporate Social Responsibility" section was set up on the company's website to respond the corporate social responsibility issues that the stakeholders care about properly. 2. The situation of further study of the Directors, Supervisors and Managers: the situation of further study of the Directors, Supervisors and Managers for 2017 are listed in the schedule below: 3. The responsibility insurance for the Directors and Supervisors purchased by the company: The company purchased responsibility insurance policy for the Directors and Supervisors from ShinKong Insurance Co., Ltd. The insurance amount is USD 1 million and the insurance period covered from August 25, 2017, to August 25, 2018. 	No Difference
9. Please specify the measures adopted by the Company to improve the items listed in the corporate governance review result from Taiwan Stock Exchange's Corporate Governance Center and the improvement plans for items yet to be improved.	✓		<p>The company conducts corporate governance self-evaluation based on the "Corporate Governance Evaluation System" established by the competent authority. Based on the evaluation result, the improvement situation are listed below:</p> <ol style="list-style-type: none"> 1. The amendment of the Article of Incorporation in 2017 have regulated that the election of the Directors and Supervisors should applied nomination policy. 2. The shareholders' meeting adopted electronic voting from 2017 	No Difference

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
			<p>3. Enhance the preparation of English version of the company's website and related English documents to improve information transparency.</p> <p>For the items that are pending but need to be improved on the prioritization:</p> <ol style="list-style-type: none"> 1. The information that should be disclosed on the company's website but not complete will be enhanced. 2. Assess to establish audit committee or other functional committee. <p>Plan to formulate the performance evaluation guideline for the Board of Directors and conduct the performance review for the Board of Directors regularly (at least once a year).</p>	

Table 1 Courses for further studies taken by the directors, supervisors and managers:

Title	Name	Date	Host by	Training	Duration	Compliant or not
Chairman	Wu, Ying-Chin	2017.11.29	Taiwan Institute of Directors	The Succession of Family business and the management and analysis of the most updated tax risk	3	Yes
		2017.11.15	Securities and Futures Institute	The developing trend of corporate merge and Practical case study	3	
Director	Wu,Jui-Chang	2017.12.07	Securities and Futures Institute	The development of international and domestic anti-tax avoidance and the study of the response of the corporate	3	Yes
		2017.12.07	Securities and Futures Institute	Discussion and Analysis of Illegal Issuance of Stock and Corporate Bonds	3	
Director	Wang,Chiung-Fen	2017.10.20	Taiwan Corporate Governance Association	How Does Director Perform the Duty of Loyalty and Integrity?	3	Yes
		2017.06.12	Accounting Research and Development Foundation	Analysis of Legal Responsibility and Practice Cases of Company's Management Right Competition Behavior	3	
Independent Director	Wang,Ming-Lung	2017.08.09	Securities and Futures Institute	Where is the red line of insider trading?	3	Yes
		2017.05.10	Securities and Futures Institute	The Impact of Recent Changes in Tax System of Taiwan on Directors and Supervisors and Corresponding Plan	3	
Independent Director	Lin,Ting-Ze	2017.08.29	Securities and Futures Institute	Practice Study Course for Directors and Supervisors (Including Independent Directors)	12	Yes
Supervisor	Kao,Ting-Nan	2017.11.07	Securities and Futures Institute	Analysis of Fraud Cases on Merge and Acquisition	3	Yes
		2017.11.07	Securities and Futures Institute	Discussion about the Legal Risk and Response of Directors and Supervisors from the Significant Corporate Corruption Cases	3	
Supervisor	Hsu, Yang-Kang	2017.12.12	Securities and Futures Institute	Civil Liability of Insiders Under Corporate Governance and Security Exchange Act	3	Yes
		2017.12.12	Securities and Futures Institute	How do Directors and Supervisors Supervise the Company to Conduct Risk Management and Crisis Management and Strengthen Corporate Governance.	3	

Title	Name	Date	Host by	Training	Duration	Compliant or not
Manager of Accounting Division	Chen,Yung-Jen	2017.09.14	Accounting Research and Development Foundation	Primary Changes in Economic and Tax Policies of Trump's New Government in the United States and the Responding Solution of Taiwanese Companies	3	Yes
		2017.09.14		The Global Trend of Sustainable Development of Corporate Social Responsibility and the Response Planning of Operations Management	3	
		2017.09.15		Sample Analysis of the Overall Architecture of The Latest Updated International Financial Reporting Standard	3	
		2017.09.15		Analysis of Money Laundering in International Finance and Discussion on Legal Liability	3	

(4) Disclosure of the organization, functions and operations of the Remuneration Committee

A. Profiles of the Remuneration Committee members

Title	Qualification Name	Has over 5 years of work experience and following professional qualifications			Independence Attribute (Note)								Concurrent compensation committee position in other publicly listed companies	Remark
		Business, Legal Affairs, Finance, Accounting, Lecturer or above in Colleges in Related departments	Business, Legal Affairs, Finance, Accounting, Lecturer or above in Colleges in Related departments	Business, Legal Affairs, Finance, Accounting, Lecturer or above in Colleges in Related departments	1	2	3	4	5	6	7	8		
Independent Director	Wang, Ming-Lung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	5	None
Other	Shih, Hsi-An	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None
Other	Li, Cho-Yu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	None

Note : The member complies with the following conditions from 2 years before being elected and during his tenure in office

1. They are neither employees of the Company nor its affiliates.
2. They are neither directors nor supervisors of the Company or its affiliates, unless they are Independent Directors of the Company or its parent company or subsidiaries in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. They are not individual shareholders who hold shares, together with those held by their spouses, minor children or held under others' name, in an aggregate amount of more than 1% of the total outstanding shares of the Company or ranks among the top ten shareholders who are natural persons in terms of the share volume held.
4. They are not spouses or relative within the second degree of kinship or lineal relative within the third degree of kinship, or any of the persons in the preceding three subparagraphs.
5. They are not directors, supervisors or employees of a corporate shareholder that directly holds 5% or more of the total outstanding shares of the Company or ranks among the top 5 corporate shareholders in the terms of share volume held.
6. They are not directors, supervisors, managers or shareholders holding 5% or more shares of a specific company or institution and who also have financial or business dealings with the Company.
7. They are not professionals or owners, partners, directors, supervisors, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the Company or to its affiliates.
8. Not any of the circumstances in Article 30 of the Company Act.

B. The Operations of the Remunerations Committee

(A) The Remunerations Committee of KMC consists of 3 members

(B) In the last fiscal period, the Remunerations Committee convened 3 sessions (A). The eligibility of the members and their attendance in committee meetings are shown below:

Title	Name	Attendance in person(B)	By Proxy	Attendance rate in person (%) (B / A)	Remark
Convener	Wang,Ming-Lung	3	0	100%	None
Member	Shih,Hsi-An	3	0	100%	none
Member	Li,Cho-Yu	2	0	100%	Should attend for 2 sessions
Member(Retire)	Chien,Chin-Cheng	1	0	100%	Should attend for 1 session

Other noteworthy matters:

1. The Board of Directors does not accept or amend Compensation Committee's suggestions: None.
2. The resolutions of the Compensation Committee which Committee member has oppositions or reservations: None.

(5) The practice of corporate social responsibility

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSMListed Companies and reasons
	Yes	No	Descriptions	
<p>1.Exercise and enhance corporate governance</p> <p>(1) Does the Company work out its corporate social responsibility policy and check the results of the implementation?</p> <p>(2) Does the Company conduct CSR education and training on a regular basis?</p> <p>(3) Does the Company set up exclusively (or concurrently) dedicated units to promote corporate social responsibility, and authorize high level managers to handle and report to the Board of Directors?</p> <p>(4) Has the Company set up reasonable salary compensation policies, combining employee performance evaluations with corporate social responsibility policy, and establishing a clear and effective system of reward and discipline?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>1. The company has established and followed a “Corporate Social Responsibility Practice Principles” and regularly reviews the effectiveness of the implementation. Besides, the company has established “KMC Cycling Passion Sports Charitable Trust Funds”, by experienced teaching at the application level, sponsoring for riding activities and dream-come-true planning, etc. to assist in enhancing competitive strength and promoting healthy living and happiness. The company donated a total of NT\$1,929 thousand to 15 units in 2017 for various cycling activities.</p> <p>2. The company promotes corporate social responsibility and related policies in the monthly or quarterly meetings.</p> <p>3. The company has set up the “Investor Relations Office” as the dedicated unit to promote corporate social responsibility and is responsible for the planning and implementation of policies, systems, and concrete plans for corporate social responsibility. And regularly (at least once a year) report to the Board of Directors.In the meeting of the Board of Directors held on August 10, 2017, the Investor Relations Office had reported on "Promotion of Social Responsibility" and "Performing Integrity Business Conduct."</p> <p>4. The company established a remuneration committee, and members are composed of independent directors and external experts to assist in the review of related salary and remuneration policies. The company also has established different appraisal systems for different positions and combines the corporate social responsibility policies through performance appraisal.</p>	No Difference
<p>2.Environment for sustainable development</p> <p>(1) Does the Company endeavor to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment?</p> <p>(2) Does the Company establish proper environment management systems based on its industrial features?</p> <p>(3) Does the Company monitor the impact of climate change on its operations, and establish company strategies to save energy and reduce the emission of carbon and greenhouse gas?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>1. The company committed to improving energy efficiency within a reasonable range, such as planning for the electronic workflow process to reduce paper usage and use of energy-saving products to minimize the impact on the environment. Besides, the company is considering using environmentally-friendly packaging material for the products and adopts ECO-friendly material for environmental protection. (Easy recycling, resource saving, low pollution), promote simplified and consolidated packaging specifications.</p> <p>2. The company has established a green logistics management system to conduct the calculations for product environmental performance and product ecological performance assessments and to implement corporate green marketing strategies and methods. Besides, the company is planning to obtain ISO14001 certification or other environment management system verification regulations.</p>	No Difference

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSMListed Companies and reasons
	Yes	No	Descriptions	
			<p>3. The company is watching closely to the impact of climate change on operating activities and aggressively builds up green competitiveness. As a member of the green transportation industry, the company understands its obligation to protect the environment. Green commitment starts from products manufacturing, and enable all consumers using KMC products to benefit from the green economy.</p> <p>In addition to complying with the international environmental protection standard regulations on the production process, the company has also engaged a series of carbon reduction programs. The first step in the implementation plan of carbon reduction is to inspect carbon emissions and apply for the certification. Only through complete investigation and calculations of carbon emissions from the various steps such as raw materials, production, packaging, transportation can effectively propose carbon reduction plans. In 2012, the company was the first chain manufacturer around the world to obtain the first carbon footprint certification label for chain product with the "X10SL 10-speed ultra-lightweight chain". In February 2014, the "X11SL" chain passed the verification for carbon footprint and obtained a certification label. The carbon footprint certification promotes product life cycle assessment and carbon emission review under the PAS2050 requirements regulation. The validity period of the CO2 emission data verified by the implementation of the PAS2050 standard regulation is two (2) years. The company has also obtained certification label for its products again, and take concrete actions to implement environmental protection.</p> <p>Besides, the Group has built up solar power systems in Taiwan plant and European companies, reducing carbon emissions by approximately 1,000 metric tons per year. The Shenzhen plant recycles the heat from the manufacturing process to the boilers for the residential area. The annual carbon reduction is approximately 500 metric tons.</p>	
<p>3.Protect social public interests</p> <p>(1) Does the Company establish proper management methods and procedures in accordance with the relevant regulations and the international conventions on human rights?</p> <p>(2) Has the Company set up an employee complaint mechanism and proceed with care?</p> <p>(3) Does the Company provide a safe and healthy working environment for its employees and organize training on safety and health on a regular basis?</p> <p>(4) Does the Company establish regular communication mechanisms for employees, and inform employees of the operation changes that may have significant impact on employees in a reasonable way?</p> <p>(5) Has the Company established an effective competency development career</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>1. The company has formulated management regulations based on the various labor laws and regulations, and with reference to international human rights conventions to enable the employee to have an equal and fair working environment, and protect the working interests of employees.</p> <p>2. The company complies with the regulations of various labor laws and is committed to the improvement of employee benefits. If the employee has a complaint, he or she may appeal to the immediate supervisor or the HR supervisor. When the HR unit received the complaint, they should launch an investigation. The opinions of the employees can be given full attention.</p> <p>3. The company conducts workplace safety inspections, labor safety education training every six (6) months and regular employee health examinations to provide</p>	No Difference

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Descriptions	
<p>training program for employees?</p> <p>(6) Has the Company set up consumer protection policies and reporting procedures regarding R&D, procurement, production, operation and service processes?</p> <p>(7) Is the company in compliance with relevant laws and regulations as well as international standards when it comes to marketing and labeling of products and services?</p> <p>(8) Does the Company assess the past records of supplier's in terms of its impact on the environment or society before the signing the contract.</p> <p>(9) Does the Company, in its contract with its major suppliers, include clause such as that the Company may terminate the contract any time when the supplier is found violate its social responsibilities, and when such violation has significant impact on the environment and society.</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>employees with a safe and healthy working environment. Fire drills are conducted at least once a year in each plant to ensure the employee will respond adequately to unforeseen disasters.</p> <p>The Group has set up security guards at the entrances of the various plants or has access control at each office area to control personnel access to ensure that employees have a safe working environment.</p> <p>The Group equipped various types of environmental protection facilities to the production line, including noise reduction facilities, heat recycling, etc.; besides, when operating the transportation facilities and overhead cranes in a warehouse, employees are required to understand the safety regulations in advance and to follow the rules to maintain a safe working environment.</p> <p>4. The company holds management meetings and labor-management conference regularly as a communication mechanism between supervisors, employees, and company management. When there is a significant operational change, it should be announced through different channels.</p> <p>5. The Company keeps strengthening its investment in human resources and assist employees in establishing effective training for their careers. The company focused more on the development of critical talents, assigned essential jobs and challenges through work rotation and diversified experience to expand their visions, enhance internal cultivation of professional and leadership personnel, and strive to combine the personal career development with corporate development.</p> <p>6. The company set up relevant protection policies in the working flow and has purchased product liability insurance to protect consumers' interests further. The company also set up a special section on the company's website for consumers and clients will make any suggestions. The inquiry website is http://www.kmcchain.com/tw/contact.php</p> <p>7. The company complies with relevant regulations and international regulations to ensure the transparency and security of product specification explanation and service information.</p> <p>8. Before engaging a new vendor, the company will ask necessary information from the vendor to assess the vendor's impact on the environment and society.</p> <p>9. If the vendor involved in a breach of its corporate social responsibility policy and has a significant impact on the environment and society, the company will remind the vendor to improve and determine whether to terminate or cancel the contract depending on the degree of influence.</p>	
<p>4. Enhanced information disclosure</p> <p>Does the Company disclose relevant critical and reliable information on corporate social responsibilities on its website and MOPS?</p>	<p>✓</p>		<p>The company set up a Corporate Social Responsibility section on the company's website to provide relevant and reliable information. The inquiry website is: http://www.kmc-international.com/</p>	No Difference

Item	Implementation Status		Descriptions	Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No		
5. If the Company makes its own corporate social responsibilities principles according to the Rules of Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies, please state the differences: No difference				
6. Other important information that helps understand the operation situation in terms of the corporate social responsibilities: The Company has disclosed the operation for Corporate Social Responsibility on the official websites as http://www.kmc-international.com/				
7. If the Corporate Social Responsibility Report of the Company is accredited by the external accreditation agency, elaborate on the standards applicable to the accreditation: None				

(6) The practice of ethical corporate management and measures

Item	Implementation Status			Difference from the Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies and reasons
	Yes	No	Descriptions	
<p>1. Adopt integrity operation policy and scheme</p> <p>(1) Does the Company clarify the integrity operation policy in its regulations and external documents and the commitment of board of directors and managers to active implementation?</p> <p>(2) Does the Company work out scheme, operation procedures and guidelines of conducts for employee education and training to prevent dishonest behaviors?</p> <p>(3) Does the Company adopt preventive measures to bad faith companies with higher risks of its business activities described in article 7 item 2 of the "Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies"?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>1. The company has established an "Ethical Corporate Management Principles" as a policy and practice to express the ethical corporate management. The company performs all operational activities with a consistent ethical standard. It also requires that all employees must meet the requirements of the integrity policy and the commitment of the board of directors and management to implement the business policy aggressively.</p> <p>2. The company has established an "Ethical Corporate Management Principles" which includes a plan to prevent the dishonest behavior, and specifies the relevant operating procedures, behavior guidelines, penalties and complaints system for violations, and implements the plan.</p> <p>3. The company has set up an Investor Relations Office as a dedicated unit to regularly review the business activities of the higher risk of dishonest behavior within the scope of Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies or other business scopes, and regularly reports to the Board of Directors.</p> <p>In the meeting of the Board of Directors held on August 10, 2017, the Investor Relations Office reported on "Promoting Social Responsibility" and "Performing Ethical Corporate Management".</p>	No Difference
<p>1. Implementing integrity management.</p> <p>(1) Does the Company assess the integrity record of its business partners and set faithful conduct policies in the terms and conditions of its contracts?</p> <p>(2) Has the Company set up exclusively (or concurrently) dedicated units to be in charge of corporate integrity operation which report to and are supervised by the Board of Directors?</p> <p>(3) Does the Company work out policies to prevent conflicts of interest and provide proper statement channels?</p> <p>(4) Has the Company established an effective accounting system, internal control system and audit by internal auditors or CPAs to put integrity operation into practice?</p> <p>(5) Does the Company organize internal or external trainings in the integrity of business management regularly?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>1. Before signing a commercial contract with third parties, the company will assess the credit history of the counterparty and state the compensation for breach of contract when it violates integrity in the agreement. The assessment includes the compliance with the ethical corporate management policy. If the counterparty involves dishonesty behavior, the company may terminate or cancel the terms of the contract at any time.</p> <p>2. The company has designated the Investor Relations Office that under the Board of Directors as a dedicated and responsible business unit for the promotion of ethical corporate management and reports to the Board of Directors regularly (at least once a year).</p> <p>In the meeting of the Board of Directors held on August 10, 2017, the Investor Relations Office reported on "Promoting Social Responsibility" and "Performing Ethical Corporate Management".</p> <p>3. The "Ethical Corporate Management Principles" formulated by the company includes the "Avoidance of Conflicts of Interests" to further implement the policy of avoidance of conflicts of interests.</p> <p>The company's directors, managers, and other stakeholders who are present or in</p>	No Difference

Item	Implementation Status			Difference from the Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies and reasons
	Yes	No	Descriptions	
			<p>attendance to the board meeting are the interest party regarding the proposals listed by the board of directors on themselves or the juristic persons that they represent, should explain the significant content of their interest relationship the Board of Directors. If there is any possibility to harm the interest of the company, they should not participate the discussion and voting and should avoid during the discussion and voting, and shall not act or on behalf of other directors to vote.</p> <p>4. The company has established an adequate accounting and internal control system, and the audit office conducts a regular audit and irregular sampling audit. The audit department regularly tracks the improvement. Besides, the company has also assigned the independent auditors to conduct an annual audit on the implementation of internal controls.</p> <p>5. In addition to the announcement and training of the ethical corporate management at regular meetings, the company also regularly or irregularly sends staffs to attend external training courses related to the "Ethical Management Issues" conducted by the competent authority or corporate governance unit.</p>	
<p>2. Report System operating status</p> <p>(1) Has the company set specific report and reward system to facilitate the report channel and assign appropriate specialist accepting to spot the reported object?</p> <p>(2) Has the company set the standard operating procedures and related nondisclosure mechanisms to investigate reported matters?</p> <p>(3) Has the Company set measures to protect whistleblowers do not suffer for which he or she reported?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>1. The "Ethical Corporate Management System" established by the company regulates the specific reporting and reward systems, and developed a convenient reporting pipeline, and assigns dedicated personnel for the reported counterparty. Prosecutors may report to the following units:</p> <p>(1) Spokesman: Accept the report from external personnel such as shareholders, investors.</p> <p>(2) The Management, HR supervisor, Finance Accounting supervisor: Accept the report from internal personnel.</p> <p>2. The company does formulate the standard operating procedures and related confidentiality mechanisms for processing reports.</p> <p>3. The company promised to implement the relevant measures to protect the prosecutors will not be improperly treated because of the report.</p>	No Difference
<p>3. Enhance information disclosure</p> <p>Does the company disclose the information of implementation and results of integrity management on its website and the MOPS?</p>	<p>✓</p>		<p>The company has disclosed relevant contents and the results of the promotion of the Ethical Corporate Management Principles on the "Company's Website" and "Market Observation Post System". The official website of the company is :http://www.kmc-international.com/</p>	No Difference
<p>5. If the company develops its own integrity operation rules according to the Integrity Operation Best Practice Principles for TWSE/GTSM-Listed Companies, please state the differences: No difference.</p>				
<p>6. Other important information for better understanding of the integrity operation (such as review and revision of the regulations on integrity operation)</p> <p>(1) The Company strictly abides by the Company Act, the Securities and Exchange Act, Business Entity Accounting Act, publicly traded relevant rules and other relevant laws and regulations of business conduct as the basis for the implementation of the integrity management.</p> <p>(2) Please refer to the Company's official website http://www.foxconn.com for the Integrity Operation Rules and Annual Report on Corporate Social and Environmental Responsibilities.</p>				

- (7) Mean of inquiry for corporate governance principles and related regulations:
The special web page was designed for the investors on the official website (<http://www.kmc-international.com/>).
- (8) Other major information that helps to understand the operation of corporate governance shall be disclosed on the following platform:
A. The special web page designed for the investors on the official website(<http://www.kmc-international.com/>).
B. MOPS: <http://mops.twse.com.tw/mops/web/index> The abbreviation is “KMC” Code is “5306”.
- (9) The implementation of the internal control system:
A. Declaration of internal control: please refer to page 83
B. Certified Public Accountant Review Report which is issued by the certified public accountant based on the audit result of the internal control system: None.
- (10) In the last fiscal period as of the date this report was printed, the main faults and the improvement of any case that the Company or its personnel was punished based on the regulations, or that the personnel was punished by the Company for violating the internal control system shall be specified:
None.
- (11) In the last fiscal period as of the date this report was printed, the major resolutions of the Shareholders Meeting and the Board of Directors are as followed
A. The resolutions approved by the entire attending shareholders at the regular shareholders meeting and its implementation

Meeting	Date	Resolution	Implementation
Annual Shareholder's Meeting	June 23, 2017	Approve the company's annual business reports and financial statements for 2016.	The implementation of the shareholders' meeting was completed and was uploaded to the section of the shareholders' meeting minutes on the Observation Post System on June 23, 2017.
		Approve the company's earnings of 2016 distribution.	The distribution of cash dividends was completed on August 18, 2016.
		The motion to amend the company's "The Procedure to Acquire or Dispose the Assets".	The finished resolution of shareholders' meeting has been uploaded to the Observation Post System on June 23, 2017.
		The motion to amend the company's "Article of Incorporation"	It was approved and changed on June 23, 2017 by the Ministry of Economic Affairs.
		The motion to amend the company's "Election of the Directors and Supervisors".	The finished resolution of shareholders' meeting has been uploaded to the Observation Post System on June 23, 2017.
		To overall re-elect Directors and Supervisors.	It was approved and changed on June 23, 2017 by the Ministry of Economic Affairs.
		The motion to release the restriction of Non-competition for new Directors.	The finished resolution of shareholders' meeting has been uploaded to the Observation Post System on June 23, 2017.

B. Important resolutions of the Board of Directors

Meeting	Resolution date	Meeting resolutions
The Board of Directors	January 25, 2017	<ol style="list-style-type: none"> 1. The resolutions of the company's Remuneration Committee. 2. The funds loan from the subsidiary KMC Chain Industrial Co., Ltd to the company (KMC International Inc.) 3. Subsidiary KMCBVI cash reduction of capital.
The Board of Directors	March 20, 2017	<ol style="list-style-type: none"> 1. Internal control system statement for the year 2016 2. The unconsolidated financial statements and consolidated financial statements for the year 2016. 3. Business report for the year 2016. 4. Review of the resolution of remuneration committee. 5. The distribution of the earnings of 2016. 6. The motion to amend the company's "The Procedure to Acquire or Dispose the Assets". 7. The motion to amend the company's "Article of Incorporation" 8. The motion to amend the company's "Procedures for Election of Directors and Supervisors". 9. The motion to overall re-elect Directors and Supervisors. 10. The motion to release the restriction of Non-competition for new Directors. 11. The affairs to hold the annual shareholders' meeting of 2017. 12. Accept the proposal from the shareholders with more than 1% of shareholdings. 13. Accept the nomination of Independent Director candidates. 14. Authorized to sign the investment memorandum. 15. New and extension of banking facility.
The Board of Directors	May 12, 2017	<ol style="list-style-type: none"> 1. The consolidated financial statements for the first quarter of 2017. 2. Approve significant investment. 3. Approve the roster of Independent Director candidates. 4. New and extension of banking facility.
The Board of Directors	June 23, 2017	Elect Chairperson Wu, Ying-Jin as new Chairperson
The Board of Directors	July 7, 2017	Resolve the ex-dividend date for the year 2017.
The Board of Directors	August 10, 2017	<ol style="list-style-type: none"> 1. The motion for the assessment of the independence of the company's independent auditors. 2. The motion for the change of independent auditor because of its internal rotation. 3. The consolidated financial statements for the second quarter of 2017. 4. The motion of the supplementary stock public offering for the private fund raising in 2011 and 2014. 5. The motion of capital increase for the subsidiary KMC Chain Industrial Co., Ltd. 6. The liability insurance for the Directors and Supervisors for 2017 7. Appointment of members of the Remuneration Committee 8. Appointment of deputy spokesman 9. New and extension of banking facility.
The Board of Directors	November 10, 2017	<ol style="list-style-type: none"> 1. Approve the company's audit plan for the year 2018 2. Approve the consolidated financial statements for the third quarter of 2017 3. Approve the resolution of members of remuneration committee. 4. Approve new and extension of banking facility.
The Board of Directors	January 26, 2018	<ol style="list-style-type: none"> 1. The motion for the donation to the related party – KMC Cycling Passion Sports Charity Trust Foundation. 2. New and extension of banking facility.
The Board of Directors	March 13, 2018	<ol style="list-style-type: none"> 1. The motion of the statement for internal control system of 2017. 2. The implementation plan for "IFRS 16 Lease" 3. Amend the company's "Meeting Regulation for the Board Meeting" 4. The unconsolidated financial statements and consolidated financial statements for the year 2017. 5. Business report for the year 2017. 6. Review of the resolution of remuneration committee. 7. The distribution of the earnings of 2017 8. The issuance of new shares for earnings transferred to capital in 2017. 9. The affairs to hold the annual shareholders' meeting of 2018. 10. Accept the proposal from the shareholders with more than 1% of shareholdings. 11. New and extension of banking facility.
The Board of Directors	May 4, 2018	<ol style="list-style-type: none"> 1. The consolidated financial statements for the first quarter of 2018. 2. The assignment of new audit supervisor. 3. New and extension of banking facility.

(12) In the last fiscal period as of the date this report was printed, the major content of the adverse opinion of the directors or supervisors in the decision over specific motions at the Board Meeting on record or with a written declaration shall be specified:

None.

(13) In the last fiscal period as of the date this report was printed, the resignation and dismissal of the Company's personnel (including chairman, general manager, accounting manager, internal audit manager...etc.) shall be summarized:

May 20th, 2018

Title	Name	Onboard date	Terminate date	The reason of resignation or dismissal
internal audit manager	Li,Nien-Jui	March 26, 2014	March 31, 2018	Resignation because personal career planning

5. Information on the fees for certified public accountants

(1) Range of accountants' fee

CPA Firm	Name of Accountant		Inspection period	Remark
Deloitte & Touche.	Liao, Hung Ju	Li, Chi-Chen	January 1 st ,2017~ March 31 st ,2017	the change is due to internal adjustments in the CPA firm
Deloitte & Touche.	Liao, Hung Ju	Yang,Chao Chin	April 1 st ,2017~ December 31 st ,2017	

Range of amount		Fee items	Audit Fee	Non-Audit Fee	Total
1	Under NT\$2 million			✓	
2	NT\$2 million (included) ~ NT\$4 million				
3	NT\$4 million (included) ~ NT\$6 million		✓		✓
4	NT\$6 million (included) ~ NT\$8million				
5	NT\$8million (included) ~ NT\$10 million				
6	More thanNT\$10 million (included)				

(2) The non-audit fee paid to certified CPA, certified Office of CPA and affiliated companies accounts for over 1/4 to audit fee

NTD\$ thousand

CPA Firm	Name of CPA	Audit fee	NonAudit fee					Inspection period	Remark
			System Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte & Touche.	Liao, Hung Ju	4,280	0	90	0	1,567	5,847	January 1 st ,2017~ December 31 st ,2017	Others included the TransferPrice report and Consultant for projects.
	Yang,Chao Chin								

(3) Alter the CPA Firm and the audit fee in altering year is less than that in the previous year
None.

(4) The audit fee is reduced by over 15% compared with the previous year:
None.

6. Information on the replacement of certified public accountants, in the last two fiscal periods and after:
None

7. If the chairman, general manager, finance or accounting manager of the Company has been working in the accounting firm of the CPAs or its affiliates within the last year, the name and title of the personnel and the period of such working relation existing:
None.

8. In the last fiscal period as of the date this report was printed, the status of the transfer of shares or the shares in pledge held by the directors, supervisors, managers or the shareholders with more than 10% of the Company's shares:

(1) Transfer of shares held by the directors, managers and the major shareholders

Title	Name	2017		Current Year to April 24 th	
		Shareholding Increase (Decrease)	Pledged Shares Increase (Decrease)	Shareholding Increase (Decrease)	Pledged Shares Increase (Decrease)
Chairman	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin	0	0	0	0
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang	0	0	0	0
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen	0	0	0	0
Independent Director	Wang, Ming-Lung	0	0	0	0
Independent Director	Lin, Ting-Ze (Elected on June 23 rd , 2017)	0	0	0	0
Outgoing Independent Director	Chien, Chin-Cheng (Retired on June 23 rd , 2017)	0	0	0	0
Supervisor	Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan		0	0	0
Supervisor	Chieh Nai Chih Investment Co., Ltd Representative Hsu, Yang-Kang	0	0	0	0
President	Wu, Jui-Chang	0	0	(2,500,000)	0
Vice President	Wu, Hsing-Chuan	0	0	0	0
Director	Tsai, Chu-Ying	0	0	0	0
Manager of Finance and Accounting Division	Chen, Yung-Jen	(10,000)	0	0	0
holders of 10% or more	KMC TRANSTON INDUSTRIES LIMITED	0	0	0	0

(2) Information showing the counterparty of the share-transferring is the interested party:

Name	Reason for Transfer	Date	The counterparties	Relationship	Shares	Transfer price
Wu, Jui-Chang	gift	January 10 th , 2017	Yu, Wen-Ying	Spouse	2,500,000	NT\$122.5

(3) Information showing the counterparty of the share-in-pledge is the interested party:

None

9. Information showing that top 10 shareholders have the relationship with one another as the related parties, spouse or kindred within the 2nd tier.

April 24th, 2018

Name	Shareholding		Spouse & minor shareholding		Shares held through other parties		The name and relationship of top 10 shareholders having the relationship with one another as the related parties, spouse or kindred within the 2nd tier specified in sfas no. 6.		Remark
	shares	%	shares	%	shares	%	Name	Relationship	
KMC TRANSTON INDUSTRIES LIMITED (Representative Wu, Ying-Chin)	45,154,530	37.63%	0	0	0	0	Wu, Ying-Chin Wu,Hsing-Chuan Wu,Hui-Lan	Chairman for KMC TRANSTON Director for KMC TRANSTON Supervisor for KMC TRANSTON	None
Wu,Hsing-Chuan	7,525,755	6.27%	0	0	0	0	Wu,Neng-Ming Wu, Ying-Chin Yu,Wen-Ying Wu,Hui-Lan KMC TRANSTON INDUSTRIES LIMITED	familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree Director for KMC TRANSTON	None
Yu,Wen-Ying	7,525,753	6.27%	0	0	0	0	Wu,Neng-Ming Wu, Ying-Chin Wu,Hsing-Chuan Wu,Hui-Lan	familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree	None
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	4,023,000	3.35%	0	0	0	0	None	None	None
CTBC Hosting WU,YING-CHIN Trust Treasury Account	3,000,000	2.50%	0	0	0	0	Wu,Neng-Ming Wu,Hsing-Chuan Yu,Wen-Ying Wu,Hui-Lan KMC TRANSTON INDUSTRIES LIMITED	familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree Chairman for KMC TRANSTON	None
Wu,Hui-Lan	2,688,142	2.24%	0	0	0	0	Wu,Neng-Ming Wu, Ying-Chin Yu,Wen-Ying Wu,Hsing-Chuan	familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree	None
Mondrian Emerging Markets Small Cap Equity Fund L.P.	2,574,231	2.15%	0	0	0	0	None	None	None
Wu,Neng-Ming	2,427,410	2.02%	0	0	0	0	Wu,Hsing-Chuan Yu,Wen-Ying Wu,Hsing-Chuan Wu,Hui-Lan	familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree familial relationship within the second degree	None

Name	Shareholding		Spouse & minor shareholding		Shares held through other parties		The name and relationship of top 10 shareholders having the relationship with one another as the related parties, spouse or kindred within the 2nd tier specified in sfas no. 6.		Remark
	shares	%	shares	%	shares	%	Name	Relationship	
Fidelity Funds	2,297,000	1.91%	0	0	0	0	None	None	None
HSUN-LI Investment Co., Ltd (Representative: Kao,Ching-Ya)	1,725,352	1.44%	0	0	0	0	None	None	None

10. The quantity of shareholdings of a particular reinvestment business held by the Company, its directors, supervisors, managers and the investment business directly or indirectly controlled by the Company, and the consolidated percentage of combined shareholdings

Long-term Investment	Investment by the Company		Investment by directors, supervisors, managers, direct or indirect control groups		Combined investment	
	Shares	%	Shares	%	Shares	%
KMC CHAIN Industrial Co., Ltd.	85,677,147	100%	0	0	85,677,147	100%
KMC Chain Industrial Co., Ltd.	50,000	100%	0	0	50,000	100%
TEC Chains Co., Ltd.	100,000	100%	0	0	100,000	100%
PRO (TAIWAN) PROCUREMENT CO., LTD.	1,225,000	49%	0	0	1,225,000	49%
KMC Chain(Seychelles) industrial Co., Ltd.	50,000	100%	0	0	50,000	100%
TEC Chains(Seychelles) industrial Co., Ltd.	100,000	100%	0	0	100,000	100%

IV. Capital Projection and Implementation

1. Company capital and shares

(1) Sources of capital stock

in thousand shares and NT\$ thousand

Year	Issue Price	Authorized capital stock		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Source of Capital	Property other than cash offset by the number of shares	Others
Sep,2015	120	200,000	2,000,000	120,000	1,200,000	Issue new shares for 10,780 thousand shares	None	Note

Note:

At the approval of Financial Supervisory Commission of the Executive Yuan on capitalization of retained earnings on Sep. 2015. At the approval of Ministry of Economic Affairs under Letter Ching-Shou-Shang-Tzi No.10401198560.

April 24th,2018

Type	Authorized capital stock			Remark
	Outstanding	unissued	Total	
Common shares	120,000,000 shares	80,000,000 shares	200,000,000 shares	None

(2) Structure of shareholders

April 24th,2018

Shareholder	Governments	Financial institutions	Other institutions	Foreign institutions & individuals	Natural Individuals	Treasury stock	Total
Number	0	6	55	94	7,736	0	7,891
Shares held	0	4,845,097	55,190,702	27,408,938	32,555,263	0	120,000,000
shareholding	0.00%	4.04%	45.99%	22.84%	27.13%	0.00%	100.00%

(3) Distribution of shares

A. Distribution of common shares

April 24th,2018

Rank	Number of shareholders (in persons)	Total Shares Held	Shareholding
1-999	5,182	1,000,942	0.83%
1,000-5,000	2,104	3,953,117	3.29%
5,001-10,000	238	1,814,193	1.51%
10,001-15,000	98	1,286,183	1.07%
15,001-20,000	51	913,948	0.76%
20,001-30,000	54	1,402,893	1.17%
30,001-40,000	32	1,137,356	0.95%
40,001-50,000	26	1,169,696	0.97%
50,001-100,000	43	2,985,997	2.49%

Rank	Number of shareholders (in persons)	Total Shares Held	Shareholding
100,001-200,000	18	2,619,972	2.18%
200,001-400,000	11	3,244,681	2.70%
400,001-600,000	11	5,272,662	4.40%
600,001-800,000	3	2,015,423	1.68%
800,001-1,000,000	5	4,610,875	3.85%
More than 1,000,001	15	86,572,062	72.15%
Total	7,891	120,000,000	100.00%

B. Distribution of prefer shares: The Company does not issue preferred stocks.

(4) List of major shareholders

April 24th, 2018

Name	Total Shares Held	Shareholding
KMC TRANSTON INDUSTRIES LIMITED	45,154,530	37.63%
Wu, Hsing-Chuan	7,525,755	6.27%
Yu, Wen-Ying	7,525,753	6.27%
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	4,023,000	3.35%
CTBC Hosting WU, YING-CHIN Trust Treasury Account	3,000,000	2.50%
Wu, Hui-Lan	2,688,142	2.24%
Mondrian Emerging Markets Small Cap Equity Fund L.P.	2,574,231	2.15%
Wu, Neng-Ming	2,427,410	2.02%
Fidelity Funds	2,297,000	1.91%
HSUN-LI Investment Co., Ltd	1,725,352	1.44%

(5) Information on Market Price, Book Value, Earnings Per Share and Dividends

in thousand shares and NT\$ thousand

Item		Year	2016	2017	Current year to March 31 st ,2018
Market price for per share	Highest		134.5	156.5	136
	Lowest		97.5	113.5	124
	Average		117.89	138.75	132.83
Net value for per share	Cum-dividend		35.2	39.9	42.94
	Ex-dividend		32.0	35.4(note1)	None
EPS	Weighted average quantity of shares(1,000 shares)		120,000	120,000	120,000
	EPS	Before adjustment	7.14	8.69	2.45
		After adjustment	7.13	7.13	2.45
Dividend	Cash Dividend		3.25	4.50(note1)	None
	Stock Dividend	From earning	0	0.50(note1)	None
		From Capital Reserve	0	0	None
	Accumulated Unappropriated Dividends		0	0	None
ROI analysis	P/E ratio(note2)		15.90	15.97	None
	P/P ratio(note3)		34.92	30.83	None
	Cash dividend yield(note4)		2.76%	3.24%	None

Note

1. The proposal of dividends for FY 2017 has been approved by the Board of Directors on March 13rd, 2018 pending the ratification at the 2018 Shareholders Meeting. The proposal shall be resolved by the Shareholders Meeting.
2. P/E ratio = average price per share at closing in the current year/earnings per share.
3. P/P ratio = average price per share at closing in the current year/cash dividends per share
4. Cash dividend yield rate = cash dividend per share/average price per share at closing in the current year.

(6) Dividend Policy and Execution Status

A. Dividend Policy

In case there is surplus in the fiscal year, after paying taxes in accordance with the laws and offset the losses, the Corporation shall set aside 10% as legal capital reserves. In case the statutory reserves have equaled the total paid-in capital of the Corporation, no allocation shall be made. Then, set aside special capital reserve in accordance with relevant laws or regulations; in case there are earnings left over, the Board of Directors shall propose the plan of distribution of surplus to the shareholder's meeting for approval.

The industrial development of the Corporation is undergoing the business expansion phase and in great demand for funds; consequently, the distribution of surplus should be made in accordance with Company Act and the Corporation's articles of incorporation subject to the management of Corporation's capital and the business performance before determining the method of stock dividend. The principle of stock dividend shall follow the stability and balance policy, and the method of stock dividend (cash dividend or stock dividend) and the amount will be proposed by the Board of Directors in accordance with the business results, financial status and the management of capital before adopted by the annual regular shareholders meeting. In accordance with the dividend policy of the

Corporation, the annual allocation of surplus to the shareholders shall not be less than 20%, the method of dividend can be made by cash or stock. While the cash dividend shall not be less than 20% of the total amount of cash and stock dividend.

B. Execution Status

The Boards of Directors adopted the proposal for distribution of 2017 earnings would be resolved by 2018 Regular Shareholders Meeting as followed:

The accumulated earnings NT\$600,000,000 shall be appropriated as NT\$540,000,000 for cash dividends (NT\$4.5 dollars per share) and NT\$60,000,000 for stock dividend (NT\$0.5 dollars per share). Upon the distribution of cash dividends being passed by the Shareholders Meeting, the Board of Directors shall be authorized to set up the date of dividend distribution.

C. Summary of significant change on expected dividend policy: None.

(7) Impact of planned issuance of bonus shares on the Company's business performance and earnings per share:

The shareholder's meeting proposed that 50 new bonus shares will be issued for every thousand shares, and this would have no impact on the company's performance, including net operating profit and net profit after tax. Besides, if the proposed bonus shares mentioned above was retrospectively adjusted to the earnings per share for the year 2017, the earnings per share for the year 2017 will be NT\$ 6.8 and had no significant effect.

(8) Remuneration to employees, Directors and Supervisors:

A. Information on remuneration to employees, directors, and supervisors, as set forth in the Company's Articles of Incorporation:

According to The Company Article, in case there is surplus after the close of each fiscal year, the Corporation shall allocate 0.5~5% as the remuneration for employees and the remuneration may be distributed by ways of stock dividend or cash dividend. The subjects of the distribution shall include the employees of the subordinate company with certain conditions and proportion of the distribution authorized by the Board of Directors.

Less than 3% of above mentioned earnings of the Corporation can be distributed as the remuneration for the Directors and Supervisors (Financial Advisors) in accordance with the resolution of the Board of Directors. The subject of the distribution shall not include the managerial personnel who act as proxy of the Directors. The distribution of remuneration to employees, Directors and Supervisors (shall be reported at the shareholder's meeting. In case the Corporation still has accumulated losses, a certain amount of earnings shall be reserved before the distribution of remuneration to employees, Directors and Supervisors in accordance with the proportion mentioned in the preceding paragraph.

B. The estimated principles of remunerations to employees, the directors and supervisors, the calculation principles of share quantity of stock dividends and the accounting treatment of the discrepancy between the real and estimated amount of remunerations to employees, the directors and supervisors:

No difference.

C. Information on the distribution of remunerations to employees, the directors passed by the Board of Directors

- (A) The remunerations to employees and the directors in FY2017 were passed by Board of Directors on March 13th, 2018
- (B) The amount of remunerations to employees in FY2017 is NT\$10,312,398 in cash.
- (C) The amount of remunerations to the directors in FY2017 is NT\$8,000,000 million in cash.
- (D) The actual amount of payment is congruent with the recognized amount for FY 2017.
- (E) The amount of remunerations to employees of the total amount of the corporate earnings in the current period and the total remunerations to employees: N/A

D. If there is discrepancy between the distribution of remunerations to employees, the directors and supervisors from the earnings of the last fiscal year (including the quantity of share distribution, the amount and stock price) and the recognized amount, the amount of and reasons for the discrepancy and the treatment shall be specified:
The Company's actually distributed number does not differ from the recognized one.

(9) Repurchase of Company's shares: None.

2. Corporate bonds:

None.

3. Preferred shares:

None.

4. The issuance of overseas depository receipts:

None.

5. The issuance of employee stock options:

None.

6. New shares restricted to employees:

None.

7. Acquisition of new shares from other companies through mergers and acquisitions or assignment:

None.

8. Capital planning and implementation:

None

V. Operating Highlights

1. Business Activities

(1) Business scope:

A. Major business items:

- (A) F401010 International Trade
- (B) F114030 Wholesale of Automotive and Motorcycle Parts and Supplies
- (C) F214030 Retails of Automotive and Motorcycle Parts and Supplies
- (D) CD01040 Motor Vehicles and Parts Manufacturing
- (E) CD01050 Bicycle and Parts Manufacturing
- (F) CD01990 Other Transportation and Parts Manufacturing
- (G) F114040 Wholesale of Bicycle Parts and Supplies
- (H) F114990 Wholesale of Other Transportation Equipment and Parts.
- (I) F214040 Retails of Bicycles and Parts
- (J) F214990 Retails of Other Transport Equipment and Parts
- (K) ZZ99999 Other business items that are not prohibited or restricted by law.

B. Business breakdown

In NT\$ thousand

Year \ Products	2016		2017		1Q18	
	Amount	%	Amount	%	Amount	%
Bike Chain and component	3,348,517	83.4%	4,026,168	79.7%	1,011,321	75.1%
Motorbike Chain and component	664,272	16.6%	677,106	13.4%	138,274	10.3%
Automobile Timing System	0	0.0%	176,380	3.5%	110,477	8.2%
Garage Door Opener	0	0.0%	170,949	3.4%	86,985	6.5%
Total	4,012,789	100.0%	5,050,603	100.0%	1,347,057	100.0%

C. Current products and services offered by the Company:

(A)Bicycle Chain

- Road bike chain series
- Mountain bike chain series
- BMX chain series
- E-bike chain series
- Rust Buster chain series
- EcoProTech chain

(B)Motorcycle Chain and Gears

- Standard Driving Chain Series
- Heavy Duty Chain Series
- Cam Chain Series
- Silent Chain Series
- Standard Driving Sprocket
- Chain and Sprocket Kit

(C) Automobile Timing System

(D) Garage Door Opener

D. New products in the future

- Bicycle upgraded environment protection chain, ultra-light chain
- Motorcycle Transmission components and parts
- Automobile Transmission components and parts
- Garage Door Opener components and parts

(2) Industry Outlook:

A. Industry current situation and development

i. Bicycle market:

In accordance with the estimation from Persistence, a US market research organization, the global bicycle market will increase to US\$62.5 billion by 2024; the annual compound growth rate will be 4%, of which electric bicycles will keep a high annual growth rate until 2024. Bicycles play an essential role in the development of sustainable vehicles. Bicycles have more significant advantages than fuel vehicles such as performance, price, and environmental benefits. Bicycles have characteristics such as environmentally friendly, cheap, and healthy. The United Nations approved June 3rd as the World Bicycle Day in the meeting held on April 2018. This is a symbol to emphasize that the bicycle is a sustainable transportation, and it also an aggressive message to establish the bicycle is a sustainable consumption and production industry.

Given the various market situation, the European market has always been the critical market for sales of high-end bicycles in the world. In recent years, the total bicycle sales in the 28 countries of the European Union is approximately 20 million units, of which 70% are the sales from Germany, the United Kingdom, the Netherlands, Italy, France, and Spain, etc. The sales of electric bicycles in Europe keep growing, and imports also showed the same grand occasion. Base on the information from the National Bicycle Dealers Association (NBDA) of the USA, the US bicycle market has been growing steadily since 2003; the annual sales are about \$5.8 billion to \$6.1 billion. Cycling is a prevalent outdoor activity in the United States. It is also one of the ten most popular leisure activities in the United States. Mainland China has always been the largest bicycle production area in the world. With the rise of the sharing economy model and the mature usage of electronic payment platforms, there was an upsurge of shared bicycles at the end of 2016. In 2017, China's shared bicycles in the market are about 20 million units. With the arrival of shared bicycles, it changes the way of transportation in the urban area and eases the burden on the environment, the number of trips people use in different modes of transportation has changed.

Based on the statistics from the Taiwan Bicycle Association, total bicycles exported from Taiwan in 2017 is 2.37 million sets, and the average unit price of exports is US\$560 which is 11% increase compared with 2016. It shows that Taiwan's bicycles are keeping on the track of increasing to the higher value. Taiwan's bicycle industry has not only reached the leadership status in the international market but has also made Taiwan a crucial influence in the global mid- and high-end bicycle market.

ii. Motorcycle market:

According to statistics, the global market for motorcycles in 2017 was approximately 78 million units. In developing countries in the Asia-Pacific region, because of the high population and easy mobility of motorcycle in urban areas, they provide transportation, travel, and shipping functions. This area has become a significant market for motorcycles, with Mainland China, India, Indonesia, Vietnam, and other countries in Southeast Asia accounting for approximately 80% of the entire market. With the income increased and the road infrastructure improved gradually in the ASEAN region, the demand for the motorcycle is also expected to increase.

iii. Automobile market

According to the preliminary information provided by the definitive automobile magazine “WardsAuto,” global sales of passenger cars and pick-up trucks in 2017 may exceed 90 million units for the first time, it shows again that the demand for traditional automobiles is still sharp even the auto-driving cars, and taxi or Uber services become more popular. This must be the result of the sustained demand rebound in the Western European market and a recovery in demand in major emerging markets, such as Brazil and Russia. Asian car buyers are the primary driver of growth in car sales. In 2017, the cars sold in Mainland China are above one-fourth of the global sales, compared with less than 15% ten years ago. This shows that the expansion and improvement lead a considerable market demand in China because of economic development and road infrastructure construction. Besides, WardsAuto also estimates that the global car ownership may reach 1 billion vehicles, a massive amount of car ownership will lead to substantial business opportunities in the repair market.

iv. Garage door opener market

According to statistics, the primary garage door opener market is in North America and Europe; the market size of global garage door opener is about USD1.12 billion in 2017, it is estimated to reach USD1.38 billion by 2021, at least 5% of the steady growth each year.

B. The relevance of vendor, manufacturer and customer in the industry

Vendor	Manufacturer	Customer
Metal raw materials	Bicycle chain manufacturer	Bicycle manufacturer or parts distributor
	Motor chain and sprocket manufacturers	Motorcycle manufacturer or parts distributor
	Automotive timing system manufacturer	Automotive manufacturer or parts distributor
	Garage door opener system supplier	Garage door opener manufacturers

C. The trend of primary product development:

Under the trend of favoring to leisure and sports for the bicycle, the bicycle chain products are also leading towards a more lightweight and personalized design style. With the development of shared bicycles, the operators have adopted the design concept of “high configuration in parts and low maintenance,” and gradually improved the chain specifications for shared bicycle.

Besides, according to the market survey agency, the market value of the ebike market will be doubled in the next five years, and it will become another notable doctrine of the bicycle industry. Under the regulations of environmental protection, the automobile and motorcycle industry will also develop toward the direction of environmental protection and energy conservation.

Governments of various countries will continue to support them with policies, and the manufacturers of and the motorcycle will accelerate to develop types of new energy vehicles.

The garage door opener focuses on the home market. The recent development is to combine with intelligent control. The transmission method is also divided into chain transmission and belt transmission.

D. The situation of market competition:

In view of the competition in the bicycle chain market, Japanese and the US manufacturers have an influential brand, and the manufacturers of Mainland China have a cost advantage. The company uses product differentiation as the basis for competitiveness. The product layout of the company is complete, ranging from entry models to the various high-end models.

In the motorcycle parts market, since the manufacturers in Japan are still the primary motorcycle manufacturers, the corresponding essential components are still mainly Japanese suppliers. The manufacturers in Mainland China have a cost advantage in mid- and low-end products.

In the automotive timing system market, since the manufacturers in Europe, the United States, and Japan have taken a leading position in the automotive industry, the auto parts supply systems in Europe, the United States, and Japan occupy most of the global supply of auto parts.

(3) Technologies and R&D:

A. Investment in Technology and R&D: In order to ensure its leading position in the industry, KMC utilizes its unique core technology through in-depth R&D on basic metal materials, including systematic research and innovation design capabilities, work performance verification equipment, precision mold equipment, precision stamping technology, heat treatment technology, surface coating technology, high-efficiency automation production equipment and advanced automatic quality control system have established KMC's leading position in the chain market.

B. R&D expenses invested: The amount invested by the company and its subsidiaries in the fiscal year 2017 was NT\$24,250 thousand.

(4) Business development plan in the short and long terms:

A. Short-term business development plan:

In the bicycle chain business, the company will continue to develop the European and US high-end bicycle chain repair market; meanwhile, it will also apply the dual-brand strategy to expand the overall market share of bicycle chain. Besides, with the upsurge of the shared bicycle in Mainland China, the company will provide real-time quality services and collaborative development capabilities through a complete and comprehensive production and sales service system established in the past in Mainland China to meet the demand of more shared bicycle operators, strive for more market share.

Motorcycle parts business focused on strengthening the cooperation with distributors of local motorcycle transmission products in Asia, deepening the local market and marketing channels, and increasing the sales volume in the repair market.

In addition to keeping business cooperation with manufacturers in Mainland China, the automotive timing system business will also develop repairs market around the world. The garage door opener business is to increase the number of new parts and striving to expand the market share.

B. Long-term business development plan:

The bicycle chain and motorcycle parts are the evergreen industry. With the economic development and improvement of living quality standards, it also develops into diversified utilization purpose follows the changes of the times and the market characteristics of various regions. In addition to satisfying essential transport transmission functions, it also emphasizes environmental protection and energy-conservation design, and further demands for products derived from various leisure activities and sports events.

The long-term development goal of the company's bicycle chain and motorcycle parts business is to focus on the global two-wheel vehicle transmission parts market. With cutting in the trade sales, the company will enhance brand marketing, local service, and master production and R&D energy to improve the company's overall competitiveness and makes the company a quality brand and enterprise with international competition.

In the automobile timing system business, the company will focus on expanding the market share of repairs, meanwhile, through the cooperation with the car manufacturers; develop the parts for the new energy cars. Garage door opener business is developing toward the direction of module and OEM market.

2. Market and sale overview

(1) Market analysis

A. Sales of the major products by region:

In NT\$ thousand

Region \ Year	2016		2017	
	revenue	%	revenue	%
Asia	2,948,586	73.5%	3,737,604	74.0%
Europe	828,452	20.6%	901,243	17.8%
America	235,751	5.9%	411,756	8.2%
Total	4,012,789	100.0%	5,050,603	100.0%

B. Market share

(A) Bicycle chain business:

The company is the biggest bicycle chain manufacturer in the world, especially in the self-assemble bicycle market, the company ranks first in this market. Besides, the company actively develops the market share and brand reputation in Europe and the US in the bicycle repair market of these two areas.

(B) Motorcycle parts business:

Currently, the company ranks first in the market share of ASEAN, and continuing to strive to the sales of existing motorcycle manufacturers and customers in the repair market, and aggressively develops and deploys emerging markets in Indonesia, Pakistan, and the Philippines to improve market share in Southeast Asia and South Asia.

(C) Automobile timing system business

The company keeps a good relationship with the automobile manufacturer in Mainland China which is also its primary client. The current market share ranks third.

(D) Garage door opener market

Because of long-term stable cooperation relationship with clients, the company ranks first in the transmission system parts market of garage door opener.

C. The supply and demand in the market and the future growth:

(A) Bicycle chain business:

According to the forecast of the market research institute – Persistence in the US, the bicycle market will grow by 38% by 2024, the annual compound growth rate will reach 3.7%, and the sales amount of bicycle will increase to USD 62.5 billion. The market research institute also states that the ebike will keep high annual growth rates until 2024.

Because of clear policies and regulations, in the advanced countries such as Europe and Japan, the bicycle has been becoming the commute vehicle accepted by the public and, nowadays, it is considered as popular leisure equipment. Among them, Europe and the United States are the primary consuming countries of high-end bicycles. The total market demand in Europe and North America is about 35 million units, accounting for about 28% of the entire market. Because of the

emphasis on the differentiation of bicycles, the style, color design, function, and utilization are also significantly diversified.

(B) Motorcycle part business:

According to the statistics, in the next few years, the global motorcycle market will reach 68-75 million units, and the primary markets are still located in within Asia. Most of the developing countries in the region still have problems of shortage of public transportation construction, most people choose motorcycle for travel and shipping purpose. Besides, the purchasing power of the youth in these developing countries is gradually rising, and the entire market demand will keep growing steadily.

(C) Automobile timing system

WardsAuto also estimates that the global car ownership may reach 1 billion vehicles, the huge car ownership will also bring the huge repair market opportunities, and it can be a long-term business item for parts suppliers. The market survey institute also states that the new car market will keep growing in the next few years, but because of the policy promotion for the new energy cars by each country, it is estimated that by 2030, 55% of new cars will be electric cars, this will drive the car part manufacturers to more actively developing electric-vehicle related parts.

(D) Garage door opener

Based on statistics, the global garage door opener market was USD 1.12 billion in 2017, and it will be USD 1.38 billion by 2021 with at least 5% steadily growth annually.

D. Competitive edge:

(A) Own the core technology:

The bicycle chains, as well as other types of vehicle transmission chains and sprockets sold by the company, is one of the world's leading brands. In the markets of each country, it has a very high brand reputation and has been adopted by significant bicycle manufacturers and automakers and motorcycle makers on the globe. The quality of products has won the recognition of clients and consumers. The performance indicators in many production chain products of the company are the benchmark of the same products in the industry. This is mainly because KMC has many unique vital technologies. For example, KMC owns a leading lightweight technology in the chain, and the critical technologies are the combined use of "new materials," "high-precision stamping mold" and "special heat treatment technologies." Through the selection of product materials, with unique structural design and particular heat treatment technology, the KMC chain can still maintain high strength, high rigidity, high safety and long useful life while significantly reducing weight.

(B) Manufacturing advantages:

The KMC Group has seven production bases in the world and can support each other and provide clients with real-time service without a time difference.

(C) Product advantages:

Backed by core technology and manufacturing technology, KMC combines the industrial design with computer-aided engineering in its product design, utilize the lightweight structure design of

chains piece and coating technology, making the chain show new technological elements of strength and beauty, significantly improving the product texture of the chain and identity. Therefore, it has won twelve iF Design Awards in nine consecutive years, five Red Dot Design Awards in three years and five Taiwan Excellence Awards in seven years.

(D) Channel advantage:

In addition to local production plants, the KMC Group has seven service locations in various regions of the world. Through these factories and service sites, they can provide support services to each other and build up the distribution service network downward. Therefore, KMC can provide zero time difference and zero gap instant service. Currently, KMC's products are sold in 13 languages in more than 130 countries around the world.

E. Favorable and unfavorable factors of further development and the response to each issue:

The favorable factors:

(A) As a short-distance vehicle, bicycles bring a lot of economic, environmental and health-related benefits, such as reducing traffic congestion and pollution, relying less on fuel, increasing new job opportunities and better public hygiene. The governments of various countries have also gradually promulgated regulations to promote the transition to the bicycle riding culture for the different groups who will become bicycle users, and shape the next generation to become bicycle generations.

In addition to the requirements of necessary transportation, with the increasing awareness of environmental protection in the world, all countries in the world aim to reduce CO2 emissions. Under this circumstance driven by energy conservation and carbon reduction, it will benefit the expansion of bicycle demand; along with healthy LOHAS concept has risen. Humankind has undergone significant changes in the lifestyle of health, sports, and leisure. People yearn for a healthier lifestyle. Bicycles are the best solution to meet these requirements.

(B) Major global motorcycle markets are located in developing countries such as Asia, Latin America, and Africa. The potential markets of these developing countries are significant, and it is favorable for the marketing of motorcycle transmission products. Compared with developed countries, developing countries generally have the problem of shortage of public transportation construction. Most of them choose to use the motorcycle as their primary means of transportation to provide travel and shipment functions. Therefore, the purchasing power of these emerging countries will gradually increase, and the motorcycle chain and sprocket market will keep growing.

(C) There is still room for growth in the global automobile market in emerging countries, and the substantial business opportunities in the repair market are even higher.

(D) The garage door opener combined with various intelligent software is expected to create new demands in the home market.

Unfavorable factors:

(A) The global economic outlook fluctuates and affects the demand of the entire consumer market.

- (B) Once inflation or bank credit contraction, it quickly leads to a decline in consuming willingness.
- (C) Trade protection measures started by each country.

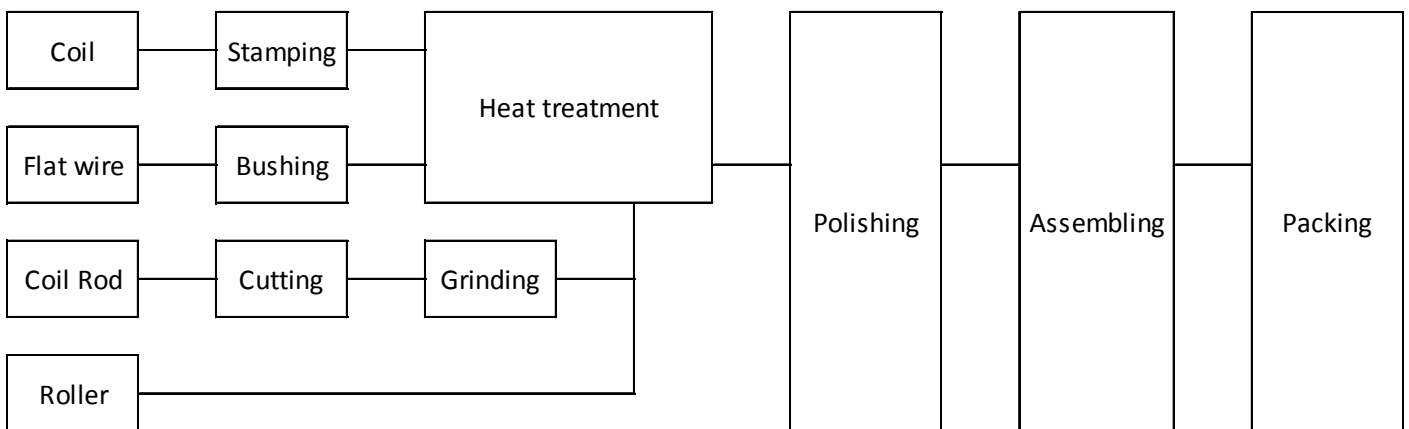
Countermeasures:

- A. Self-operation of channels in developed countries and regions.
- B. Through our strong “supply-chain relationship” and “strategic customer partnership,” we will continue to deepen both ends of the value chain to increase the influence and synergies of this value chain.
- C. Introduce dedicated chains for higher performance and expand market share with differentiated strategies.
- D. Launched “high-quality but fair price” entry-level products to expand the market share of repairs in emerging countries including mainland China.
- E. Utilize the group's factories deployment sale locations to provide local services.

(2) Purposes of the major products and the production process

A. The purpose of major products are provide the components of transmission for Bicycle, Motorcycle, Automobile and Garage Door Opener.

B. The production process



(3) The supply of key materials:

Key Materials	Supply situation
Coil Flat wire Coil Rod Roller	Good

(4) If any customer in any of the previous two years with purchase (sales) amount exceeding 10% of the total purchase (sales), the name, amount and proportion to total purchase (sales) shall be specified, so shall the reasons for any change if applicable:

A. Main Vendors

item	2016				2017				1Q18			
	Vendor	Amount	Percentage of total Net Purchases	Relationship	Vendor	Amount	Percentage of total Net Purchases	Relationship	Vendor	Amount	Percentage of total Net Purchases	Relationship
1	note1				ANSTEEL (Note2)	316,149	14.1%	none	ANSTEEL (Note2)	92,139	16.4%	none
2	Others	2,076,607	100.0%	-	Others	1,922,321	85.9%		Others	469,896	83.6%	
	Total Net Purchase	2,076,607	100.0%	-	Total Net Purchase	2,238,470	100.0%		Total Net Purchase	562,035	100.0%	

Note1: No vendors with purchase amount exceeding 10% of total purchase in 2016.

Note2: The Company's purchases of Ansteel Co., Ltd. accounted for 14.1% and 16.4% of consolidated net purchases in the first quarter of 2017 and the first quarter of 2018, respectively, which was mainly due to purchase increase because of operation expansion and increased in steel prices.

B. Main customers

Item	2016				2017				1Q18			
	Customer	Amount	Percentage of total Net Sales	Relationship	Customer	Amount	Percentage of total Net Sales	Relationship	Customer	Amount	Percentage of total Net Sales	Relationship
1	note				note				note			
2	Others	4,012,789	100%		Others	5,050,603	100%		Others	1,347,057	100%	
	Total Net Sales	4,012,789	100%		Total Net Sales	5,050,603	100%		Total Net Sales	1,347,057	100%	

Note: No customers with sales amount exceeding 10% of total net sales.

(5) Production value and volume in the last 2 years:

Capacity Main products	Year	2016			2017		
		Capacity	Output	Amount	Capacity	Output	Amount
Transmission components		N/A	N/A	2,220,696	N/A	N/A	2,928,157

(6) Sales value and volume in the last 2 years:

Shipment & Net Revenue	Year	2016		2017	
		Domestic	Export	Domestic	Export

	Shipment	Net Revenue	Shipment	Net Revenue	Shipment	Net Revenue	Shipment	Net Revenue
Main Products								
Transmission components	N/A	437,632	N/A	3,575,157	N/A	434,320	N/A	4,616,283

3. In the last two years as of the date this report was printed, the number of employees, average working period, average age and education are shown in the table below:

Year		2016	2017	Current year to March 31th
Number of employees	Direct Labor	1,237	1,158	1,014
	Indirect Labor	532	888	927
	Total	1,769	2,046	1,941
Average age		34.3	36.7	37.7
Average working period		5.6	4.9	6.0
Education	PhD	0.00%	0.0%	0.0%
	Masters	1.13%	0.5%	0.7%
	Bachelors	13.75%	15.2%	15.2%
	Senior high school	24.35%	32.9%	33.4%
	Below senior high school	60.77%	51.4%	50.6%

4. Information on the expenditures for environmental protection

The loss including compensation and total penalty because of the environmental pollution in recent years and as of the date that the annual report published. And explain the future countermeasures (including improvement measures) and possible expenditures (including the potential loss, the estimated amount of penalty, and compensation in the absence of response measures, if it cannot be reasonably determined, please state the fact that it cannot reasonably estimate):

There is no significant loss, compensation, or disposition due to environmental pollution.

5. Labor Relations

- (1) Listed below are the employee welfare, education, training, retirement system and implementation of the company, as well as the status of the agreement between the company and various employee rights and maintenance:
 - A. Welfare
 - (A) Employee Stock Ownership Trust: According to the annual profit, the company additionally allocates a certain amount to purchase company's stocks, and allocate to employees according to their grades, seniority to retain talents and increase the employee's Centripetal force.
 - (B) Cash gift: Cash gift for Dragon Festival, Moon Festival and Chinese New Year, Cash gift for marriage, Maternity allowance and Funeral subsidy.
 - (C) Insurance and Retirement: All employees of the company participate in labor insurance, national health insurance, and group insurance, and contribute pension monthly based on the regulation.

- (D) Medical insurance: Health examination.
 - (E) Other benefits: Perfecting promotion channels, distribute bonus according to the annual profit, and pay the bonus according to comprehensive considerations such as contribution, grade, and seniority.
- B. Employee further study and training system:
- (A) The company plans to hold internal and external training for employees' further study and training.
 - (B) The company has formulated employee training regulations, and plans relevant training courses according to the requirements of the functions and professions, to enhance employee knowledge, improve the overall quality of employees and business performance.
- C. Retirement system and implementation situation:
 For the employees who applied the old pension system, the company has formulated labor pension regulation according to the relevant regulations of Labor Standards Act. The company entrusts actuaries to make actuarial calculations, accrue labor pension provisions monthly and deposits the pension funds in a dedicated account in Bank of Taiwan. The calculation and payment methods are based on the provisions of the labor retirement scheme. The employees who applied to the new pension system, according to the provisions of the Labor Pension Act, the monthly pensions are 6% of the wages and deposit to the individual retirement accounts.
- D. The agreement between the investor and the employee and the maintenance of employee rights and interests:
- (A) The company pays much attention to the employees' opinions, holds regular labor conference and maintains a good relationship.
 - (B) The company conducts regular workplace safety inspections, labor safety education training semi-annually and regular employee health examination to provide employees with a safe and healthy work environment. Fire drills are conducted at least once a year in each plant to ensure that employees can adequately respond to unforeseen disasters. The Group has set up security guards at the entrances of the various plants or has access control at each office area to control personnel access to ensure that employees have a safe working environment. The Group equipped various types of environmental protection facilities to the production line, including noise reduction facilities, heat recycling, etc.; besides, when operating the transportation facilities and overhead cranes in a warehouse, employees are required to understand the safety regulations in advance and to follow the rules to maintain a safe working environment.
 - (C) The company has formulated management regulations based on the various labor laws and regulations, and with reference to international human rights conventions to enable the employee to have an equal and fair working environment, and protect the working interests of employees. The company complies with the regulations of various labor laws and is committed to the improvement of employee benefits. If the employee has a complaint, he or she may appeal to the immediate supervisor or the HR supervisor. When the HR unit received the complaint, they should launch an investigation. The opinions of the employees can be given full attention.

6. Important Contracts:
 None

VI. Financial Information

1. Most Recent 5-Year Concise Financial Information

(1) Concise Stand-alone Balance Sheet

NT\$ thousand

Item	Year	Most Recent 5-Year Financial Information(Audited)					1Q18
		FY13	FY14	FY15	FY16	FY17	
Current Assets		369,198	442,463	357,574	973,573	982,705	N/A
Property, Plant and Equipment		1,756	1,200	574	76	36	
Other Assets		1,359,845	2,071,153	5,124,828	6,821,920	7,384,306	
Total Assets		1,730,799	2,514,816	5,482,976	7,795,569	8,367,047	
Current Liability	Before Distribution	233,892	249,955	726,159	3,068,999	1,856,572	
	After Distribution (note)	360,624	413,770	1,026,159	2,678,999	1,316,572	
Noncurrent Liabilities		273	382	750,316	501,550	1,721,959	
Total Liabilities	Before Distribution	234,165	250,337	1,476,475	3,570,549	3,578,531	
	After Distribution (note)	360,897	414,152	1,776,475	3,180,549	3,038,531	
Equity Attributable to Shareholders of the Parent		1,496,634	2,264,479	4,006,501	4,225,020	4,788,516	
Capital Stock		1,056,102	1,092,102	1,200,000	1,200,000	1,200,000	
Capital Surplus		0	352,800	1,541,021	1,541,021	1,541,021	
Retained Earnings	Before Distribution	422,052	758,282	1,290,521	1,846,880	2,495,645	
	After Distribution (note)	295,320	594,467	990,521	1,456,880	1,955,645	
Others		18,480	61,295	(25,041)	(362,881)	(448,150)	
Total Equity	Before Distribution	1,496,634	2,264,479	4,006,501	4,225,020	4,788,516	
	After Distribution (note)	1,369,902	2,100,664	3,706,501	3,835,020	4,248,516	

Note: As of March 13th, 2017, the amount of after distribution has not presented due to the proposal of earnings distribution of year 2017 had not yet been submitted to the Shareholders' Meeting.

(2) Concise Consolidated Balance Sheet

NT\$ thousand

Item	Year	Most Recent 5-Year Financial Information(Audited)					1Q18 (Audited)
		FY13	FY14	FY15	FY16	FY17	
Current Assets		1,521,215	1,912,948	3,080,365	3,577,541	4,270,686	4,350,429
Property, Plant and Equipment		498,374	823,726	2,476,065	2,958,734	3,171,827	3,204,219
Intangible assets		259,065	385,014	427,633	842,580	1,365,648	1,362,002
Other Assets		310,688	386,716	981,763	1,186,005	1,263,411	1,285,918
Total Assets		2,589,342	3,508,404	6,968,826	8,564,860	10,071,572	10,202,568
Current Liability	Before Distribution	882,609	518,237	1,558,732	3,197,195	2,633,377	2,635,591
	After Distribution (note)	1,009,341	682,052	1,858,732	2,807,195	2,093,377	note
Noncurrent Liabilities		209,917	725,480	1,403,417	1,142,429	2,649,434	2,414,626
Total Liabilities	Before Distribution	1,092,526	1,243,717	2,962,149	4,339,624	5,282,811	5,050,217
	After Distribution (note)	1,219,258	1,407,532	3,262,149	3,949,624	4,742,811	note
Equity Attributable to Shareholders of the Parent		1,496,634	2,264,479	4,006,501	4,225,020	4,788,516	5,152,098
Capital Stock		1,056,102	1,092,102	1,200,000	1,200,000	1,200,000	1,200,000
Capital Surplus		0	352,800	1,541,021	1,541,021	1,541,021	1,541,021
Retained Earnings	Before Distribution	422,052	758,282	1,290,521	1,846,880	2,495,645	2,789,708
	After Distribution (note)	295,320	594,467	990,521	1,456,880	1,955,645	note
Others		18,480	61,295	(25,041)	(362,881)	(448,150)	(378,631)
Noncontrolling Interests		182	208	176	216	245	253
Total Equity	Before Distribution	1,496,816	2,264,687	4,006,677	4,225,236	4,788,761	5,152,351
	After Distribution (note)	1,370,084	2,100,872	3,706,677	3,835,236	4,248,761	note

Note: As of March 13th, 2017, the amount of after distribution has not presented due to the proposal of earnings distribution of year 2017 had not yet been submitted to the Shareholders' Meeting.

(3) Concise Stand-alone Statement of Comprehensive Income

NT\$ thousand

Item \ Year	Most Recent 5-Year Financial Information(Audited)					1Q18
	FY13	FY14	FY15	FY16	FY17	
Net Revenue	877,100	952,452	1,023,543	1,618,026	1,806,320	N/A
Gross Profit	220,374	226,726	193,990	525,497	769,769	
Income from Operations	123,161	96,654	205,941	409,560	670,593	
Non-operating Income and Expenses	248,848	384,295	521,745	478,362	482,958	
Income before Income Tax	372,009	480,949	727,686	887,922	1,153,551	
Net Income	387,605	462,035	699,935	856,581	1,042,893	
Other Comprehensive Income for the Year, Net of Income Tax	5,240	43,742	(90,217)	(338,062)	(89,397)	
Total Comprehensive Income for the Year	392,845	505,777	609,718	518,519	953,496	
Basic Earnings Per Share (NT\$ Dollar)	3.76	4.31	6.22	7.14	8.69	

(4) Concise Consolidated Statement of Comprehensive Income

NT\$ thousand

Item	Year	Most Recent 5-Year Financial Information(Audited)					1Q18
		FY13	FY14	FY15	FY16	FY17	
Net Revenue		2,091,947	2,779,566	3,374,449	4,012,789	5,050,603	1,347,057
Gross Profit		645,074	948,395	1,297,842	1,792,093	2,122,446	581,271
Income from Operations		402,793	537,203	758,708	1,093,618	1,319,533	373,735
Non-operating Income and Expenses		403	16,815	113,395	(19,086)	(32,354)	(18,106)
Income before Income Tax		403,196	554,018	872,103	1,074,532	1,287,179	355,629
Net Income		377,749	462,049	699,916	856,621	1,042,941	294,082
Other Comprehensive Income for the Year, Net of Income Tax		1,939	43,754	(90,230)	(338,062)	(89,416)	69,508
Total Comprehensive Income for the Year		379,688	505,803	609,686	518,559	953,525	363,590
Net Income (Loss) Attributable to: Shareholders of the Parent		397,480	462,035	699,935	856,581	1,042,893	294,063
Net Income (Loss) Attributable to: Noncontrolling Interests		(9,856)	14	(19)	40	48	19
Total Comprehensive Income (Loss) Attributable to: Shareholders of the Parent		406,010	505,777	609,718	518,519	953,496	363,582
Total Comprehensive Income (Loss) Attributable to: Noncontrolling Interests		(13,157)	26	(32)	40	29	8
Basic Earnings Per Share (NT\$ Dollar)		3.76	4.31	6.22	7.14	8.69	2.45

(5) Auditors' Opinions from 2013 to 2017

Year	CPA Firm	CPA	Audit Opinion
2013	Deloitte & Touche	Liao, Hung Ju and Li, Chi-Chen	Modified unqualified opinion
2014	Deloitte & Touche	Liao, Hung Ju and Li, Chi-Chen	Modified unqualified opinion
2015	Deloitte & Touche	Liao, Hung Ju and Li, Chi-Chen	An Unqualified Opinion
2016	Deloitte & Touche	Liao, Hung Ju & Li, Chi-Chen	An Unmodified Opinion
2017	Deloitte & Touche	Liao, Hung Ju & Yang, Chao Chin	An Unmodified Opinion

2. Most Recent 5-Year Financial Analysis

(1) Financial Analysis from 2013 to 2017 (Unconsolidated)

Item		Most Recent 5-Year Financial Analysis					1Q18
		FY13	FY14	FY15	FY16	FY17	
Financial structure (%)	Liabilities to assets ratio	13.5	10.0	26.9	45.8	42.8	N/A
	Long-term capital to real estate, plants, and equipment ratio	85,245.3	188,738.4	828,713.8	6,219,171.1	1,808,465,277.8	
Ability to repay debts (%)	Current ratio	157.9	177.0	49.2	31.7	52.9	
	Quick ratio	154.4	175.1	47.8	31.6	52.9	
	Debt services coverage ratio	14,007.0	28,660.0	5,505.0	3,668.0	3,309.9	
Utility	Receivables turnover	4.9	5.6	6.6	7.2	6.4	
	Average days for cash receipt	74.3	65.3	55.5	51.0	57.2	
	Inventory turnover	156.1	113.4	110.0	160.6	577.7	
	Payables turnover	6.0	5.9	5.7	4.1	3.1	
	Average days of sales	2.3	3.2	3.3	2.3	0.6	
	Real estate, plants, and equipment turnover	499.5	793.7	1,783.2	21,289.8	50,175.6	
	Total assets turnover	0.5	0.4	0.3	0.2	0.2	
Profitability(%)	ROA	24.5	21.8	17.8	13.2	13.3	
	ROE	29.3	24.6	22.3	20.8	23.1	
	Pre-tax Income to Paid-in Capital Ratio (%)	35.2	44.0	60.6	74.0	96.1	
	Net margin	44.2	48.5	68.4	52.9	57.7	
	EPS(NT\$ Dollar)	3.67	4.31	6.22	7.14	8.7	
Cash flow	Cash flow ratio	82.3	84.9	22.5	15.9	32.9	
	Net cash flow adequacy ratio	24.4	32.2	14.7	15.5	163.5	
	Cash reinvestment ratio	11.1	3.8	0.0	4.0	3.4	
Leverage	Operation leverage	1.8	2.4	5.0	1.4	2.7	
	Financial leverage	1.0	1.0	1.1	1.1	1.1	

The equations for the calculation of the above financial ratios (under IFRS) are shown below:

- (1) Financial structure
 - (A) Liabilities to assets ratio = total liabilities/total assets
 - (B) Long-term capital to real estate, plants, and equipment ratio = (total equity + non-current liabilities)/net value of real estate, plants, and equipment
- (2) Ability to repay debts
 - (A) Current ratio = current assets/ current liabilities
 - (B) Quick ratio = (current assets – inventory – prepayments) / current liabilities
 - (C) Debt services coverage ratio = EBIT/interest expenses in current period
- (3) Utility
 - (A) Receivables (including account receivables and note receivables deriving from business operation) turnover = net sales/the average receivable balance in each period (including account receivables and note receivables deriving from business operation)
 - (B) Average days for cash receipt = 365 days/receivable turnover rate
 - (C) Inventory turnover = cost of goods sold / average inventory

- (D) Payables (including account payables and note payables deriving from business operations) turnover = cost of goods sold/ average payable balance in each period (including account payables and note payables deriving from business operation).
 - (E) Average days of sales = 365 days/ inventory turnover rate.
 - (F) Real estate, plants, and equipment turnover = net sales/net value of real estate, plants, and equipment.
 - (G) Total assets turnover = net sales/ average total assets.
- (4) Profitability
- (A) $ROA = [\text{Corporate earnings} + \text{interest expense} \times (1 - \text{tax rate})] / \text{average total assets}$
 - (B) $ROE = \text{Corporate earnings} / \text{average total equity}$
 - (C) $\text{Pre-tax Income to Paid-in Capital Ratio} = \text{Income before Tax} / \text{Paid-in Capital}$
 - (D) $\text{Net margin} = \text{Corporate earnings} / \text{net sales}$
 - (E) $EPS = (\text{Earnings attributable to the owners of parent} - \text{preferred stock dividend}) / \text{weighted average quantity of outstanding shares}$
- (5) Cash flow
- (A) $\text{Cash flow ratio} = \text{net cash flow from operation} / \text{current liabilities}$
 - (B) $\text{Net cash flow adequacy ratio} = \text{net cash flow from operation in the last 5 years} / (\text{capital expenditure} + \text{increase in inventory} + \text{cash dividend}) \text{ in the last 5 years}$
 - (C) $\text{Cash reinvestment ratio} = (\text{net cash flow from operation} - \text{cash dividend}) / (\text{gross real estate, plants, and equipment} + \text{long-term investment} + \text{other non-current assets} + \text{working capital})$
- (6) Leverage:
- (A) $\text{Operation leverage} = (\text{net sales} - \text{cost of goods sold and expenses}) / \text{operating income}$
 - (B) $\text{Financial leverage} = \text{operating income} / (\text{operation income} - \text{interest expenses})$

(2) Financial Analysis from 2013 to 2017 (Consolidated)

financial ratios		Year	Financial information (note1)					Current year to March 31th
		2013	2014	2015	2016	2017		
Financial structure (%)	Liabilities to assets ratio	42.2	35.5	42.5	50.7	52.5	50.5	
	Long-term capital to real estate, plants, and equipment ratio	342.5	363.0	218.5	181.4	234.5	236.1	
Ability to repay debts (%)	Current ratio	172.4	369.1	197.6	111.9	162.2	165.1	
	Quick ratio	114.3	259.4	159.7	87.9	119.0	121.5	
	Debt services coverage ratio	9,026.2	7,072.3	4,482.9	2,729.9	3,929.8	4,085.5	
Utility	Receivables turnover	6.4	7.6	6.5	6.1	5.6	4.9	
	Average days for cash receipt	56.9	48.0	55.9	59.9	65.0	74.3	
	Inventory turnover	3.6	3.5	3.9	3.7	3.7	3.2	
	Payables turnover	6.4	7.8	9.1	9.6	10.1	9.0	
	Average days of sales	101.0	105.0	94.4	97.9	98.1	113.3	
	Real estate, plants, and equipment turnover	4.2	3.4	1.4	1.4	1.6	1.6	
	Total assets turnover	0.8	0.8	0.6	0.5	0.5	0.5	
Profitability	ROA	16.4	15.4	13.7	11.5	11.5	11.9	
	ROE	28.8	24.6	22.3	20.8	23.1	23.7	
	Pre-tax Income to Paid-in Capital Ratio (%)	38.2	50.7	72.7	89.5	107.3	118.5	
	Net margin	18.1	16.6	20.7	21.3	20.6	23.3	
	EPS(NT\$ Dollar)	3.58	4.31	6.22	7.14	8.69	2.45	
Cash flow	Cash flow ratio	55.7	113.8	66.1	34.1	37.5	65.8	
	Net cash flow adequacy ratio	45.7	54.4	46.9	45.0	55.4	75.5	
	Cash reinvestment ratio	22.8	14.2	17.4	16.5	9.6	18.5	
Leverage	Operation leverage	1.7	1.8	2.2	2.4	2.3	1.9	
	Financial leverage	1.0	1.0	1.0	1.0	1.0	1.0	

Note 1: The financial information audited by the independent auditors.

Note 2: The explanations for the change in the various financial ratios of 2017

- (1) Financial structure and debt-paying ability: The proportion of long-term loans was increased, and the business conditions were excellent in 2017; therefore, the financial structure and debt-paying ability were better than those in the year 2016.
- (2) Profitability: The operating condition of the individual company is great in 2017, and the profitability is better than 2016.
- (3) Cash flows and leverage: Because of the improvement in financial structure and good operating conditions, cash flows and leverage are better than those in FY2016.

The equations for the calculation of the above financial ratios (under IFRS) are shown below:

- (1) Financial structure
 - (A) Liabilities to assets ratio = total liabilities/total assets
 - (B) Long-term capital to real estate, plants, and equipment ratio = (total equity + non-current liabilities)/net value of real estate, plants, and equipment
- (2) Ability to repay debts
 - (A) Current ratio = current assets/ current liabilities
 - (B) Quick ratio = (current assets – inventory – prepayments) / current liabilities
 - (C) Debt services coverage ratio = EBIT/interest expenses in current period

- (3) Utility
- (A) Receivables (including account receivables and note receivables deriving from business operation) turnover = net sales/the average receivable balance in each period (including account receivables and note receivables deriving from business operation)
 - (B) Average days for cash receipt = 365 days/receivable turnover rate
 - (C) Inventory turnover = cost of goods sold / average inventory
 - (D) Payables (including account payables and note payables deriving from business operations) turnover = cost of goods sold/ average payable balance in each period (including account payables and note payables deriving from business operation).
 - (E) Average days of sales = 365 days/ inventory turnover rate.
 - (F) Real estate, plants, and equipment turnover = net sales/net value of real estate, plants, and equipment.
 - (G) Total assets turnover = net sales/ average total assets.
- (4) Profitability
- (A) ROA = [Corporate earnings + interest expense x (1- tax rate)] / average total assets
 - (B) ROE = Corporate earnings /average total equity
 - (C) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
 - (D) Net margin = Corporate earnings / net sales
 - (E) EPS = (Earnings attributable to the owners of parent – preferred stock dividend)/ weighted average quantity of outstanding shares
- (5) Cash flow
- (A) Cash flow ratio = net cash flow from operation / current liabilities
 - (B) Net cash flow adequacy ratio = net cash flow from operation in the last 5 years/ (capital expenditure + increase in inventory + cash dividend) in the last 5 years
 - (C) Cash reinvestment ratio = (net cash flow from operation – cash dividend) /gross real estate, plants, and equipment + long-term investment + other non-current assets + working capital)
- (6) Leverage:
- (A) Operation leverage = (net sales – cost of goods sold and expenses) /operating income
 - (B) Financial leverage = operating income / (operation income – interest expenses)

3. Supervisors Review Report

Please refer to Annual Report section (II), Financial Statements.

4. Consolidated Financial Statements and Independent Auditors' Report

Please refer to Annual Report section (II), Financial Statements.

5. Any insolvency for the Company and the affiliates in the last fiscal period and to the date this report was printed, and the effect on the financial position:
None.

VII. Financial Position, Financial Operation in Review, and Risk Assessment

1. Financial Status

NT\$ thousand

Item	Year	2017	2016	Difference	
				Amount	%
Current Assets		4,270,686	3,577,541	693,145	19.4%
Property, Plant and Equipment		3,171,827	2,958,734	213,093	7.2%
Goodwill		1,219,715	740,675	479,040	64.7%
Total Assets		10,071,572	8,564,860	1,506,712	17.6%
Current Liabilities		2,633,377	3,197,195	(563,818)	-17.6%
Noncurrent Liabilities		2,649,434	1,142,429	1,507,005	131.9%
Total Liabilities		5,282,811	4,339,624	943,187	21.7%
Capital Stock		1,200,000	1,200,000	0	0.0%
Retained Earnings		2,495,645	1,846,880	648,765	35.1%
Total Equity		4,788,516	4,225,236	563,280	13.3%

Analysis of Deviation over 20%

1. Increase in goodwill because the acquisition of consolidated entities in 2017 which include "Shenzhen Kenes Automotive Parts Co., Ltd.", "KMC Automobile Transmission Co., Ltd." and "Shenzhen Transton Co., Ltd."
2. Decrease in current liabilities, increase in non-current liabilities is because the company's bank loans are reclassified to long-term loan.
3. Increase in total liabilities is because the liabilities of consolidated entities and increase in bank loan for acquisition of new consolidation entities.
4. Retained earnings increased because of group profit continuously increase steadily.

2. Financial Performance

Item	Year	2017	2016	Difference	%
	Net Revenue		5,050,603	4,012,789	1,037,814
Cost of good sold		2,928,157	2,220,696	707,461	31.9%
Gross profit		2,122,446	1,792,093	330,353	18.4%
Operating Expenses		793,843	696,888	96,955	13.9%
Income from Operations		1,319,533	1,093,618	225,915	20.7%
Non-operating Income and Expenses		(32,354)	(19,086)	(13,268)	69.5%
Income before Income Tax		1,287,179	1,074,532	212,647	19.8%
Income Tax Expenses		244,238	217,911	26,327	12.1%
Net Income		1,042,941	856,621	186,320	21.8%
Explanation of significant changes					
Because new consolidated entity of Soochow KMC in the third quarter in 2016 and three new consolidated entities in the third quarter, 2017 "Shenzhen Kenes Automotive Parts Co., Ltd." "KMC Automobile Transmission Co., Ltd." and "Shenzhen Transton Co., Ltd." and the continuous profit of the original consolidated entity makes the financial performance in 2017 is better than that in 2016.					

3. Cash Flow

(1) Analysis of Cash Flow

Cash Balance 12/31/2016	Net Cash Provided by Operating Activities in 2017	Net Cash Used in Investing and Financing Activities in 2017	Cash Balance 12/31/2017	NT\$ thousand	
				Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
1,608,745	987,811	(1,368,379)	2,015,503	-	-

1. Operating activities: Net cash inflows NT\$ 987,811 thousand, mainly because net cash inflows from selling transactions.
2. Investing activities: Net cash outflows NT\$ 486,365 thousand, it is mainly because of merger and acquisition of subsidiaries and purchase of property, plant and equipment.
3. Financing activities: Net cash outflows NT\$ 33,136 thousand because of loan interest payment.
4. The supplementary countermeasures of cash shortage: N/A.

(2) Remedial Actions for Liquidity Shortfall:

Item	Year		Difference(%)
	2017	2017	
Cash flow ratio (%)	37.5	34.1	10.0%
Cash Flow Adequacy Ratio (%)	55.4	44.8	23.7%
Cash reinvestment ratio (%)	9.6	16.5	-41.8%

A. The analysis of variances in the ratio of changes: The cash flow allowable ratio and the cash reinvestment ratio in 2017 are lower than that in 2016 because the new merger and acquisition and resulting in a variance in the two years.

B. The improvement plan for insufficient liquidity: Not applicable.

(3) Remedial Actions for Liquidity Shortfall:

NT\$ thousand					
Cash Balance 12/31/2017	Net Cash Provided by Operating Activities in 2018	Net Cash Used in Investing and Financing Activities in 2018	Cash Balance 12/31/2018	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
2,015,503	1,200,000	(1,000,000)	2,215,503	N/A	N/A-

4. Recent Years Major Capital Expenditures and Impact on Financial and Business

The bank loan increased because of the acquisition of automotive timing system business and garage door opener business in the year of 2017, the total liabilities by the end of 2017 is NT\$ 5,282,811 thousand, the debt ratio is 52% which is reasonable compared with peers (about 39% to 56% of peers).

5. Long-term Investment Policy and Results

(1) Investment policy in the last fiscal year, the main reason for profits or losses, the improvement plan

NT\$ thousand

Subsidiaries	Net Income(loss) of Subsidiaries	Investment Policy	main reason for profits or losses	Improvement plan
KMC CHAIN INDUSTRIAL CO.,LTD	471,856	Manufacturing, selling various chains and components of bicycle.	Operation of bicycle component grew steadily The subsidiaries earned profit.	N/A
KMC CHAIN(SAMOA) INDUSTRIAL CO.,LTD	3,269	Selling various bicycle chains and components	Operation of bicycle component grew steadily	N/A
TEC CHAINS(SAMOA) CO.,LTD	0	Selling various bicycle chains and components	Operation of bicycle component grew steadily	N/A
KMC CHAIN(Seychelles) INDUSTRIAL CO.,LTD	(36)	Selling various bicycle chains and components	The net income was minor, so would not analyze deeply.	N/A
TEC CHAINS(Seychelles) CO.,LTD	(9)	Selling various bicycle chains and components	The net income was minor, so would not analyze deeply.	N/A
PRO (TAIWAN) PROCUREMENT CO., LTD	(506)	Selling various bicycle chains and components	The net income was minor, so would not analyze deeply.	N/A
K.M.C. Automobile Transmission Co., Ltd	59,679	Manufacturing, selling various chains and components of vehicle.	Operation of vehicle component grew steadily	N/A
KMC(BVI) Holding Co., Ltd.	11,060	Investing activities	The subsidiaries earned profit.	N/A
KMC Chain (Vietnam) Co., Ltd.	10,976	Manufacturing, selling various chains and components of motorcycle.	Operation of motorcycle component grew steadily	N/A
KMC CHAIN EUROPE B.V.	30,436	Selling various bicycle chains and components	Operation of bicycle component grew steadily	N/A
KMC CHAIN AMERICAN CORPORATION	2,322	Selling various bicycle chains and components	Operation of bicycle component grew steadily	N/A
PT. Kuei Meng Chain Indonesia	4,738	Selling various motorcycle chains and components	Operation of motorcycle component grew steadily	N/A
KMC Investment (China) Co., Ltd	213,940	Investing activities	The subsidiaries earned profit.	N/A

Subsidiaries	Net Income(loss) of Subsidiaries	Investment Policy	main reason for profits or losses	Improvement plan
KMC Transmission (Tianjin) Co., Ltd	(15,077)	Manufacturing, selling various chains and components of bicycle.	Between The company's factories and sales companies in the mainland, production and marketing cooperation was used to promote the Group's operating strategy, resulting in a profit or loss.	N/A
KMC Chain (Shenzhen) Co., Ltd.	34,551	Manufacturing, selling various chains and components of bicycle.		N/A
KMC Chain (Suzhou) Co., Ltd.	(17,216)	Manufacturing, selling various chains and components of bicycle.		N/A
KMC Automotive Transmission Co., Ltd.	61,137	Manufacturing, selling various chains and components of vehicle.	Operation of vehicle component grew steadily	N/A
KMC Transton Company Limited.	36,057	Manufacturing, selling various chains and components of door opener.	Operation of door opener component grew steadily	N/A
Shenzhen Kmc Industrial Co., Ltd.	24,331	Manufacturing, selling various chains and components of door opener.	Operation of door opener component grew steadily	N/A
Taichang Tec Industry and Trade Co., Ltd.	23,074	Selling various bicycle chains and components	Between The company's factories and sales companies in the mainland, production and marketing cooperation was used to promote the Group's operating strategy, resulting in a profit or loss.	N/A
Suzhou Kmc Industry and Trade Co., Ltd.	257,957	Selling various bicycle chains and components		N/A

(2) Investment plan for next year

The company will follow the Group's development strategy and market conditions to determine the investment plan. At the same time, the management has established a future development strategy. Base on the current technology and products, the Company will continue to expand the components of the motorcycle transmission, automotive transmission and garage door opener; the Company will also continue to deepen its cultivation in the bicycle industry and expand its business scope.

6. Risk analysis and assessment

- (1) The effect of fluctuation of interest rate and exchange rate and inflation on the income status of the Company, and the responses:

Unit: NT\$ in thousand

	2016		2017	
	Amount	percentage for Net profit before tax	Amount	percentage for Net profit before tax
Interest expense	40,858	3.8%	33,610	2.6%
Exchange gain (loss)	(14,107)	-1.3%	(36,896)	-2.9%

1. Interest rate fluctuation:

- (1) The effect to the company's profit and loss: Because of the operation expansion and increase in capital expenditure, the interest expense account to 2.9% of income before tax in recent years.
- (2) The countermeasure in the future: If there is an increase in interest expenses due to the requirement of bank loans for business in the future, the effect of interest rate changes on the company's profit and loss will increase. The company will also pay attention to changes in interest rates and take necessary measures to reduce the impact of interest rates on the company's profit or loss.

2. Exchange rate fluctuation:

- (1) The impact on the company's profit and loss: The principle of the company's foreign currency exchange is the natural hedge. The exchange loss in the year 2017 is because of the fluctuations in foreign currency assets held.
- (2) Future countermeasures: Collect exchange rate changes information at any time and keep a close connection with financial institutions to understand the movement of the exchange rate and take appropriate hedging measures.

3. Inflation:

- (1) The impact on the company's profit and loss: As of the date of the annual report published, there no significant effect on the company's profit and loss because of the inflation.
- (2) Future countermeasures: The company pays close attention to changes in the relevant economic environment and changes in market conditions in order to avoid the adverse impact of inflation on the company's profit or loss.

- (2) The policy of engagements in high risk and high leverage investment, financing a third party, endorsement and guarantee in favor of a third party, and derivative trade, the main reason for profits or losses, and the responses in the future:

The company did not engage in transactions such as high-risk, highly leveraged investments, and derivative products in the most recent year; besides, the fund loan to others and endorsement guarantees were based on the company's and subsidiary's internal control policy and relevant regulations. If needed, and the company will conduct the transaction with a goal of improving business performance, reduce operation and finance risk.

- (3) R&D plan in the future and estimated expenses of R&D:
KMC has set itself the goal of becoming the "Most Valuable Chain Brand," insists on keeping advanced product design and innovative manufacturing processes to provide consumers and clients with the highest quality, best transmission system compatible chain products. Recently, an upsurge of "shared bikes" has been set up in Mainland China to solve the issue of "last mile" in urban traffic. Base on the service experiences in the public bikes before, KMC provide operators, bicycle manufacturers with the best solutions for transmission systems. Besides, according to the market investigation agency, in the next five years, the market value of the ebike will be doubled, and it will become another "notable doctrine" of the bicycle industry. KMC has proposed a series of dedicated chains for ebike to apply to the various ebike and to expand the new e-bike market around the world. Meanwhile, with the popularization of ebike and the demand for environmental protection, KMC will keep developing new products based on these two dimensions.

Besides, KMC understands that it has an obligation to protect the environment. Therefore, KMC's green commitment is to build up green competitiveness as the direction from product design, manufacturing process and to provide better and friendlier products. Enable all customers to benefit the green economy and let the green transportation industry become a real green industry.

The R&D expenses are expected to be at least 1% of the consolidated revenue in the future.

- (4) The effect of national and international changes in vital policies and legal environment on the financial and business operation of the Company, and the responses to such changes:
The company complies with national policies and decrees, and financial and legal units can adequately follow the significant policy and legal changes, and make the adjustment in the company's internal systems and business activities to ensure that the company operates smoothly.
- (5) The effect of technological and industrial change on the financial position and operation of the Company, and the responses to the change:
The company pays attention to the evolution of the technology of the transmission industry at any time and proceeds to assess and R&D to meet the market trend. No significant technological change leads to a substantial impact on the company's financial business in the recent year.
- (6) The effect of corporate image on crisis management and the responses to the crisis:
The company always pays attention to corporate image and actively participates in public charity activities to meet its responsibilities as a member of the society.

- (7) Expected result and possible risks deriving from mergers and acquisitions, and the responses:
- A. The Board of Directors of the company approve the resolution on May 12, 2017 to acquire 100% of shareholdings of the three companies of “Shenzhen Kenes Automotive Parts Co., Ltd.,” “KMC Automobile Transmission Co., Ltd.” and “Shenzhen Transton Co., Ltd.” at the amount below NT\$ 1 billion (include, or the equivalent amount of foreign currency)
 - B. Because the company's core technology is the manufacture of chains and transmission systems, it was applied to the bicycle industry and the motorcycle market only in the past. To apply the core technologies of the company to more fields, and integrate the material procurement and cross-industry technology integration and improve the synergy. As a result, the company acquired 100% shareholdings of the three companies mentioned above to enter the market of automotive timing system and the garage door opener system. Meanwhile, with the investment plan, in addition to the expected integration synergy, the KMC's operation will be applied in the automobile industry and household transmission market. The automotive industry is the leading industry and the production value of its spare parts, or transmission systems are both much higher than the current bicycle industry and motorcycle industry that KMC is engaged in. Therefore, the acquisition of the equity of the target company can also establish a greater foundation for the future development of the group. It is very important and necessary to the future development of the group.
 - C. Potential risks and countermeasures: In the project of shareholdings acquisition, the company expects to increase the borrowings and the estimated interest expense will be approximately NT\$ 16,000 thousand, which is 1.2% of net income before tax of the year 2017. Therefore, the impact on the profit of the company is still reasonable.
- (8) Expected result and possible risks deriving from plant expansion, and the responses:
The company purchased new land in Mainland China in 2015 for the plan of the construction of a new headquarters and R&D center in Mainland China. Since the operation expansion will be adequately adjusted depending on the overall economic environment, industrial changes, and changes in the financial business, risks should be adequately controlled.
- (9) The risk deriving from concentration of purchase or sales, and the responses

A. Main Vendors

NT\$ thousand

item	2016				2017				1Q18			
	Vendor	Amount	Percentage of total Net Purchases	Relationship	Vendor	Amount	Percentage of total Net Purchases	Relationship	Vendor	Amount	Percentage of total Net Purchases	Relationship
1	note1				ANSTEEL (Note2)	316,149	14.1%	none	ANSTEEL (Note2)	92,139	16.4%	none
2	Others	2,076,607	100.0%	-	Others	1,922,321	85.9%		Others	469,896	83.6%	
	Total Net Purchase	2,076,607	100.0%	-	Total Net Purchase	2,238,470	100.0%		Total Net Purchase	562,035	100.0%	

In 2017, due to the expansion of operations and the rise in steel prices, the purchase of ANSTEEL reached 14.1%. The company also embarked on the development of other raw material suppliers to reduce the risk of concentration of vendors.

B. Main customers

Item	2016				2017				1Q18			
	Customer	Amount	Percentage of total Net Sales	Relationship	Customer	Amount	Percentage of total Net Sales	Relationship	Customer	Amount	Percentage of total Net Sales	Relationship
1	note				note				note			
2	Others	4,012,789	100%		Others	5,050,603	100%		Others	1,347,057	100%	
	Total Net Sales	4,012,789	100%		Total Net Sales	5,050,603	100%		Total Net Sales	1,347,057	100%	

Note: No customers with sales amount exceeding 10% of total net sales.

(10) The effect and the risk caused by the transferring of equity shares in large quantity by directors, supervisors or dominant shareholders that hold more than 10% of the shares each or the replacement of directors, supervisors, or dominant shareholders holding more than 10% of the Company shares each , and the response:

The Director, Wu, Jui-Chang, transferred his stock of approximately 2,500 thousand shares to his spouse for personal financial planning. No significant impact on the company because of the transfer.

(11) The effect of the change in ownership on the Company, the risk derived thereof, and the response:

None

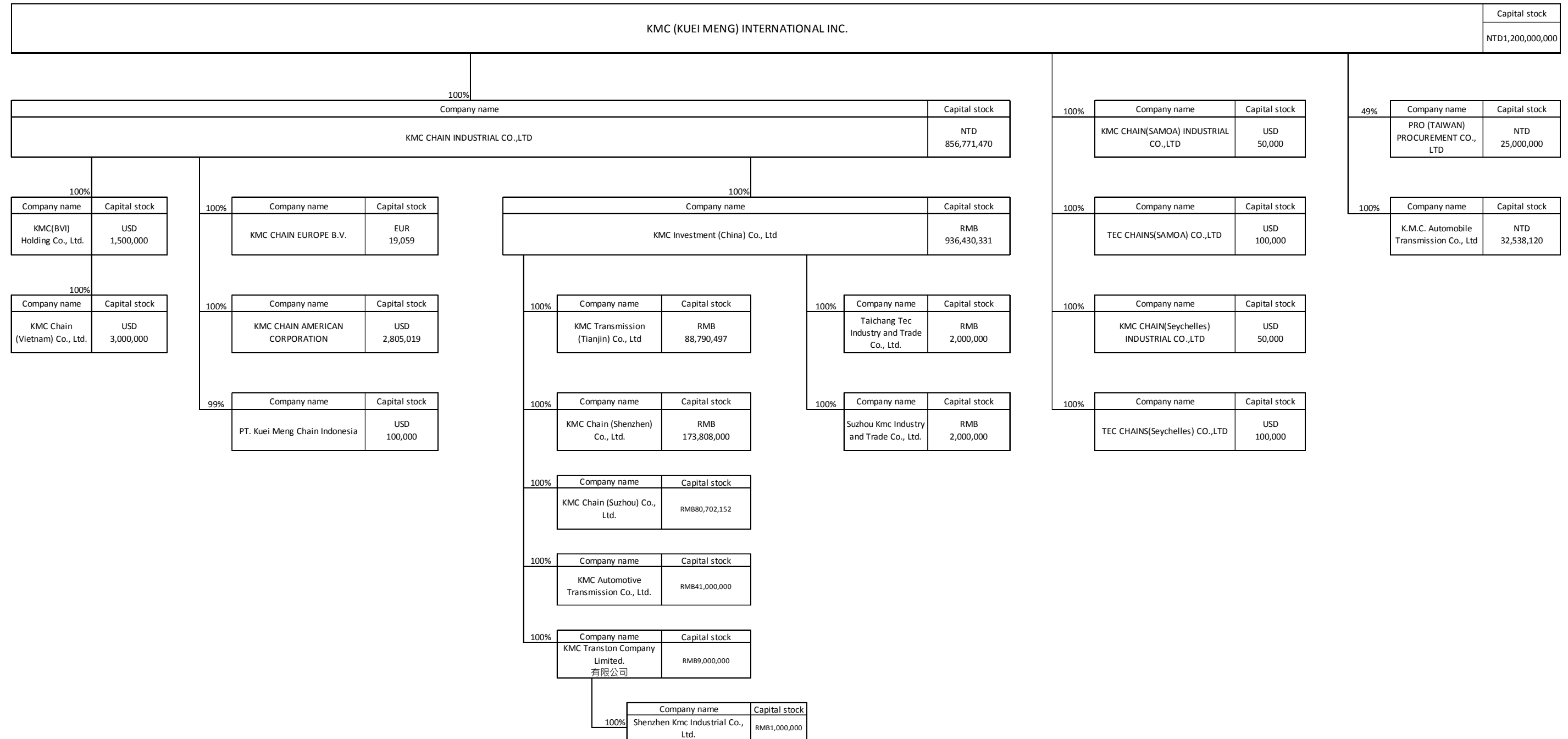
(12) Major law suits, non-contentious matters, or administrative actions involving the directors, supervisors, general manager, owners, shareholders that hold more than 10% of the equity shares, with sentence or pending on court decision, the result of which may significantly affect the shareholders' equity or stock price of the Company, the action taken in response to the aforementioned disputes, the target amount involved, the date on which the law suit started, the parties concerned, and the status as of the day this report was printed

None

7. Other important notice:

None.

VIII. Special Notes
 1. Subsidiaries information
 (1) Subsidiaries chart



(2) Business Scope of Subsidiaries

Subsidiaries name	Date of Incorporation	Capital stock(thousand)		Business activities
KMC CHAIN INDUSTRIAL CO.,LTD	1977/8/20	NTD	856,771	Manufacturing, selling various chains and components of bicycle.
KMC CHAIN(SAMOA) INDUSTRIAL CO.,LTD	2009/11/24	USD	50	Selling various bicycle chains and components
TEC CHAINS(SAMOA) CO.,LTD	2015/3/20	USD	100	Selling various bicycle chains and components
KMC CHAIN(Seychelles) INDUSTRIAL CO.,LTD	2016/1/7	USD	50	Selling various bicycle chains and components
TEC CHAINS(Seychelles) CO.,LTD	2016/1/7	USD	100	Selling various bicycle chains and components
PRO (TAIWAN) PROCUREMENT CO., LTD	2016/2/16	NTD	25,000	Selling various bicycle chains and components
K.M.C. Automobile Transmission Co., Ltd	2004/11/1	NTD	32,538	Manufacturing, selling various chains and components of vehicle.
KMC(BVI) Holding Co., Ltd.	2000/4/20	USD	1,500	Investing activities
KMC Chain (Vietnam) Co., Ltd.	2000/5/31	USD	3,000	Manufacturing, selling various chains and components of motorcycle.
KMC CHAIN EUROPE B.V.	1996/12/23	EUR	156	Selling various bicycle chains and components
KMC CHAIN AMERICAN CORPORATION	1991/8/19	USD	2,805	Selling various bicycle chains and components
PT. Kuei Meng Chain Indonesia	2003/3/2	USD	100	Selling various motorcycle chains and components
KMC Investment (China) Co., Ltd	2014/6/10	RMB	936,430	Investing activities
KMC Transmission (Tianjin) Co., Ltd	2005/6/17	RMB	88,790	Manufacturing, selling various chains and components of bicycle.
KMC Chain (Shenzhen) Co., Ltd.	1980/8/16	RMB	173,808	Manufacturing, selling various chains and components of bicycle.
KMC Chain (Suzhou) Co., Ltd.	2001/7/6	RMB	80,702	Manufacturing, selling various chains and components of bicycle.
KMC Automotive Transmission Co., Ltd.	2009/4/29	RMB	41,000	Manufacturing, selling various chains and components of vehicle.
KMC Transton Company Limited.	2007/7/2	RMB	9,000	Manufacturing, selling various chains and components of door opener.
Shenzhen Kmc Industrial Co., Ltd.	2001/1/2	RMB	1,000	Manufacturing, selling various chains and components of door opener.
Taichang Tec Industry and Trade Co., Ltd.	2014/10/22	RMB	2,000	Selling various bicycle chains and components
Suzhou Kmc Industry and Trade Co., Ltd.	2014/10/22	RMB	2,000	Selling various bicycle chains and components

(3) Shareholders in Common of KMC and Its Subsidiaries with Deemed Control and Subordination:
None.

(4) Rosters of Directors, Supervisors, and Presidents of KMC's Subsidiaries

Company name	Name or the Representative	Share holding (%)
KMC CHAIN INDUSTRIAL CO.,LTD	KMC(KUEI MENG) INTERNATIONAL INC. Representative Wu, Jui-Chang	100
KMC CHAIN(SAMOA) INDUSTRIAL CO.,LTD	KMC(KUEI MENG) INTERNATIONAL INC. Representative Wu, Ying-Chin	100
TEC CHAINS(SAMOA) CO.,LTD	KMC(KUEI MENG) INTERNATIONAL INC. Representative Wu, Ying-Chin	100
KMC CHAIN(Seychelles) INDUSTRIAL CO.,LTD	KMC(KUEI MENG) INTERNATIONAL INC. Representative Wu, Ying-Chin	100
TEC CHAINS(Seychelles) CO.,LTD	KMC(KUEI MENG) INTERNATIONAL INC. Representative Wu, Ying-Chin	100
PRO (TAIWAN) PROCUREMENT CO., LTD	KMC(KUEI MENG) INTERNATIONAL INC. Representative Wu, Ying-Chin	49
K.M.C. Automobile Transmission Co., Ltd	KMC(KUEI MENG) INTERNATIONAL INC. Representative Hsu,Jui-Lin	100
KMC(BVI) Holding Co., Ltd.	KMC CHAIN INDUSTRIAL CO.,LTD. Representative Wu, Ying-Chin	100
KMC Chain (Vietnam) Co., Ltd.	KMC(BVI) HOLDING CO LTD Representative Wu, Ying-Chin	100
KMC CHAIN EUROPE B.V.	KMC CHAIN INDUSTRIAL CO.,LTD. Representative Wu, Hsing-Chuan	100
KMC CHAIN AMERICAN CORPORATION	KMC CHAIN INDUSTRIAL CO.,LTD. Representative Wu, Hsing-Chuan	100
PT. Kuei Meng Chain Indonesia	KMC CHAIN INDUSTRIAL CO.,LTD. Representative Wu, Ying-Chin	99
KMC Investment (China) Co., Ltd	KMC CHAIN INDUSTRIAL CO.,LTD Representative Wu, Jui-Chang	100
KMC Transmission (Tianjin) Co., Ltd	KMC Investment (China) Co., Ltd Representative Wu, Jui-Chang	100
KMC Chain (Shenzhen) Co., Ltd.	KMC Investment (China) Co., Ltd Representative Wu, Jui-Chang	100
KMC Chain (Suzhou) Co., Ltd.	KMC Investment (China) Co., Ltd Representative Wu, Jui-Chang	100
KMC Automotive Transmission Co., Ltd.	KMC Investment (China) Co., Ltd Representative Hsu,Jui-Lin	100
KMC Transton Company Limited.	KMC Investment (China) Co., Ltd Representative Hsu,Yi-Chih	100
Shenzhen Kmc Industrial Co., Ltd.	KMC Investment (China) Co., Ltd Representative Hsu,Yi-Chih	100
Taichang Tec Industry and Trade Co., Ltd.	KMC Investment (China) Co., Ltd Representative Wu, Jui-Chang	100
Suzhou Kmc Industry and Trade Co., Ltd.	KMC Investment (China) Co., Ltd Representative Wu, Jui-Chang	100

(5) Operational Highlights of KMC Subsidiaries

NT\$ thousand

Subsidiaries	Total Assets	Total Liabilities	Total Equity	Revenue	Net Profit(Loss)
KMC CHAIN INDUSTRIAL CO.,LTD	6,767,169	776,369	5,990,800	798,084	471,856
KMC CHAIN(SAMOA) INDUSTRIAL CO.,LTD	13,297	425	12,872	162,609	3,269
TEC CHAINS(SAMOA) CO.,LTD	3,116	0	3,116	0	0
KMC CHAIN(Seychelles) INDUSTRIAL CO.,LTD	1,430	0	1,430	0	(36)
TEC CHAINS(Seychelles) CO.,LTD	2,926	0	2,926	0	(9)
K.M.C. Automobile Transmission Co., Ltd	147,370	65,188	82,182	150,227	59,679
KMC(BVI) Holding Co., Ltd.	388,431	0	388,431	0	11,060
KMC Chain (Vietnam) Co., Ltd.	444,773	56,708	388,065	611,803	10,976
KMC CHAIN EUROPE B.V.	473,668	120,512	353,156	746,273	30,436
KMC CHAIN AMERICAN CORPORATION	148,675	18,033	130,642	154,805	2,322
PT. Kuei Meng Chain Indonesia	55,399	30,899	24,500	67,534	4,738
KMC Investment (China) Co., Ltd	5,272,245	404,481	4,867,764	0	213,940
KMC Transmission (Tianjin) Co., Ltd	589,260	120,645	468,615	613,719	(15,077)
KMC Chain (Shenzhen) Co., Ltd.	2,562,297	1,514,012	1,048,285	1,011,725	34,551
KMC Chain (Suzhou) Co., Ltd.	901,518	116,697	784,821	835,825	(17,216)
KMC Automotive Transmission Co., Ltd.	458,748	81,076	377,672	160,130	61,137
KMC Transton Company Limited.	105,611	31,113	74,498	72,966	36,057
Shenzhen Kmc Industrial Co., Ltd.	87,365	67,379	19,986	108,333	24,331
Taichang Tec Industry and Trade Co., Ltd.	208,525	207,043	1,482	714,523	23,074
Suzhou Kmc Industry and Trade Co., Ltd.	454,129	177,444	276,685	965,742	257,957

2. The most recent fiscal year and up to the date of this Annual Report printed, Private Placement Securities
None
3. The most recent fiscal year and up to the date of this Annual Report printed, subsidiary companies holding or disposal of the Company's stock list
None
4. Other supplementary information
None

IX. Matters Affecting Shareholders' Equity or Stock Price

1. From the last fiscal year to the date this report was printed, any event that significantly affects the shareholders' equity or stock price of the Company as stated in Article 36- III- (II) of the Securities and Exchange Act:

The Board of Directors of the company approve the resolution on May 12, 2017 to acquire 100% of shareholdings of "KMC Automotive Transmission Co., Ltd." "KMC Automobile Transmission Co., Ltd." and "Shenzhen Transton Co., Ltd." at the amount below NT\$ 1 billion (include, or the equivalent amount of foreign currency)

KMC Automotive Transmission Co., Ltd. was established in 2009, KMC Automobile Transmission Co., Ltd. was established in 2004, is a professional design and manufacturing of automotive engine timing system supplier, its products include sprocket, tensioner, shock guides, fixed guides, and chains. Shenzhen Transton Co., Ltd. was established in 2007 and is mainly engaged in the development and sales of garage door opener transmission systems. Because the company's core technology is the manufacture of chains and transmission systems, it was applied to the bicycle industry and the motorcycle market only in the past. To apply the core technologies of the company to more fields, and integrate the material procurement, and cross-industry technology integration and improve the synergy. As a result, the company acquired 100% shareholdings of the three companies mentioned above to enter the market of automotive timing system and the garage door opener system. Meanwhile, with the investment plan, in addition to the expected integration synergy, the KMC's operation will be applied in the automobile industry and household transmission market. The automotive industry is the leading industry and the production value of its spare parts, or transmission systems are both much higher than the current bicycle industry and motorcycle industry that KMC is engaged in. Therefore, the acquisition of the equity of the target company can also establish a greater foundation for the future development of the group. It is very important and necessary to the future development of the group.

2. The attachment
 - (1) Statement of Internal Control for 2017
 - (2) The Supervisors' review report for 2017
 - (3) Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

KMC Chain Industrial Co., Ltd.

Statement of Internal Control

Date: March 13, 2018

The statement of the company's internal control system for the year of 2017, in accordance with the results of self-inspection, is as follows:

1. The company is aware that establishing, implementing and maintaining the internal control system is the responsibility of the Board of Directors and managers of the company. The company has established this system. Its purpose is to provide reasonable assurance as to the achievement of the objectives of the operation's effectiveness and efficiency (including profitability, performance, and protection of asset safety, etc.), the reliability of financial reporting, and compliance with relevant laws and regulations.
2. There are inherent limitations in internal control system. No matter how perfect the system design is, an adequate internal control system can only provide reasonable assurance for the achievement of the goals mentioned above; besides, the effectiveness of the internal control system may change because of the change in environment and circumstances. However, there is a self-monitoring mechanism in the company's internal control system. Once the defect is identified, the company will take corrective action.
3. The company determines the effectiveness of the design and implementation of the internal control system based on the judgment items of the efficiency of the internal control system as stipulated in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (referred to as the "Regulations"). The assessment items of the internal control system used in the "Regulations" is based on the process of management control. The internal control system is divided into five components: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and communication, and 5. Monitoring. Each component includes several items. For the items mentioned above, please refer to the provisions of the "Regulations."
4. The company has adopted the assessment items of internal control system mentioned above to validate the effectiveness of the design and implementation of the internal control system.
5. Based on the inspection result of the prior paragraph, the company believes that the company's internal control system (including supervision and management of subsidiaries) on December 31, 2017, including the degree of effectiveness of operation awareness and efficiency target achievement, the reliability of financial reporting and compliance of relevant regulations are practical, it ensures the targets mentioned above will be finished reasonably.
6. This statement will become the primary content of the company's annual report and disclosed to the public. If any of the above disclosure is false or hidden, it will involve the legal obligations of Article 20, Article 32, Article 171, and Article 174 of the Securities Exchange Act.

7. This statement was approved by the Board of Directors of the company on March 13, 2018. No one held an objection out of the five (5) Directors present, and both agreed with the contents of this statement and made this statement.

KMC(Kuei Meng) International Inc.

Chairman: Wu, Ying-Jin

President: Wu, Jui-Chang

KMC(Kuei Meng) International Inc.
Supervisor's Review Report

To: Shareholders' Annual General Meeting for Year 2018, KMC (Kuei Meng) International Inc.

The Board of Directors has prepared and submitted to the undersigned, the 2017 Business Report, Financial Statements and the proposal of distribution of earnings. The Financial Statements have been duly audited by Certified Public Accountants Hung Ju Liao and Chao Chin Yang of Deloitte Touche Tohmatsu International Taiwan. The above Business Report, Financial Statements and the proposal of distribution of earnings have been examined and determined to be correct by the undersigned. This Report is duly submitted in accordance with Article 14-4 of Securities and Exchange Law and Article 219 of the Company Law.

The Supervisor
Mr. Kao, Ting-Nan
Mr. Hsu, Yang-Kang

March 13, 2018

Attachment 3 Consolidated Financial Statements and Independent Auditors' Report

KMC (KUEI MENG) International Inc. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
KMC (KUEI MENG) International Inc.

Opinion

We have audited the accompanying consolidated financial statements of KMC (KUEI MENG) International Inc. and its subsidiaries (collectively, the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

The description of the key audit matter of the Group's consolidated financial statements for the year ended December 31, 2017 is as follows:

Goodwill Impairment Assessment

The Group acquired 100% shareholdings in K.M.C. Automobile Transmission Co., Ltd., KMC Transton Company Limited and KMC Automotive Transmission Co., Ltd. (the acquired Companies) in July 2017 and the value of goodwill recognized in the acquisition was NT\$486,670 thousand (NT\$ is the functional currency here). The goodwill recognized in 2017 plus the goodwill recognized in previous acquisitions amounted to NT\$1,219,715 thousand, which represented 12% of the Group's total assets as of December 31, 2017.

The Group's management performs goodwill impairment assessment annually. In determining impairment of goodwill, management estimates the future cash flows expected to arise from the cash-generating units and decides on a discount rate for calculating the present value of these cash flows to evaluate the fair value of the cash-generating units, which have been allocated with goodwill. The inputs, assumptions and expected growth rate used in estimating the expected future cash flows used in the impairment model are critical judgments and estimates; therefore, the impairment of goodwill is identified as a key audit matter for the year ended December 31, 2017.

Refer to Notes 4(11), 5(22) and 16 to the accompanying consolidated financial statements for the relevant accounting policies, judgments for estimations, estimation uncertainty and other related disclosures on the impairment of goodwill.

The main audit procedures we performed in response to the key audit matter described above were as follows:

1. We inquired from management and examined the underlying documents to understand management's process and the basis of the estimated revenue growth rates, profit margin rates and cash flow projections.
2. We calculated the achievement rates of the revenue forecast for the past years and compared management's estimated revenue growth rates with the recent operating reports of the chain industry to evaluate the appropriateness of estimated revenue growth rates made by management.
3. We engaged our valuation specialists in evaluating the weighted average cost of capital used in estimating the value in use, the assumptions of risk free interest, volatility and risk premium, etc., by comparing the Group with the current status of the chain industry; in addition, we reperformed the calculations independently.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Hung Ju Liao and Chao Chin Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China
March 13, 2018

Notice to Readers

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

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

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

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

ASSETS	December 31, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,015,503	20	\$ 1,608,745	19	Short-term borrowings (Note 19)	\$ 1,140,247	11	\$ 2,355,426	28
Available-for-sale financial assets - current (Notes 4 and 7)	-	-	10,000	-	Short-term bills payable (Note 19)	324,765	3	239,826	3
Notes receivable (Notes 4, 8 and 32)	101,293	1	33,557	-	Notes payable (Note 20)	36,453	-	31,283	-
Accounts receivable (Notes 4, 5, 8 and 31)	896,159	9	607,232	7	Accounts payable (Note 20)	272,005	3	210,921	3
Accounts receivable from related parties (Notes 4, 8 and 32)	41,003	-	96,639	1	Accounts payable to related parties (Notes 20 and 32)	16,989	-	11,486	-
Current tax assets (Notes 4 and 25)	6,773	-	2,526	-	Other payables (Note 21)	260,007	3	200,723	2
Inventories (Notes 4 and 9)	933,457	9	639,936	8	Other payables to related parties (Note 32)	392,590	4	25,158	-
Other financial assets - current (Note 10)	8,337	-	400,251	5	Current tax liabilities (Notes 4 and 25)	154,158	2	96,453	1
Other current assets (Notes 11, 18 and 32)	<u>268,161</u>	<u>3</u>	<u>178,655</u>	<u>2</u>	Other current liabilities (Note 21)	<u>36,163</u>	<u>-</u>	<u>25,919</u>	<u>-</u>
Total current assets	<u>4,270,686</u>	<u>42</u>	<u>3,577,541</u>	<u>42</u>	Total current liabilities	<u>2,633,377</u>	<u>26</u>	<u>3,197,195</u>	<u>37</u>
NON-CURRENT ASSETS					NON-CURRENT LIABILITIES				
Investments accounted for using equity method (Notes 4 and 12)	11,268	-	11,516	-	Long-term borrowings (Note 19)	2,020,000	20	500,000	6
Property, plant and equipment (Notes 4, 13 and 32)	3,171,827	32	2,958,734	35	Deferred tax liabilities (Notes 4, 5 and 25)	560,537	5	584,162	7
Investment properties (Notes 4 and 14)	34,620	-	-	-	Net defined benefit liabilities - non-current (Notes 4 and 22)	67,019	1	57,158	1
Goodwill (Notes 4, 5, 16 and 27)	1,219,715	12	740,675	9	Other non-current liabilities	<u>1,878</u>	<u>-</u>	<u>1,109</u>	<u>-</u>
Other intangible assets (Notes 4 and 17)	145,933	2	101,905	1	Total non-current liabilities	<u>2,649,434</u>	<u>26</u>	<u>1,142,429</u>	<u>14</u>
Deferred tax assets (Notes 4, 5 and 25)	132,572	1	109,269	1	Total liabilities	<u>5,282,811</u>	<u>52</u>	<u>4,339,624</u>	<u>51</u>
Other financial assets - non-current (Note 10)	10,098	-	10,163	-	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Long-term prepayments for lease (Note 18)	962,054	10	1,010,466	12	(Note 23)				
Other non-current assets (Note 11)	<u>112,799</u>	<u>1</u>	<u>44,591</u>	<u>-</u>	Capital stock - common stock	<u>1,200,000</u>	<u>12</u>	<u>1,200,000</u>	<u>14</u>
Total non-current assets	<u>5,800,886</u>	<u>58</u>	<u>4,987,319</u>	<u>58</u>	Capital surplus	<u>1,541,021</u>	<u>15</u>	<u>1,541,021</u>	<u>18</u>
					Retained earnings				
					Legal reserve	250,180	2	164,522	2
					Special reserve	362,881	4	25,041	-
					Unappropriated earnings	<u>1,882,584</u>	<u>19</u>	<u>1,657,317</u>	<u>19</u>
					Total retained earnings	<u>2,495,645</u>	<u>25</u>	<u>1,846,880</u>	<u>21</u>
					Other equity	<u>(448,150)</u>	<u>(4)</u>	<u>(362,881)</u>	<u>(4)</u>
					Total equity attributable to owners of the Company	4,788,516	48	4,225,020	49
					NON - CONTROLLING INTERESTS	<u>245</u>	<u>-</u>	<u>216</u>	<u>-</u>
					Total equity	<u>4,788,761</u>	<u>48</u>	<u>4,225,236</u>	<u>49</u>
TOTAL	<u>\$ 10,071,572</u>	<u>100</u>	<u>\$ 8,564,860</u>	<u>100</u>	TOTAL	<u>\$ 10,071,572</u>	<u>100</u>	<u>\$ 8,564,860</u>	<u>100</u>

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

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 32 and 36)	\$ 5,050,603	100	\$ 4,012,789	100
OPERATING COSTS (Notes 9, 24 and 32)	<u>2,928,157</u>	<u>58</u>	<u>2,220,696</u>	<u>55</u>
GROSS PROFIT	<u>2,122,446</u>	<u>42</u>	<u>1,792,093</u>	<u>45</u>
OPERATING EXPENSES (Notes 24 and 32)				
Selling and marketing expenses	367,539	7	301,294	8
General and administrative expenses	402,054	8	369,131	9
Research and development expenses	<u>24,250</u>	<u>1</u>	<u>26,463</u>	<u>1</u>
Total operating expenses	<u>793,843</u>	<u>16</u>	<u>696,888</u>	<u>18</u>
OTHER OPERATING INCOME AND EXPENSES (Notes 24 and 32)	<u>(9,070)</u>	<u>-</u>	<u>(1,587)</u>	<u>-</u>
PROFIT FROM OPERATIONS	<u>1,319,533</u>	<u>26</u>	<u>1,093,618</u>	<u>27</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 24 and 32)	40,130	1	44,198	1
Other gains and losses (Notes 24 and 28)	(38,626)	(1)	(21,692)	-
Share of profit of associates (Notes 4 and 12)	(248)	-	(734)	-
Finance cost (Note 24)	<u>(33,610)</u>	<u>-</u>	<u>(40,858)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>(32,354)</u>	<u>-</u>	<u>(19,086)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,287,179	26	1,074,532	27
INCOME TAX EXPENSE (Notes 4 and 25)	<u>244,238</u>	<u>5</u>	<u>217,911</u>	<u>6</u>
NET PROFIT	<u>1,042,941</u>	<u>21</u>	<u>856,621</u>	<u>21</u>
OTHER COMPREHENSIVE INCOME (Notes 22 and 23)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(4,973)	-	(268)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 25)	<u>845</u>	<u>-</u>	<u>46</u>	<u>-</u>
	<u>(4,128)</u>	<u>-</u>	<u>(222)</u>	<u>-</u>

(Continued)

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (88,455)	(2)	\$ (344,786)	(8)
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 25)	<u>3,167</u>	<u>-</u>	<u>6,946</u>	<u>-</u>
	<u>(85,288)</u>	<u>(2)</u>	<u>(337,840)</u>	<u>(8)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(89,416)</u>	<u>(2)</u>	<u>(338,062)</u>	<u>(8)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 953,525</u>	<u>19</u>	<u>\$ 518,559</u>	<u>13</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,042,893	21	\$ 856,581	21
Non-controlling interests	<u>48</u>	<u>-</u>	<u>40</u>	<u>-</u>
	<u>\$ 1,042,941</u>	<u>21</u>	<u>\$ 856,621</u>	<u>21</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 953,496	19	\$ 518,519	13
Non-controlling interests	<u>29</u>	<u>-</u>	<u>40</u>	<u>-</u>
	<u>\$ 953,525</u>	<u>19</u>	<u>\$ 518,559</u>	<u>13</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 8.69</u>		<u>\$ 7.14</u>	
Diluted	<u>\$ 8.68</u>		<u>\$ 7.13</u>	

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

(Concluded)

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owner, of the Company						Total	Non-controlling Interests	Total Equity
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Other Equity Exchange Differences on Translating Foreign Operations			
BALANCE, JANUARY 1, 2016	\$ 1,200,000	\$ 1,541,021	\$ 94,528	\$ -	\$ 1,195,993	\$ (25,041)	\$ 4,006,501	\$ 176	\$ 4,006,677
Appropriation of the 2015 earnings (Note 23) :									
Legal reserve	-	-	69,994	-	(69,994)	-	-	-	-
Special reserve	-	-	-	25,041	(25,041)	-	-	-	-
Cash dividends distributed by the Company - NT\$ 2.5 per share	-	-	-	-	(300,000)	-	(300,000)	-	(300,000)
Net profit for the year ended December 31, 2016	-	-	-	-	856,581	-	856,581	40	856,621
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(222)	(337,840)	(338,062)	-	(338,062)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	856,359	(337,840)	518,519	40	518,559
BALANCE, DECEMBER 31, 2016	1,200,000	1,541,021	164,522	25,041	1,657,317	(362,881)	4,225,020	216	4,225,236
Appropriation of the 2016 earnings (Note 23) :									
Legal reserve	-	-	85,658	-	(85,658)	-	-	-	-
Special reserve	-	-	-	337,840	(337,840)	-	-	-	-
Cash dividends distributed by the Company - NT\$ 3.25 per share	-	-	-	-	(390,000)	-	(390,000)	-	(390,000)
Net profit for the year ended December 31, 2017	-	-	-	-	1,042,893	-	1,042,893	48	1,042,941
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(4,128)	(85,269)	(89,397)	(19)	(89,416)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	1,038,765	(85,269)	953,496	29	953,525
BALANCE, DECEMBER 31, 2017	<u>\$ 1,200,000</u>	<u>\$ 1,541,021</u>	<u>\$ 250,180</u>	<u>\$ 362,881</u>	<u>\$ 1,882,584</u>	<u>\$ (448,150)</u>	<u>\$ 4,788,516</u>	<u>\$ 245</u>	<u>\$ 4,788,761</u>

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

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,287,179	\$ 1,074,532
Adjustments for:		
Depreciation expenses	195,248	160,438
Amortization expenses	72,914	86,860
Impairment loss recognized on accounts receivable	7,503	182
Interest expenses	33,610	40,858
Interest income	(17,765)	(23,035)
Share of profit of associates	248	734
Loss on disposal of property, plant and equipment	9,070	1,587
Gain on disposal of investment	-	153
Write-down of inventories	-	1,383
Unrealized (gain) / loss on foreign currency exchange	19,873	(12,150)
Gain on cash surrender value of life insurance	-	(145)
Changes in operating assets and liabilities		
Notes receivable	86,017	(1,900)
Accounts receivable	(197,063)	(12,061)
Accounts receivable from related parties	70,653	60,728
Other receivables from related parties	12,847	(1,618)
Inventories	(204,935)	(11,506)
Other current assets	(64,658)	(56,685)
Notes payable	3,287	(2,112)
Accounts payable	19,521	40,312
Accounts payable to related parties	(65,352)	(62,627)
Other payables	(13,402)	13,888
Other payables to related parties	(41,158)	(9,371)
Other current liabilities	4,858	8,429
Net defined benefit liability	<u>9,861</u>	<u>13,117</u>
Cash generated from operations	1,228,356	1,309,991
Income tax paid	<u>(240,545)</u>	<u>(218,307)</u>
Net cash generated from operating activities	<u>987,811</u>	<u>1,091,684</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	-	(10,000)
Proceeds from sale of available-for-sale financial assets	10,000	-
Acquisition of investments accounted for using equity method	-	(12,250)
Acquisition of subsidiary (Note 27)	(432,561)	(2,027,032)
Net cash outflow on disposal of subsidiaries (Note 28)	-	(293)
Acquisition of property, plant and equipment	(478,479)	(168,542)
Proceeds from disposal of property, plant and equipment	7,069	2,930
Increase in refundable deposits	400	(910)
Decrease in refundable deposits	-	935
Acquisition of other intangible assets	(1,216)	(1,249)
Increase in other financial assets	-	(101,673)

(Continued)

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
Decrease in other financial assets	\$ 391,914	\$ 2,016
Increase in prepayments for lease	-	(158,854)
Interest received	<u>16,508</u>	<u>23,985</u>
Net cash used in investing activities	<u>(486,365)</u>	<u>(2,450,937)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	6,292,699	6,328,597
Repayments of short-term borrowings	(7,508,869)	(4,471,889)
Proceeds from short-term bills payable	1,273,332	449,691
Repayments of short-term bills payable	(1,188,393)	(209,865)
Proceeds from long-term borrowings	4,062,000	1,389,850
Repayments of long-term borrowings	(2,542,000)	(1,639,850)
Proceeds from guarantee deposits received	228	-
Cash dividends	(390,000)	(300,000)
Interest paid	<u>(32,133)</u>	<u>(40,400)</u>
Net cash generated from (used in) financing activities	<u>(33,136)</u>	<u>1,506,134</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(61,552)</u>	<u>(98,391)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	406,758	48,490
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,608,745</u>	<u>1,560,255</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,015,503</u>	<u>\$ 1,608,745</u>

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

(Concluded)

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

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

1. GENERAL INFORMATION

KMC (KUEI MENG) International Inc. (the Company) was incorporated in April 1989 under the laws of the Republic of China (ROC). The Company mainly manufactures and sells various types of chains, motorcycle components and vehicle components.

The Company's shares had been publicly offered since 1993 and have been listed and traded on the Taipei Exchange (TPEX) since December 1995.

The consolidated financial statements of the Company and its subsidiaries (referred to collectively as "the Group") are presented in the Company's functional currency, New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The Company's board of directors approved the consolidated financial statements for issue on March 13, 2018.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

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

The retrospective application of the amendments on January 1, 2017 enhanced the disclosures of related party transactions and impairment of goodwill. Refer to Note 32 for the related disclosures.

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

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

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

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

- 1) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment of financial assets

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

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

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

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

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

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

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

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

The retrospective application of the requirements for the classification, measurement and impairment of financial assets is not expected to have significant impact on assets, liabilities and equity of the Group on January 1, 2018.

2) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, a property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that evidence of a change in use is not limited to those illustrated in IAS 40.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, the Group recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

The Group will elect to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The retrospective application of IFRS 15 is not expected to have a material impact on the Group’s assets, liabilities and equity as of January 1, 2018.

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

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

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

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

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

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

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

1) IFRS 16 “Leases”

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

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

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

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

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

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

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

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

Current assets include:

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

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

d. Basis of consolidation

Principles for preparing consolidated financial statements

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

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

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

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

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

See Note 15, tables 5 and 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Business combinations

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

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

f. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Group entities (including subsidiaries in other countries that use currency different from the currency of the Company) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income attributed to the owners of the Company and non-controlling interests as appropriate.

g. Inventories

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

h. Investment in associates

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

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

i. Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such

properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Freehold land is not depreciated.

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

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

j. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

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

k. Goodwill

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

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

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

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

I. Intangible assets

1) Intangible assets acquired separately

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

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

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

m. Impairment of tangible and intangible assets other than goodwill

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

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

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

n. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

Financial assets of the Group are classified as available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

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

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

ii. Loans and receivables

Loans and receivables (including notes receivable, accounts receivable, cash and cash equivalents, other financial assets, other receivable, and refundable deposits) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

a) Subsequent measurement

Except for the financial liabilities at fair value through profit or loss, all the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

o. Revenue recognition

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

1) Sale of goods

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

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

2) Interest income

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

p. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

q. Government grants

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

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

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

r. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of accounts receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Income taxes

As of December 31, 2017 and 2016, the carrying amount of deferred tax assets in relation to unused tax losses was \$132,572 thousand and \$109,269 thousand, respectively. The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

For the expansion of the Group's operations and for the demand for capital of overseas subsidiaries, the Company's management resolved that the unappropriated retained earnings of the subsidiaries in China and United States and the portion of the unappropriated retained earnings of the subsidiary in Europe as of December 31, 2017 will be used for permanent investment. Therefore, no deferred tax liabilities were recognized on the subsidiaries' unappropriated earnings. If the retained earnings of overseas subsidiaries will be appropriated in the future, a material recognition of deferred tax liabilities may arise, which would be recognized in profit or loss for the period in which such appropriation takes place.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 1,861	\$ 1,917
Checking accounts and demand deposits	1,043,531	831,475
Cash equivalent		
Time deposits (investments with original maturities less than three months)	970,111	502,058
Repurchase agreements	-	273,295
	<u>\$ 2,015,503</u>	<u>\$ 1,608,745</u>

The range of interest rates of time deposits and repurchase agreements was as follows:

	December 31	
	2017	2016
Time deposits	1.1% ~ 3.9%	1.3% ~ 5%
Repurchase agreements	-	0.35%

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
<u>Current</u>		
Mutual funds	<u>\$ -</u>	<u>\$ 10,000</u>

8. NOTES RECEIVABLE, ACCOUNTS RECEIVABLE (INCLUDING RELATED PARTIES)

	December 31	
	2017	2016
<u>Notes receivable</u>		
Notes receivable - operating	\$ 102,871	\$ 33,557
Less: Allowance for impairment loss	<u>1,578</u>	<u>-</u>
	<u>\$ 101,293</u>	<u>\$ 33,557</u>
<u>Accounts receivable</u>		
Accounts receivable - operating	\$ 911,678	\$ 613,364
Less: Allowance for impairment loss	<u>15,519</u>	<u>6,132</u>
	<u>\$ 896,159</u>	<u>\$ 607,232</u>
<u>Accounts receivable - Related Parties</u>		
Accounts receivable - operating	<u>\$ 41,003</u>	<u>\$ 96,639</u>

The average credit period of sales of goods was 30 to 90 days. To determine the recoverability of the notes and accounts receivable, the Group took into consideration any change in the quality of the credit of the notes and accounts receivable since the initial grant date of the credit to the end of the reporting period. The Group recognized allowance for impairment loss of 50% ~ 100% against all receivables over 120 days. Allowance for impairment loss was recognized against receivables between 30 to 120 days based on the estimated irrecoverable amounts determined by the past default history of the counterparties and analysis of their current financial position.

When accepting new customers, the Group received advance payments. The Group uses a credit rating table to assess customers' credit quality and to set up the credit limit. Customers' credit quality and credit limit are assessed annually.

Past due but not impaired receivables are notes and accounts receivable balances that were past due at the balance sheet date because there was no significant change in credit quality and the amounts were still considered as recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables (including related parties) was as follows:

	December 31	
	2017	2016
Less than 60 days	\$ 938,296	\$ 704,354
61 - 90 days	3,246	1,262
91 - 120 days	1,032	47
More than 120 days	<u>10,107</u>	<u>4,340</u>
	<u><u>\$ 952,681</u></u>	<u><u>\$ 710,003</u></u>

The above aging schedule was based on the number of past due days from the end of the credit term.

The aging analysis of receivables that were past due but not impaired was as follows:

	December 31	
	2017	2016
Less than 30 days	\$ 31,743	\$ 27,940
31 - 60 days	<u>187</u>	<u>-</u>
	<u><u>\$ 31,930</u></u>	<u><u>\$ 27,940</u></u>

The above aging schedule was based on the number of past due days from the end of the credit term.

The movements of the allowance for doubtful accounts receivable were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment		Total
	Accounts receivable	Notes receivable	Accounts receivable	
Balance at January 1, 2016	\$ 1,144	\$ -	\$ 3,573	\$ 4,717
Acquisition through business combination	-	-	2,044	2,044
Add: Amounts written off (recovered)	564	-	(382)	182
Foreign exchange translation losses	<u>(136)</u>	<u>-</u>	<u>(675)</u>	<u>(811)</u>
Balance at December 31, 2016	1,572	-	4,560	6,132
Acquisitions through business combinations	-	-	3,483	3,483
Add: Amounts written off	497	1,572	5,434	7,503
Foreign exchange translation gains and losses	<u>(292)</u>	<u>6</u>	<u>265</u>	<u>(21)</u>
Balance at December 31, 2017	<u><u>\$ 1,777</u></u>	<u><u>\$ 1,578</u></u>	<u><u>\$ 13,742</u></u>	<u><u>\$ 17,097</u></u>

9. INVENTORIES

	December 31	
	2017	2016
Merchandise	\$ 37,544	\$ 33,196
Finished goods	460,987	256,988
Work in process	172,517	139,707
Raw materials and supplies	<u>262,409</u>	<u>210,045</u>
	<u>\$ 933,457</u>	<u>\$ 639,936</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was as follows:

	For the Year Ended December 31	
	2017	2016
Cost of goods sold	\$ 2,955,183	\$ 2,225,996
Write-down of inventories	-	1,383
Revenue from sale of scrap	<u>(27,026)</u>	<u>(6,683)</u>
	<u>\$ 2,928,157</u>	<u>\$ 2,220,696</u>

10. OTHER FINANCIAL ASSETS

	December 31	
	2017	2016
<u>Current</u>		
Time deposits with original maturity more than 3 months	<u>\$ 8,337</u>	<u>\$ 400,251</u>
The range of interest rates	4.3%	0.5%~5.3%
<u>Non-current</u>		
Cash surrender value of life insurance	\$ 3,244	\$ 3,244
Refundable deposits	<u>6,854</u>	<u>6,919</u>
	<u>\$ 10,098</u>	<u>\$ 10,163</u>

11. OTHER ASSETS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Current</u>		
Prepayments to suppliers	\$ 133,442	\$ 82,478
Prepayments for lease	40,898	30,191
Prepaid expenses	29,382	45,785
VAT retained	20,979	289
Other receivables	18,752	8,010
Others	<u>24,708</u>	<u>11,902</u>
	<u>\$ 268,161</u>	<u>\$ 178,655</u>
<u>Non-current</u>		
Prepaid equipment	\$ 103,128	\$ 34,392
Others	<u>9,671</u>	<u>10,199</u>
	<u>\$ 112,799</u>	<u>\$ 44,591</u>

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Associates that are not individually material</u>		
Pro (Taiwan) Procurement Co., Ltd.	<u>\$ 11,268</u>	<u>\$ 11,516</u>

In February 2016, the Group set up a company Pro (Taiwan) Procurement Co., Ltd. with non-related party. The Group acquired 49% equity interest in Pro (Taiwan) Procurement Co., Ltd. for cash of \$12,250 thousand and accounted for the investment by the equity method.

Aggregate information of associates that are not individually material.

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
The Group's share of:		
Profit from continuing operations	<u>\$ (248)</u>	<u>\$ (734)</u>
Total comprehensive income for the year	<u>\$ (248)</u>	<u>\$ (734)</u>

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were based on the associates' financial statements which have been audited for the same years.

Refer to Table 5 "Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

13. PROPERTY, PLANT AND EQUIPMENT

The carrying amounts of each class of property, plant and equipment were as follows:

	December 31	
	2017	2016
Land	\$ 239,087	\$ 240,714
Building	2,058,330	2,185,479
Machinery and equipment	580,791	425,267
Transportation equipment	18,914	20,032
Leasehold improvement	5,567	8,262
Furniture and fixtures	4,588	5,287
Miscellaneous equipment	71,995	43,153
Construction in progress	<u>192,555</u>	<u>30,540</u>
	<u>\$ 3,171,827</u>	<u>\$ 2,958,734</u>

See Table 9 for the movements of property, plant and equipment.

No impairment assessment was performed for the years ended December 31, 2017 and 2016 as there was no indication of impairment.

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Building	
Main building	25 - 40 years
Outside building construction	3 - 25 years
Machinery and equipment	2 - 10 years
Transportation equipment	3 - 10 years
Leasehold improvements	5 - 15 years
Furniture and fixtures	3 - 6 years
Miscellaneous equipment	2 - 15 years

14. INVESTMENT PROPERTIES

	Buildings
<u>Cost</u>	
Balance at January 1, 2017	\$ -
Transferred from property, plant and equipment	37,918
Net exchange difference	<u>2,009</u>
Balance at December 31, 2017	<u>\$ 39,927</u>

(Continued)

Buildings

Accumulated depreciation

Balance at January 1, 2017	\$ -
Transferred from property, plant and equipment	3,302
Depreciation	1,863
Net exchange difference	<u>142</u>
Balance at December 31, 2017	<u>\$ 5,307</u>
Carrying amount at December 31, 2017	<u>\$ 34,620</u> (Concluded)

The investment properties are the rental factory buildings.

The investment properties are depreciated by the straight-line method over 10-20 years of useful lives.

15. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements were as follows:

Investor	Investee	Main Business	% of Ownership		Remark
			2017	2016	
KMC (KUEI MENG) International Inc.	KMC Chain Industrial Co., Ltd. (KMC Taiwan)	Manufacturing, selling various chains and components of motorcycle and vehicle.	100	100	
	KMC Chain Industrial Co., Ltd. (SAMOA) (KMC Samoa)	Selling various bicycle chains and components.	100	100	
	TEC Chains Co., Ltd. (TEC Samoa)	Selling various bicycle chains and components.	100	100	
	KMC Chain (Seychelles) Industrial Co., Ltd. (KMC Seychelles)	Selling various bicycle chains and components.	100	100	(b)
	TEC Chains (Seychelles) Co., Ltd. (TEC Seychelles)	Selling various bicycle chains and components.	100	100	(b)
	K.M.C. Automobile Transmission Co., Ltd. (KMC Automobile Taiwan)	Selling equipment and materials for chains and designing products	100	-	(c)
	KMC Chain Industrial Co., Ltd.	KMC (BVI) Holding Co., Ltd. (KMC BVI)	Investing activities	100	100
KMC Chain Europe B.V. (KMC Europe)		Selling various bicycle chains and components	100	100	
KMC Chain American Corporation (KMC America)		Selling various bicycle chains and components	100	100	
P. T. Kuei Meng Chain Indonesia (KMC Indonesia)		Selling various motorcycle chains and components	99	99	
KMC Investment (China) Co., Ltd. (KMC China)		Investing activities	100	100	
KMC (BVI) Holding Co., Ltd.	KMC Chain (Vietnam) Co., Ltd. (KMC Vietnam)	Manufacturing and selling various chains and components	100	100	

(Continued)

Investor	Investee	Main Business	% of Ownership		Remark
			2017	2016	
KMC Investment (China) Co., Ltd	KMC Transmission (Tianjin) Co., Ltd. (KMC Tianjin)	Manufacturing and selling various chains and components	100	100	
	Taichang Tec Industry and Trade Co., Ltd. (Taichang Tec)	Selling various bicycle chains and components	100	100	
	Suzhou Kmc Industry and Trade Co., Ltd. (Suzhou Kmc)	Selling various bicycle chains and components	100	100	
	KMC Chain (Shenzhen) Co., Ltd. (KMC Shenzhen)	Manufacturing and selling various chains and components	100	100	
	KMC Chain (Suzhou) Co., Ltd. (KMC Suzhou)	Manufacturing and selling various chains and components	100	100	(b)
	KMC Transton Company Limited. (KMC Transton)	Manufacturing and selling Garage Door Opener (GDO)	100	-	(c)
	KMC Automotive Transmission Co., Ltd. (KMC Automotive Shenzhen)	Manufacturing and selling Automotive Timing System (ATS)	100	-	(c)
KMC Chain (Shenzhen) Co., Ltd.	Shenzhen Kmc Industrial Co., Ltd. (Shenzhen Kmc)	Selling bicycle jig and fixture	-	-	(a)
KMC Transton Company Limited.	Shenzhen Kmc Industrial Co., Ltd. (Shenzhen Kmc)	Selling of components of garage door	100	-	(c)

(Concluded)

- a. The shareholders' meeting of KMC Shenzhen approved the disposal of Shenzhen Kmc on March 2, 2016 and entered into an agreement for equity transfer with a related party, KMC Transton on March 9, 2016. On April 1, 2016, the transfer of equity was completed and KMC Shenzhen lost actual control over Shenzhen Kmc (see Note 28).
- b. On March 10, 2016, the Company's board of directors approved the acquisition of and has acquired KMC Suzhou through a related party, KMC China, and has acquired 100% shareholding of KMC Seychelles and TEC Seychelles through a related party with the same chairman of the board of directors as the Company's. The acquisition price was not more than \$1,600,000 thousand (or in foreign currency equivalent). The main business of these acquired companies was manufacturing and selling various chains and included in the consolidated financial statements in July 2016. The acquisition price was based on the corporate equity valuation report issued by a professional valuer organization and the report of independent accountant on the reasonableness of the equity value.
- c. On May 12, 2017, the Company's board of directors approved the acquisition of and has acquired 100% shareholding of KMC Transton (including its subsidiary, Shenzhen Kmc), and KMC Automotive Shenzhen; the acquisitions were made by the Company and through a related party, KMC China. The acquisition price was not more than \$1,000,000 thousand (or in foreign currency equivalent). The main businesses of the acquired companies were manufacturing and selling components of garage door opener and automotive timing system. The subsidiaries were included in the consolidated financial statements in July 2017. The acquisition price was based on the corporate equity valuation report issued by a professional valuer organization and the report of independent accountant on the reasonableness of the equity value.

16. GOODWILL

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 740,675	\$ 312,824
Additional amount recognized from business combinations occurring during the year (Note 27)	486,670	448,465
Effect of foreign currency exchange differences	<u>(7,630)</u>	<u>(20,614)</u>
Balance at December 31	<u>\$ 1,219,715</u>	<u>\$ 740,675</u>

At the end of each year, the Group performs impairment assessment by reviewing the recoverable amounts based on value in use calculation which incorporates cash flow projections covering a five-year period. The cash flows beyond that five-year period have been extrapolated using a steady 13.16% and 14.62% per annum growth rate as of December 31, 2017 and 2016. In assessing value in use, the estimated future cash flows are discounted to their present value using annual discount rates.

For the years ended December 31, 2017 and 2016, the Group did not recognize impairment loss on goodwill.

17. OTHER INTANGIBLE ASSETS

The classes and carrying amounts of other intangible assets were as follows:

	December 31	
	2017	2016
Customer relationships	\$ 142,892	\$ 97,858
Computer software	<u>3,041</u>	<u>4,047</u>
	<u>\$ 145,933</u>	<u>\$ 101,905</u>

	Patents	Customer Relationship	Computer Software	Total
<u>Cost</u>				
Balance at January 1, 2016	\$ 23,801	\$ 230,071	\$ 10,720	\$ 264,592
Acquisitions through business combinations	-	49,535	8,929	58,464
Additions	-	-	1,249	1,249
Effect of foreign currency exchange differences	-	(4,370)	(419)	(4,789)
Balance at December 31, 2016	<u>\$ 23,801</u>	<u>\$ 275,236</u>	<u>\$ 20,479</u>	<u>\$ 319,516</u>

(Continued)

	Patents	Customer Relationship	Computer Software	Total
<u>Accumulated amortization</u>				
Balance at January 1, 2016	\$ 18,512	\$ 122,337	\$ 8,934	\$ 149,783
Acquisitions through business combinations	-	-	6,102	6,102
Amortization expense	5,289	53,480	1,684	60,453
Effect of foreign currency exchange differences	-	1,561	(288)	1,273
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2016	<u>\$ 23,801</u>	<u>\$ 177,378</u>	<u>\$ 16,432</u>	<u>\$ 217,611</u>
Carrying amounts at December 31, 2016	<u>\$ -</u>	<u>\$ 97,858</u>	<u>\$ 4,047</u>	<u>\$ 101,905</u>

Cost

Balance at January 1, 2017	\$ 23,801	\$ 275,236	\$ 20,479	\$ 319,516
Acquisitions through business combinations	-	85,920	-	85,920
Additions	-	-	1,216	1,216
Effect of foreign currency exchange differences	-	1,994	(105)	1,889
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2017	<u>\$ 23,801</u>	<u>\$ 363,150</u>	<u>\$ 21,590</u>	<u>\$ 408,541</u>

Accumulated amortization

Balance at January 1, 2017	\$ 23,801	\$ 177,378	\$ 16,432	\$ 217,611
Amortization expense	-	43,025	2,176	45,201
Effect of foreign currency exchange differences	-	(145)	(59)	(204)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2017	<u>\$ 23,801</u>	<u>\$ 220,258</u>	<u>\$ 18,549</u>	<u>\$ 262,608</u>
Carrying amounts at December 31, 2017	<u>\$ -</u>	<u>\$ 142,892</u>	<u>\$ 3,041</u>	<u>\$ 145,933</u>

(Concluded)

The above items of other intangible assets are amortized on a straight-line basis over the estimated useful life as follows:

Patents	4.5 years
Customer relationship	4.5 - 5 years
Computer software	2 - 5 years

18. PREPAYMENTS FOR LEASE

	December 31	
	2017	2016
Balance at January 1	\$ 1,040,657	\$ 888,826
Acquisitions through business combinations	-	91,744
Additions	-	158,854
Amortizations	(26,310)	(26,356)
Effect of foreign currency exchange differences	<u>(11,395)</u>	<u>(72,411)</u>
Balance at December 31	<u>\$ 1,002,952</u>	<u>\$ 1,040,657</u>
Current assets (included in other current assets)	\$ 40,898	\$ 30,191
Non-current assets	<u>962,054</u>	<u>1,010,466</u>
	<u>\$ 1,002,952</u>	<u>\$ 1,040,657</u>

Prepayments for lease are the rights of use of land which are amortized on a straight-line basis over the lease terms as follows:

KMC Vietnam	44.5 years
KMC Tianjin	40.5 years
KMC Shenzhen	42.5 years
KMC China	50 years
KMC Suzhou	35 years

19. BORROWINGS

a. Short-term borrowings

	December 31	
	2017	2016
<u>Unsecured borrowings</u>		
Bank unsecured loans	<u>\$ 1,140,247</u>	<u>\$ 2,355,426</u>
Annual interest rate	0.70% ~ 1.10%	0.85% ~ 1.18%

b. Short-term bills payable

Outstanding short-term bills payable as follows:

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Value	Interest Rate
<u>December 31, 2017</u>				
Grand Bills Finance Corporation	\$ 100,000	\$ (50)	\$ 99,950	1%
China Bills Finance Corporation	50,000	(44)	49,956	1.04%
International Bills Finance Corporation	50,000	(43)	49,957	1.02%
International Bills Finance Corporation	75,000	(54)	74,946	1.02%
Mega Bills Finance Co., Ltd.	<u>50,000</u>	<u>(44)</u>	<u>49,956</u>	1.04%
	<u>\$ 325,000</u>	<u>\$ (235)</u>	<u>\$ 324,765</u>	
<u>December 31, 2016</u>				
International Bills Finance Corporation	\$ 100,000	\$ (73)	\$ 99,927	1.07%
China Bills Finance Corporation	40,000	(30)	39,970	1.07%
Grand Bills Finance Corporation	<u>100,000</u>	<u>(71)</u>	<u>99,929</u>	1.07%
	<u>\$ 240,000</u>	<u>\$ (174)</u>	<u>\$ 239,826</u>	

c. Long-term borrowings

	Expiry Date	Major Agreement	December 31	
			2017	2016
<u>Unsecured borrowings</u>				
Bank unsecured loans	2019.06.08	Repayment on due date	\$ 400,000	\$ -
	2019.05.21	Repayment on due date	100,000	-
	2018.12.20	Repayment on due date	200,000	-
	2019.07.01	Repayment on due date	200,000	-
	2019.10.23	Repayment on due date	750,000	-
	2019.12.28	Repayment on due date	370,000	-
	2018.07.01	Repayment on due date (Note 1)	-	500,000
			<u>\$ 2,020,000</u>	<u>\$ 500,000</u>

1) Repaid the loan in advance in December 2017.

The annual effective interest rates are 0.99% ~ 1.19% and 0.98% ~ 1.21% as of December 31, 2017 and 2016, respectively.

20. NOTES PAYABLE AND ACCOUNTS PAYABLE

Both notes payable and accounts payable resulted from operating activities.

The average period of purchases is 30 to 90 days.

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

21. OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Other payables		
Payable for salaries or bonus	\$ 120,854	\$ 112,972
Payable for promotions	19,012	15,687
Payable for employees' compensation	10,814	9,934
Payable for remuneration to directors and supervisors	8,000	6,430
Payable for annual leave	2,106	4,088
Payable for professional service fees	2,095	2,220
Payable for purchase of equipment	10,687	307
Others	<u>86,439</u>	<u>49,085</u>
	<u>\$ 260,007</u>	<u>\$ 200,723</u>
Other current liabilities		
Receipts in advance	\$ 33,949	\$ 19,666
Others	<u>2,214</u>	<u>6,253</u>
	<u>\$ 36,163</u>	<u>\$ 25,919</u>

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

Starting 2010, the employees of the Group's subsidiary in Vietnam are members of a state-managed retirement benefit plan operated by the government of Vietnam. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The employees of the Group's subsidiary in China are members of a state-managed retirement benefit plan operated by the government of mainland China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

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

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

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 79,356	\$ 75,999
Fair value of plan assets	<u>(16,794)</u>	<u>(21,314)</u>
Net defined benefit liability	<u>\$ 62,562</u>	<u>\$ 54,685</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	\$ <u>65,273</u>	\$ <u>(23,850)</u>	\$ <u>41,423</u>
Service cost			
Current service cost	930	-	930
Past service cost	11,997	-	11,997
Net interest expense (income)	<u>899</u>	<u>(331)</u>	<u>568</u>
Recognized in profit or loss	<u>13,826</u>	<u>(331)</u>	<u>13,495</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	171	171
Actuarial loss - changes in demographic assumptions	2,831	-	2,831
Actuarial loss - changes in financial assumptions	944	-	944
Actuarial gain - experience adjustments	<u>(3,678)</u>	-	<u>(3,678)</u>
Recognized in other comprehensive income	<u>97</u>	<u>171</u>	<u>268</u>
Contributions from the employer	<u>-</u>	<u>(501)</u>	<u>(501)</u>
Benefits paid	<u>(3,197)</u>	<u>3,197</u>	<u>-</u>
Balance at December 31, 2016	<u>75,999</u>	<u>(21,314)</u>	<u>54,685</u>

Service cost			
Current service cost	687	-	687
Past service cost	2,094	-	2,094
Net interest expense (income)	<u>950</u>	<u>(270)</u>	<u>680</u>
Recognized in profit or loss	<u>3,731</u>	<u>(270)</u>	<u>3,461</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	68	68
Actuarial loss - changes in demographic assumptions	308	-	308

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Actuarial loss - changes in financial assumptions	\$ 987	\$ -	\$ 987
Actuarial gain - experience adjustments	<u>3,610</u>	<u>-</u>	<u>3,610</u>
Recognized in other comprehensive income	<u>4,905</u>	<u>68</u>	<u>4,973</u>
Contributions from the employer	<u>-</u>	<u>(557)</u>	<u>(557)</u>
Benefits paid	<u>(5,279)</u>	<u>5,279</u>	<u>-</u>
Balance at December 31, 2016	<u><u>\$ 79,356</u></u>	<u><u>\$ (16,794)</u></u>	<u><u>\$ 62,562</u></u>

(Concluded)

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

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

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

	December 31	
	2017	2016
Discount rate	1.125%	1.250%
Expected rate of salary increase	2.50%	2.50%

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

	December 31	
	2017	2016
Discount rate		
0.25% increase	\$ <u>(1,960)</u>	\$ <u>(1,960)</u>
0.25% decrease	\$ <u>2,032</u>	\$ <u>2,035</u>
		(Continued)

	December 31	
	2017	2016
Expected rate of salary increase		
0.25% increase	\$ <u>1,971</u>	\$ <u>1,976</u>
0.25% decrease	\$ <u>(1,911)</u>	\$ <u>(1,913)</u>
		(Concluded)

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

	December 31	
	2017	2016
The expected contributions to the plan for the next year	\$ <u>540</u>	\$ <u>492</u>
The average duration of the defined benefit obligation	10.1 years	10.6 years

Before 2008, the employees' retirement benefit plan of the subsidiary in Vietnam was a defined benefit plan. The amount of retirement benefit was calculated by service years and the average salary of the six months before retirement. The balance of net defined benefit liabilities amounted to \$4,457 thousand and \$2,473 thousand as of December 31, 2017 and 2016.

23. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	<u>200,000</u>	<u>200,000</u>
Shares authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>120,000</u>	<u>120,000</u>
Public offering	\$ 1,200,000	\$ 712,455
Private placement (1)	-	36,000
Private placement (2)	-	<u>451,545</u>
Shares issued	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>

A total of 16,000 thousand shares of the Company's authorized shares were reserved for the issuance of employee share options.

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

- 1) In their meetings on June 24, 2014 and July 7, 2014, the Company's shareholders and board of directors, respectively, approved to increase capital by private placement and the Company issued 36,000 thousand shares of common stock through private placement at \$108 (in dollars) per share, or a total of \$388,800 thousand. The private placement with effective date of July 21, 2014 had been registered. As of December 31, 2016, there were 3,600 thousand shares of private placement common stock with a total value of \$36,000 thousand. The application for public offering of private placement common stock had been approved by the FSC on December 8, 2017, and can be exchanged at the TPEX on January 2, 2018.
- 2) In their meetings on June 28, 2011 and July 21, 2011, the Company's shareholders and board of directors, respectively, approved to increase capital by private placement and the Company issued 60,000 thousand shares of common stock through private placement at \$7.08 (in dollars) per share, or a total of \$424,800 thousand. The private placement with effective date of July 21, 2012 had been registered. As of December 31, 2016, there were 45,155 thousand shares of private placement common stock with a total value of \$451,545 thousand after the reduction of capital to make up for losses and the transfer of retained earnings to capital in the past years. The application for public offering of private placement common stock had been approved by the FSC on December 8, 2017, and can be exchanged at the TPEX on January 2, 2018.

The rights and obligations of the privately placed common stock are subject to the restrictions prescribed under the Securities and Exchange Act. In addition, the common shares issued through a private placement cannot be traded in the Taiwan Stock Exchange. The application for listing can only be lodged three years after the delivery of the shares. Except for these restrictions, there are no other differences between privately placed common stock and other common stock issued.

b. Capital surplus

	December 31	
	2017	2016
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Recognized from issuance of ordinary shares	\$ 1,536,427	\$ 1,536,427
<u>May be used to offset a deficit only</u>		
Recognized from share-based payment	<u>4,594</u>	<u>4,594</u>
	<u>\$ 1,541,021</u>	<u>\$ 1,541,021</u>

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's paid-in capital and once a year).

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 24, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation and remuneration to directors.

Under the dividend policy as set forth in the amended Articles, if the Company makes profit in a fiscal year, the profit shall be first utilized to pay taxes, offset losses of previous years, set aside as legal reserve 10% of the remaining profit, set aside or reverse a special reserve in accordance with the laws and regulations, and lastly, any remaining profit together with any undistributed retained earnings shall be used as the basis of a distribution plan to be proposed by the Company's board of directors in accordance with the resolution of the shareholders pertaining to the distribution of dividends and bonus to shareholders. For the policies on the distribution of compensation of employees and remuneration of directors after the amendment, refer to "Compensation of employees and remuneration of directors" in Note 24(g).

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

Per Orders No. 1010012865, No. 1010047490 and No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs," the Company should make provision for or reversal of special reserve.

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

The appropriations of earnings for 2016 and 2015 had been approved in the stockholders' meetings on June 19, 2017 and May 19, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Legal reserve	\$ 85,658	\$ 69,994		
Special reverse	337,840	25,041		
Cash dividends	390,000	300,000	\$ 3.25	\$ 2.5

The appropriation of earnings for 2017 had been proposed by the Company's board of directors on March 13, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 104,289	
Special reserve	85,269	
Cash dividends	540,000	\$ 4.5
Stock dividends	60,000	0.5

The appropriation of earnings for 2017 are subject to the resolution in the shareholders' meeting to be held on June 22, 2018.

d. Special reserves

Under Rule No. 1010012865 issued by the FSC, the Company appropriated to special reserve \$337,840 thousand in 2017 and \$25,041 thousand in 2016 to reinstate amounts previously transferred to make up for deficit.

e. Other equity items

Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2017	2016
Balance as of January 1	\$ (362,881)	\$ (25,041)
Exchange differences on translating the financial statements of foreign operations	(88,436)	(344,786)
Gain on tax of exchange differences on translating the financial statements of foreign operations	<u>3,167</u>	<u>6,946</u>
Balance as of December 31	<u>\$ (448,150)</u>	<u>\$ (362,881)</u>

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 216	\$ 176
Attributable to non-controlling interests:		
Share of profit for the period	48	40
Share of other comprehensive loss accounted for using the equity method	<u>(19)</u>	<u>-</u>
Balance at December 31	<u>\$ 245</u>	<u>\$ 216</u>

24. NET PROFIT

a. Other operating income and expenses

	For the Year Ended December 31	
	2017	2016
Loss on disposal of property, plant and equipment	<u>\$ (9,070)</u>	<u>\$ (1,587)</u>

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income - bank deposits	\$ 17,765	\$ 23,035
Others	<u>22,365</u>	<u>21,163</u>
	<u>\$ 40,130</u>	<u>\$ 44,198</u>

c. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	\$ 50,405	\$ 61,001
Foreign exchange losses	(87,301)	(75,108)
Loss on disposal of investments	-	(153)
Others	<u>(1,730)</u>	<u>(7,432)</u>
	<u>\$ (38,626)</u>	<u>\$ (21,692)</u>

d. Finance cost

	For the Year Ended December 31	
	2017	2016
Interest on bank loans	\$ 30,764	\$ 38,746
Interest on short-term notes and bills payable	<u>2,846</u>	<u>2,112</u>
	<u>\$ 33,610</u>	<u>\$ 40,858</u>

e. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 193,385	\$ 160,438
Investment properties	1,863	-
Intangible assets	45,201	60,453
Prepayments	1,403	51
Prepayments for lease	<u>26,310</u>	<u>26,356</u>
Total	<u>\$ 268,162</u>	<u>\$ 247,298</u>
An analysis of depreciation by function		
Operating costs	\$ 113,262	\$ 95,863
Operating expenses	80,123	64,575
Other losses	<u>1,863</u>	<u>-</u>
	<u>\$ 195,248</u>	<u>\$ 160,438</u>
An analysis of amortization by function		
Operating costs	\$ 4,440	\$ 4,811
Operating expenses	<u>68,474</u>	<u>82,049</u>
	<u>\$ 72,914</u>	<u>\$ 86,860</u>

f. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits		
Salaries	\$ 578,141	\$ 523,388
Post-employment benefits		
Defined contribution plans	37,731	35,947
Defined benefit plans (Note 22)	<u>5,658</u>	<u>13,495</u>
	<u>43,389</u>	<u>49,442</u>
	<u>\$ 621,530</u>	<u>\$ 572,830</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 276,326	\$ 264,272
Operating expenses	<u>345,204</u>	<u>308,558</u>
	<u>\$ 621,530</u>	<u>\$ 572,830</u>

g. Employees' Compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates 0.5%~5% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

The employees' compensation and remuneration of directors and supervisors for the year ended December 31, 2016 have been approved on June 24, 2017.

Accrual rate

	For the Year Ended December 31	
	2017	2016
Compensation of employees	0.880%	0.880%
Remuneration of directors and supervisors	0.683%	0.713%

Amount

	For the Year Ended December 31			
	2017		2016	
	Cash	Share	Cash	Share
Compensation of employees	\$ 10,312	\$ -	\$ 7,940	\$ -
Remuneration of directors and supervisors	8,000	-	6,430	-

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

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

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Impairment loss on non-financial assets

	For the Year Ended December 31	
	2017	2016
Write-down of inventories	\$ <u> -</u>	\$ <u> 1,383</u>

25. INCOME TAXES

a. The major components of tax expense recognized in profit or loss were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 271,804	\$ 182,482
Income tax on unappropriated earnings	4,288	30,101
Adjustment for prior periods	1,816	9,074
Deferred tax		
In respect of the current year	<u>(33,670)</u>	<u>(3,746)</u>
Income tax expense recognized in profit or loss	<u>\$ 244,238</u>	<u>\$ 217,911</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before income tax	<u>\$ 1,287,179</u>	<u>\$ 1,074,532</u>
Income tax expense calculated at the statutory rate (17%)	\$ 218,820	\$ 182,670
Nondeductible expense in determining taxable income	26,926	20,274
Unrecognized loss carryforwards	-	(72,128)
Unrecognized deductible temporary differences	(36,792)	20,252
Additional income tax on unappropriated earnings	4,288	30,101
Effect of different tax rates of group entities operating in other jurisdictions	29,180	27,668
Adjustments for prior years' tax	<u>1,816</u>	<u>9,074</u>
	<u>\$ 244,238</u>	<u>\$ 217,911</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China, Netherlands and Indonesia is 25%. The applicable tax rate used by subsidiaries in Vietnam is 20% and in the U.S. 42.84%.

In February 2018, it was announced that the Income Tax Act in the ROC was amended, and starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by NT\$15,141 thousand and NT\$36,260 thousand, respectively, in 2018.

In December 2017, the U.S. government has amended the Income Tax Law, which reduced corporation income tax rate to 21%, effective in the beginning of 2018.

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

b. Income tax recognized in other comprehensive income

	December 31	
	2017	2016
<u>Deferred tax</u>		
In respect of the current year:		
Translation of foreign operations	\$ 3,167	\$ 6,946
Remeasurement on defined benefit plan	<u>845</u>	<u>46</u>
	<u>\$ 4,012</u>	<u>\$ 6,992</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
<u>Current tax assets</u>		
Tax refund receivable	\$ 4,315	\$ 2,526
Prepaid income tax	<u>2,458</u>	<u>-</u>
	<u>\$ 6,773</u>	<u>\$ 2,526</u>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 154,158</u>	<u>\$ 96,453</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Influence of acquisition	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred Tax Assets</u>						
Temporary differences						
Provision for loss on inventories	\$ 4,614	\$ (1,416)	\$ 1,512	\$ -	\$ (55)	\$ 4,655
Allowance for impair receivables	988	1,561	745	-	8	3,302
Payable for promotions	384	(359)	-	-	(25)	-
Unrealized foreign exchange loss	467	2,539	-	-	-	3,006
Defined benefit obligation	9,745	934	-	845	(43)	11,481
Unrealized gross profit	42,969	10,774	-	-	-	53,743
Unrealized gross profit of exported inventories after declared	-	191	2,874	-	51	3,116

Exchange difference on translating the financial statements of foreign operations	26,377	-	-	3,167	-	29,544
	<u>85,544</u>	<u>14,224</u>	<u>5,131</u>	<u>4,012</u>	<u>(64)</u>	<u>108,847</u>
Tax loss	<u>23,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,725</u>
	<u>\$ 109,269</u>	<u>\$ 14,224</u>	<u>\$ 5,131</u>	<u>\$ 4,012</u>	<u>\$ (64)</u>	<u>\$ 132,572</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Influence of acquisition	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred Tax Liabilities</u>						
Temporary differences						
Unrealized foreign exchange gain	\$ -	\$ 290	\$ -	\$ -	\$ -	\$ 290
Cash surrender value of life insurance	222	-	-	-	-	222
Unappropriated earnings of subsidiaries	91,013	(10,441)	-	-	-	80,572
Reserve for land value increment tax	124,388	-	-	-	-	124,388
Deferred revenue	<u>368,539</u>	<u>(9,295)</u>	<u>-</u>	<u>-</u>	<u>(4,179)</u>	<u>355,065</u>
	<u>\$ 584,162</u>	<u>\$ (19,446)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,179)</u>	<u>\$ 560,537</u>

(Concluded)

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Influence of acquisition	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred Tax Assets</u>						
Temporary differences						
Provision for loss on inventories	\$ 3,311	\$ 1,445	\$ 51	\$ -	\$ (193)	\$ 4,614
Allowance for impair receivables	530	12	527	-	(81)	988
Payable for promotions	406	-	-	-	(22)	384
Unrealized foreign exchange loss	-	467	-	-	-	467
Defined benefit obligation	7,565	2,163	-	46	(29)	9,745
Unrealized gross profit	31,955	11,014	-	-	-	42,969
Exchange difference on translating the financial statements of foreign operations	19,431	-	-	6,946	-	26,377
	<u>63,198</u>	<u>15,101</u>	<u>578</u>	<u>6,992</u>	<u>(325)</u>	<u>85,544</u>
Tax loss	<u>29,818</u>	<u>(6,093)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,725</u>
	<u>\$ 93,016</u>	<u>\$ 9,008</u>	<u>\$ 578</u>	<u>\$ 6,992</u>	<u>\$ (325)</u>	<u>\$ 109,269</u>
<u>Deferred Tax Liabilities</u>						
Temporary differences						
Unrealized foreign exchange gain	\$ 345	\$ (345)	\$ -	\$ -	\$ -	\$ -
Cash surrender value of life insurance	197	25	-	-	-	222
Unappropriated earnings of subsidiaries	75,904	15,109	-	-	-	91,013
Reserve for land value increment tax	124,388	-	-	-	-	124,388
Deferred revenue	<u>408,542</u>	<u>(9,527)</u>	<u>-</u>	<u>-</u>	<u>(30,476)</u>	<u>368,539</u>
	<u>\$ 609,376</u>	<u>\$ 5,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,476)</u>	<u>\$ 584,162</u>

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

Loss carryforwards as of December 31, 2017 comprised of:

Unused Amount	Expiry Year
\$ <u>139,557</u>	2021

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

The taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized amounted to NT\$924,788 thousand and NT\$522,042 thousand as of December 31, 2017 and 2016, respectively.

- g. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	\$ <u>-</u>	\$ <u>1,657,317</u>
Shareholder - imputed credits account	\$ <u>-</u>	\$ <u>114,237</u>
	(Note)	

The creditable ratio for distribution of earnings of 2016 was 8.69%.

Note: Integrated income tax has been abolished in February 2018. Information about 2017 is no longer useful.

- h. Income tax assessments

The tax returns of the Company, KMC Taiwan, Ltd. and KMC Automobile Taiwan through 2015 have been assessed by the tax authorities.

26. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Profit for the period attributable to owners of the Company	\$ <u>1,042,893</u>	\$ <u>856,581</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

For the Year Ended December 31

	<u>2017</u>	<u>2016</u>
Weighted average number of ordinary shares in computation of basic earnings per share	120,000	120,000
Effect of potentially dilutive ordinary shares:		
Employees' compensation	<u>80</u>	<u>80</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u><u>120,080</u></u>	<u><u>120,080</u></u>

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

27. BUSINESS COMBINATION

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interest Acquired (%)	Consideration Transferred
KMC Seychelles	Selling various bicycle chains and components	July 1, 2016	100	\$ 308,383
TEC Seychelles	Selling various bicycle chains and components	July 1, 2016	100	138,241
KMC Suzhou	Manufacturing and selling various chains and components	July 1, 2016	100	1,153,376
KMC Automobile Taiwan	Selling equipment and materials for chains and designing products	July 1, 2017	100	Note
KMC Transton	Manufacturing and selling GDO	July 1, 2017	100	Note
KMC Automotive Shenzhen	Manufacturing and selling ATS	July 1, 2017	100	Note

Note: The total consideration \$1,000,000 thousand of acquiring KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen.

The Group acquired KMC Seychelles, TEC Seychelles, KMC Suzhou, KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen in order to expand the market in China for bicycle components, garage door opener and automobile timing system, and also to expand the customer base in overseas markets.

b. Consideration transferred

Consideration transferred was in cash. Acquisition-related costs amounting to \$1,160 thousand and \$936 thousand were excluded from the consideration transferred and were recognized as an expense in 2017 and 2016, within the other expenses line item in the consolidated statements of comprehensive income.

c. Asset and liabilities assumed at the date of acquisition

	KMC Seychelles, TEC Seychelles and KMC Suzhou	KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen
Current assets		
Cash and cash equivalents	\$ 174,849	\$ 172,466
Trade and other receivables	282,807	200,412
Inventories	87,093	80,199
Other current asset	15,779	33,602
Non-current asset		
Property, plant and equipment	72,271	676,904
Customer relationships	85,920	49,535
Prepayments for lease	372	91,744
Other assets	5,722	10,044
		(Continued)

	KMC Seychelles, TEC Seychelles and KMC Suzhou	KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen
Current liabilities		
Trade and other payable	\$ (120,693)	\$ (151,716)
Other current liabilities	<u>(90,790)</u>	<u>(11,655)</u>
	<u>\$ 513,330</u>	<u>\$ 1,151,535</u>
		(Concluded)

d. Goodwill recognized on acquisition

	KMC Seychelles, TEC Seychelles and KMC Suzhou	KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen
Consideration transferred	\$ 1,000,000	\$ 1,600,000
Less: Fair value of identifiable net assets acquired	<u>513,330</u>	<u>1,151,535</u>
Goodwill recognized on acquisition	<u>\$ 486,670</u>	<u>\$ 448,465</u>

e. Net cash outflow on acquisition of subsidiaries

	KMC Seychelles, TEC Seychelles and KMC Suzhou	KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen
Consideration paid in cash	\$ 1,000,000	\$ 1,600,000
Less: Cash and cash equivalent balances acquired	(174,849)	(172,466)
Plus: Payables at January 1, 2017	-	599,498
Less: Payables at December 31, 2017	<u>(392,590)</u>	<u>-</u>
	<u>\$ 432,561</u>	<u>\$ 2,027,032</u>

f. Impact of acquisitions on the results of the group

The results of the acquired companies since the acquisition date included in the consolidated statements of comprehensive income were as follows:

	For the Year Ended December 31	
	2017	2016
Revenue		
KMC Seychelles, TEC Seychelles and KMC Suzhou	\$ -	\$ 328,561
KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen	<u>294,396</u>	<u>-</u>
Total	<u>\$ 294,396</u>	<u>\$ 328,561</u>

(Continued)

	For the Year Ended December 31	
	2017	2016
Profit		
KMC Seychelles, TEC Seychelles and KMC Suzhou	\$ -	\$ 33,837
KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen	<u>85,793</u>	<u>-</u>
Total	<u>\$ 85,793</u>	<u>\$ 33,837</u>

(Concluded)

Had these business combinations been in effect at the beginning of the annual reporting period the Group's revenue and net profit from continuing operations would have been as follows:

	For the Year Ended December 31	
	2017	2016
Revenue	<u>\$ 5,395,381</u>	<u>\$ 4,348,828</u>
Net profit	<u>\$ 1,107,002</u>	<u>\$ 921,086</u>

This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017 nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Company assuming KMC Seychelles, TEC Seychelles, KMC Suzhou, KMC Automobile Taiwan, KMC Transton and KMC Automotive Shenzhen had been acquired at the beginning of the current reporting period, the management:

- 1) Calculated depreciation of property, plant and equipment, prepayment for lease and customer relationships acquired on the basis of the fair values at the initial accounting for the business combination rather than the carrying amounts recognized in the respective pre-acquisition financial statements.

28. DISPOSAL OF SUBSIDIARIES

On March 3, 2016, the Group entered into a sale agreement with related party - KMC Transton - to dispose of Shenzhen Kmc, seller bicycle jig and fixtures. The disposal was completed on April 1, 2016, the date control of Shenzhen Kmc passed to the acquirer.

- a. Consideration received from the disposal

	Shenzhen Kmc Industrial
Total consideration received	\$ <u>5,469</u>

- b. Analysis of assets and liabilities on the date control was lost

	Shenzhen Kmc Industrial
Current assets	
Cash and cash equivalents	\$ 5,762
Non-current assets	
Property, plant and equipment	11
Current liabilities	<u>(150)</u>
Net assets disposed of	\$ <u>5,623</u>

- c. Gain on disposal of subsidiary

	Shenzhen Kmc Industrial
Consideration received	\$ 5,469
Net assets disposed of	(5,623)
The reclassification of other comprehensive income in respect of the subsidiary	<u>1</u>
Loss on disposal	\$ <u>(153)</u>

d. Net cash inflow on disposal of subsidiary

	Shenzhen Kmc Industrial
Consideration received in cash and cash equivalents	\$ 5,469
Less: Cash and cash equivalent balances disposed of	<u>5,762</u>
	<u>\$ (293)</u>

29. OPERATING LEASE ARRANGEMENTS – The Group as lessee

Operating leases relate to leases of office, staff dormitory and vehicle with lease terms between 1 and 5 years. All rentals were referred to current market price. The Group's refundable deposits on the operating leases were \$776 thousand and \$538 thousand as of December 31, 2017 and 2016.

The future minimum lease payments of operating lease commitments are as follows:

	December 31	
	2017	2016
Not later than 1 year	\$ 4,730	\$ 3,507
Later than 1 year and not later than 5 years	<u>3,346</u>	<u>2,733</u>
	<u>\$ 8,076</u>	<u>\$ 6,240</u>

30. CAPITAL MANAGEMENT

The Group requires significant amount of capital to build and expand its production facilities and equipment. The Group manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, dividend payments, debt service requirements and other business requirements associated with its existing operations over the next 12 months.

31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The carrying amounts recognized in the consolidated financial statements of financial instruments that are not measured at fair value approximate their fair value; these financial instruments include cash and cash equivalents, accounts receivable, other receivables, other financial assets, short-term loans, accounts payable, long-term borrowings and other payables.

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

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Mutual funds	\$ <u>10,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>10,000</u>

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

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets</u>		
Loans and receivables (i)	\$ 3,092,383	\$ 2,768,438
Available-for-sale financial assets	-	10,000
<u>Financial liabilities</u>		
Amortized cost (ii)	4,463,056	3,574,823

(i) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable (including related parties), other financial assets, other receivables (including related parties) and refundable deposits.

(ii) The balances included financial liabilities measured at amortized cost, which comprise short-term loans, short-term bills payable, notes and accounts payable (including related parties), and other payables, and long-term borrowings.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, accounts payable, and borrowings. The Group's Corporate Treasury function provides services to the business departments, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The plans for material treasury activities are reviewed by the board of directors in accordance with procedures required by relevant regulations or internal controls. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

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

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

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

Sensitivity analysis

The Group was mainly exposed to the currencies United States dollars (USD) Europe Union Euro (EUR) and Chinese Yuan Renminbi (RMB).

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (NTD, the functional currency) against the relevant foreign currencies. The sensitivity analysis included only outstanding foreign currency denominated monetary items. A positive number below indicates a decrease in profit before income tax that would result when NTD weakens by 1% against the relevant currency. For a 1% strengthening of NTD against the relevant currency, there would be an equal and opposite impact on the profit before income tax and the balances below would be negative.

	USD impact	
	For the Year Ended December 31	
	2017	2016
Profit or loss	\$ 8,824	\$ 8,854
	EUR impact	
	For the Year Ended December 31	
	2017	2016
Profit or loss	\$ 331	\$ 230
	RMB impact	
	For the Year Ended December 31	
	2017	2016
Profit or loss	\$ 923	\$ 3,020

The Group's sensitivity to the currency rate increased during the current period mainly due to the increase in net assets denominated in the currency USD and RMB.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at floating interest rates.

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

	December 31	
	2017	2016
Cash flow interest rate risk		
Financial assets	\$ 1,038,380	\$ 828,011
Financial liabilities	3,160,247	2,855,426

Sensitivity analysis

The sensitivity analysis below was based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 1% higher and all other variables were held constant, the Group's profit before tax for the years ended December 31, 2017 and 2016 would decrease by NT\$21,219 thousand and NT\$20,274 thousand, respectively; the change was mainly attributable to the Group's exposure to cash flow interest rate risk on its variable-rate bank borrowings.

2) Credit risk

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

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

The Group's customers are creditworthy counterparties; sufficient collateral is required, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group transacted with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Group had available unutilized short-term bank loan facilities of \$4,659,753 thousand and \$3,534,574 thousand.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are at floating rates, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	Less than 3 Months	3 Months to 6 Months	More than 6 Months
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 921,147	\$ 21,302	\$ 36,075
Variable interest rate liabilities	1,198,399	65,715	1,910,715
Fixed interest rate liabilities	<u>325,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,444,546</u>	<u>\$ 87,017</u>	<u>\$ 1,946,790</u>

December 31, 2016

	Less than 3 Months	3 Months to 6 Months	More than 6 Months
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 436,567	\$ 4,027	\$ 38,977
Variable interest rate liabilities	2,085,959	281,456	508,250
Fixed interest rate liabilities	<u>240,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,762,526</u>	<u>\$ 285,483</u>	<u>\$ 547,227</u>

e. Transfers of financial assets

Factored trade receivables for the year ended December 31, 2017 were as follows:

Counterparties	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
CTBC Bank Co., Ltd.	\$ <u>4,977</u>	\$ <u>-</u>	\$ <u>-</u>	-	USD\$ 300 thousand

The above credit line may be used on a revolving basis.

Pursuant to the Group's factoring agreement, loss from commercial disputes (such as sales returns and discounts) is borne by the Group, while loss from credit risk is borne by the bank.

32. TRANSACTIONS WITH RELATED PARTIES

The Company's parent is KMC Transton Industries Limited, which held 37.63% of the ordinary shares of the Company and held half of seats in the board of directors as of December 31, 2017 and 2016. The Company's ultimate parent and ultimate controlling party is KMC Transton Industries Limited.

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

a. Names of related parties and relationships with the Group

Name of Related Party	Relationship with the Group
KMC TRANSTON INDUSTRIES LIMITED	Ultimate parent company
TRANSTON HOLDING CO., LTD.	Same members of the key management personnel
Ketten Trading CO., LTD	Same members of the key management personnel
WINCORP ENTERPRISES LIMITED	Same members of the key management personnel
K.M.C. Automobile Transmission Co., Ltd	Same members of the key management personnel (subsidiary acquired after July 2017)
KMC CHAIN (HONG KONG) COMPANY LIMITED	Substantial related party
KMC Transton Company Limited.	Same members of the key management personnel (subsidiary acquired after July 2017)
Shenzhen Kmc Industrial Co., Ltd.	Same members of the key management personnel (subsidiary acquired after July 2017)
KMC Automotive Transmission Co., Ltd.	Same members of the key management personnel (subsidiary acquired after July 2017)
Surmount Technology Shenzhen Co., Ltd	Same members of the key management personnel
President Industry Development (Shenzhen) Co., Ltd.	Same members of the key management personnel
KMC Transmission (Chengdu) Co., Ltd.	Same members of the key management personnel
KMC Transmission (Tianjin) Co., Ltd.	Same members of the key management personnel
KMC Chain (Suzhou) Co., Ltd.	Same members of the key management personnel (subsidiary acquired after July 2016)
Supreme Profit Limited	Substantial related party
WAN-YI LAI	The Company chairman's spouse
JUI-CHANG WU	The Company's director
HSING-CHUAN WU	The Company chairman's second-degree relative
HUI-LAN WU	The Company chairman's second-degree relative
YANG-KANG HSU	The Company's inspector

b. Sales of goods

Related Party Type	December 31	
	2017	2016
Same members of the key management personnel	\$ 111,525	\$ 62,476
Same members of the key management personnel and subsidiary acquired after July 2016	-	28,699
Same members of the key management personnel and subsidiary acquired after July 2017	<u>84,582</u>	<u>155,565</u>
	<u>\$ 196,107</u>	<u>\$ 246,740</u>

The prices and terms to related parties were negotiated by considering the location of sales, product type and sales amount and not significantly different from transaction with third parties. The credit terms for related parties were 45 to 180 days and for non-related parties were 30 to 90 days.

c. Purchase of goods

Related Party Type	For the Year Ended December 31	
	2017	2016
Same members of the key management personnel	\$ 75,232	\$ 43,180
Same members of the key management personnel and subsidiary acquired after July 2016	-	130,155
Same members of the key management personnel and subsidiary acquired after July 2017	<u>1,416</u>	<u>7,250</u>
	<u>\$ 76,648</u>	<u>\$ 180,585</u>

The purchase prices and terms were negotiated with related parties and cannot be compared with the price and terms with third parties. The credit terms of related parties were 45 to 150 days and non-related parties were 30 to 90 days.

d. Receivables from related parties(excluding loans to related parties)

Account Item	Related Party Type	December 31	
		2017	2016
Notes receivable	Same members of the key management personnel	<u>\$ -</u>	<u>\$ 229</u>
Accounts receivable from related parties	Same members of the key management personnel	\$ 41,003	\$ 28,280
	Same members of the key management personnel and subsidiary acquired after July 2017	-	68,359
		<u>\$ 41,003</u>	<u>\$ 96,639</u>

(Continued)

Account Item	Related Party Type	December 31	
		2017	2016
Other receivables from related parties(including other current assets)	Same members of the key management personnel	\$ 1,238	\$ 3,240
	Same members of the key management personnel and subsidiary acquired after July 2017	-	601
		<u>\$ 1,238</u>	<u>\$ 3,841</u>
			(Concluded)

The outstanding receivables from related parties are unsecured. For the year ended December 31, 2017 and 2016, no impairment loss was recognized for receivables from related parties except retention receivables.

e. Payables to related parties (excluding loans from related parties)

Account Item	Related Party Type	December 31	
		2017	2016
Accounts payable to related parties	Same members of the key management personnel	\$ 16,989	\$ 11,193
	Same members of the key management personnel and subsidiary acquired after July 2016	-	293
		<u>\$ 16,989</u>	<u>\$ 11,486</u>
Other payables to related parties	Same members of the key management personnel		
	KMC Chain (Hong Kong) Company Limited	\$ 335,071	\$ -
	Other	-	25,158
	Substantive related party Supreme Profit Limited	57,519	-
		<u>\$ 392,590</u>	<u>\$ 25,158</u>

The outstanding payables to related parties are unsecured and would be paid in cash.

f. Acquisitions of property, plant and equipment

Related Party Type	Purchase Price	
	For the Year Ended December 31	
	2017	2016
Same members of the key management personnel	\$ 38,814	\$ 21,328
Same members of the key management personnel and subsidiary acquired after July 2016	-	2,736
Same members of the key management personnel and subsidiary acquired after July 2017	289	-
	<u>\$ 39,103</u>	<u>\$ 24,064</u>

g. Disposals of property, plant / equipment

Related Party Type Category/Name	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Same members of the key management personnel and subsidiary acquired after July 2017	\$ -	\$ 18	\$ -	\$ 1
Ultimate parent company KMC TRANSTON INDUSTRIES LIMITED	238	-	238	-
	<u>\$ 238</u>	<u>\$ 18</u>	<u>\$ 238</u>	<u>\$ 1</u>

h. Acquisitions of subsidiaries

Related Party Category / Name	Item	Purchase Price	
		For the Year Ended December 31	
		2017	2016
KMC CHAIN (HONG KONG) COMP ANY LIMITED	Shareholdings of KMC Suzhou	\$ -	\$ 1,153,376
KMC CHAIN (HONG KONG) COMP ANY LIMITED	Shareholdings of KMC Automobile Taiwan	344,344	-
WAN-YI LAI	Shareholdings of KMC Automobile Taiwan	126,130	-
JUI- CHANG WU	Shareholdings of KMC Automobile Taiwan	126,130	-
The Company chairman's second-degree relatives	Shareholdings of KMC Automobile Taiwan	126,170	-
Substantive related party	Shareholdings of KMC Transton	58,136	-
The Company's inspector	Shareholdings of KMC	29,854	-

Automobile Taiwan

<u>\$</u>	<u>810,764</u>	<u>\$</u>	<u>1,153,376</u>
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i. Disposals of subsidiaries -For the year ended December 31, 2016

Related Party Category / Name	Item	Proceeds	Gain (Loss) on Disposal
Same members of the key management personnel and subsidiary acquired after July 2017			
KMC Transton Company Limited.	Shareholdings of Shenzhen Kmc	<u>\$</u> 5,469	<u>\$</u> (153)

j. Others

Account Items	Related Parties Types	<u>For the Year Ended December 31</u>	
		2017	2016
Rental revenues	Same members of the key management personnel		
	President Industry Development (Shenzhen) Co., Ltd.	\$ 1,375	\$ 1,536
	Surmount Technology Shenzhen Co., Ltd	1,105	1,234
	Same members of the key management personnel and subsidiary acquired after July 2017		
	KMC Transton Company Limited.	682	1,536
	Others	<u>62</u>	<u>65</u>
		<u>\$</u> 3,224	<u>\$</u> 4,371
Rental expenses	Ultimate parent company	\$ 1,500	\$ 1,500
	Same members of the key management personnel	-	221
		<u>\$</u> 1,500	<u>\$</u> 1,721

The Company leased office to the related parties, and the lease contracts were based on market prices and made under normal terms with monthly charge.

k. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 18,275	\$ 18,303
Post-employment benefits	<u>537</u>	<u>520</u>
	<u><u>\$ 18,812</u></u>	<u><u>\$ 18,823</u></u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals, the performance of the Group, and the risk of future operations.

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

	December 31	
	2017	2016
Acquisition of property, plant and equipment	\$ 175,289	\$ 58,363
Acquisition of intangible assets	<u>6,400</u>	<u>2,398</u>
	<u><u>\$ 181,689</u></u>	<u><u>\$ 60,761</u></u>

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information is an aggregation of foreign currencies other than the functional currencies of the Group entities and disclosure of the exchange rates between the foreign currencies and the respective functional currencies. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 23,031	29.76	\$ 685,397
		(USD : NTD)	
USD	2,507	22,718	74,611
		(USD : VND)	
USD	5	13,345	152
		(USD : IDR)	
USD	7,464	6.5342	222,129
		(USD : RMB)	
EUR	4,084	35.57	145,275
		(EUR : NTD)	
EUR	86	7.8023	3,075
		(EUR : RMB)	
RMB	83,091	4.565	379,309
		(RMB : NTD)	

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	1,514	29.76 (USD : NTD)	45,063
USD	634	22,718 (USD : VND)	18,867
USD	763	13,345 (USD : IDR)	22,711
USD	444	6.5342 (USD : RMB)	13,207
EUR	3,240	35.57 (EUR : NTD)	115,247
RMB	62,869	4.565 (RMB : NTD)	286,999

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 19,769	32.25 (USD : NTD)	\$ 637,537
USD	5,056	22,755 (USD : VND)	163,049
USD	427	13,272 (USD : IDR)	13,786
USD	15,029	6.985 (USD : RMB)	484,482
EUR	2,137	33.9 (EUR : NTD)	72,429
RMB	65,414	4.617 (RMB : NTD)	302,018

Financial liabilities

Monetary items			
USD	10,105	32.25 (USD:NTD)	325,883
USD	997	22,755 (USD:VND)	32,145
USD	1,148	13,272 (USD:IDR)	37,035
USD	572	6.985 (USD:RMB)	18,438
EUR	1,457	33.9 (EUR:NTD)	49,392

The Group is mainly exposed to USD. The following information is an aggregation of the functional currencies of the Group entities, and disclosure of the exchange rates between the respective functional currencies and the presentation currency. The significant realized and unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
Foreign Currencies	2017		2016	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1(NTD:NTD)	\$ (20,661)	1(NTD:NTD)	\$ (36,363)
VND	0.00133(VND:NTD)	995	0.00145(VND:NTD)	2,732
IDR	0.00223(IDR:NTD)	20	0.00244(IDR:NTD)	572
RMB	4.551(RMB:NTD)	(17,785)	4.878(RMB:NTD)	19,080
USD	30.108(USD:NTD)	<u>535</u>	32.375(USD:NTD)	<u>(128)</u>
		<u>\$ (36,896)</u>		<u>\$ (14,107)</u>

35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table1)
- 2) Endorsements/guarantees provided. (N/A)
- 3) Marketable securities held (excluding investment in subsidiaries and associates). (N/A)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 2)
- 5) Acquisition of individual real estate at cost of at least NT\$300 million or 20% of the paid-in capital. (N/A)
- 6) Disposal of individual real estate at a price of at least NT\$300 million or 20% of the paid-in capital. (N/A)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
- 9) Trading in derivative instruments. (N/A)
- 10) Intercompany relationships and significant intercompany transactions. (Table 8)
- 11) Information on investees. (Table 5)

b. Information on investments in mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income or loss of investee, investment income or loss, carrying amount of the investment at the end of the period, and repatriations of investment from the mainland China area. (Table 6)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 7)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 7)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (N/A)
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (N/A)
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services. (N/A)

36. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the Group's chief operating decision maker reviews operating results and financial information on a plant by plant basis with focus on the operating result of each plant. As each plant shares similar economic characteristics, produces similar products using similar production process and all products are distributed and sold to same level of customers through a central sales function, the Group's operating segments are aggregated into a single reportable segment. The Group's chief operating decision maker reviews segment information measured on the same basis as the financial statements. Information about reportable segment sales and profit or loss is referred to the consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016, and information on assets is referred to the consolidated balance sheets as of December 31, 2017 and 2016.

a. Geographical information

The Group operates in three principal geographical areas - Asia, Europe and America.

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

	Revenue from External Customers	
	For the Year Ended December 31	
	2017	2016
Asia	\$ 4,300,935	\$ 3,224,248
Europe	591,528	634,828
America	<u>158,140</u>	<u>153,713</u>
	<u>\$ 5,050,603</u>	<u>\$ 4,012,789</u>
	Non-current Assets	
	December 31,	December 31,
	2017	2016
Asia	\$ 5,567,231	\$ 4,777,473
Europe	41,999	36,012
America	<u>48,986</u>	<u>54,402</u>
	<u>\$ 5,658,216</u>	<u>\$ 4,867,887</u>

Non-current assets excluded those classified as financial instruments and deferred tax assets.

b. Information about major customers

There are no single customers who contributed 10% or more to the Group's revenue for the years ended December 31, 2017 and 2016.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period (Note 4)	Ending Balance (Note 4)	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing (Note 1)	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limits (Note 2)	Note
													Item	Value			
1	KMC (KUEI MENG) International Inc.	KMC Investment (China) Co., Ltd	Other receivable - related parties	Y	\$ 296,725 (RMB 65,000 thousand)	\$ -	\$ -	- (Note 5)	(2)	\$ -	Operating capital	\$ -	-	\$ -	\$ 1,915,406	\$ 1,915,406	
2	KMC (BVI) Holding Co., Ltd.	KMC (KUEI MENG) International Inc.	Other receivable - related parties	Y	29,165 (USD 980 thousand)	-	-	- (Note 3)	(2)	-	Operating capital	-	-	-	160,634	160,634	
3	KMC Chain Industrial Co., Ltd.	KMC (KUEI MENG) International Inc.	Other receivable - related parties	Y	300,000	300,000	-	- (Note 5)	(2)	-	Operating capital	-	-	-	2,350,727	2,350,727	

Note 1: Nature of Financing:

- 1) For business transaction is 1.
- 2) For short-term financing is 2.

Note 2: The upper limit is equivalent to 40% of the net asset value of financier.

Note 3: No less than the upper limit rate of the short-term loan that financier borrowed from finance corporation.

Note 4: The rates of exchange are NT\$ 29.76 to one US dollar and NT\$4.565 to one RMB.

Note 5: The Company took the rates of short-term loans borrowed from finance corporations as reference and negotiated with financier to calculate rates at 0.8% - 1.18%.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

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

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
KMC (KUEI MENG) International Inc.	K.M.C. Automobile Transmission Co., Ltd	Investments accounted for using equity method	Note 1	Note 1	-	\$ -	3,253,812	\$ 597,520	-	\$ -	\$ -	\$ -	3,253,812	\$ 662,495 (Note 2)
KMC Investment (China) Co., Ltd	KMC Automotive Transmission Co., Ltd.	Investments accounted for using equity method	KMC CHAIN (HONG KONG) COMPANY LIMITED	Same chairman	-	-	-	344,344	-	-	-	-	-	367,264 (Note 3)

Note 1: Counterparty included related parties (WAN-YI LAI, JUI-CHANG WU, the Company chairman's second-degree relatives, the Company's inspector) and other non-related individual.

Note 2: The amount of investments accounted for using equity method included share of profit of subsidiaries of \$64,975 thousand.

Note 3: The amount of investment accounted for using equity method included share of profit of subsidiaries of \$15,743 thousand and exchange differences on translating foreign operations of \$7,177 thousand.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
KMC (KUEI MENG) International Inc.	KMC Chain Europe B.V.	Subsidiary	Sales	\$ (572,673)	(32)	Net 90 days after month end close	Negotiation method	Net 30 to 90 days after month end close	\$ 91,674	34	
	KMC Chain American Corporation	Subsidiary	Sales	(113,264)	(11)	Net 90 days after month end close	Negotiation method	Net 30 to 90 days after month end close	18,750	7	
	KMC Chain Industrial Co., Ltd.	Subsidiary	Sales	(167,077)	(9)	Net 90 days after month end close	Negotiation method	Net 30 to 90 days after month end close	-	-	
	KMC Chain (Vietnam) Co., Ltd.	Subsidiary	Purchases	264,167	26	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	-	-	
	KMC Chain Industrial Co., Ltd.	Subsidiary	Purchases	178,337	18	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(57,151)	(20)	
	KMC Chain (Shenzhen) Co., Ltd.	Subsidiary	Purchases	396,967	39	Net 150 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(165,698)	(57)	
	K.M.C. Automobile Transmission Co., Ltd	Subsidiary	Purchases	112,935	11	Net 45 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(57,254)	(20)	
KMC Chain Industrial Co., Ltd.	KMC Chain (Shenzhen) Co., Ltd.	Subsidiary	Purchases	113,862	26	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(32,810)	(41)	
KMC Transmission (Tianjin) Co., Ltd.	Suzhou Kmc Industry and Trade Co., Ltd.	Affiliates	Sales	(237,917)	(39)	Net 90 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	90,904	41	
	Taichang Tec Industry and Trade Co., Ltd.	Affiliates	Sales	(265,393)	(44)	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	87,994	40	
	KMC Chain (Suzhou) Co., Ltd.	Affiliates	Purchases	141,993	24	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(39,490)	(38)	
KMC Chain (Shenzhen) Co., Ltd.	Taichang Tec Industry and Trade Co., Ltd.	Affiliates	Sales	(124,899)	(8)	Net 90 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	27,603	43	
KMC Chain (Suzhou) Co., Ltd.	Suzhou Kmc Industry and Trade Co., Ltd.	Affiliates	Sales	(231,375)	(28)	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	32,048	17	
	Taichang Tec Industry and Trade Co., Ltd.	Affiliates	Sales	(248,322)	(30)	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	78,788	42	

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

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

Company Name	Related Party	Relationship	Ending Balance	Turnover Ratio	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
KMC Chain (Shenzhen) Co., Ltd.	KMC (KUEI MENG) International Inc.	Parent company	\$ 165,698	2.32	\$ -	-	\$ 53,789	\$ -

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 1)	Note
				December 31, 2017	December 31, 2016	Shares	%	Carrying Amount			
KMC (KUEI MENG) International Inc.	KMC Chain Industrial Co., Ltd.	Taiwan	Manufacturing, selling various chains and components of motorcycle and vehicle	\$ 5,800,000	\$ 5,800,000	85,677,147	100	\$ 6,029,839	\$ 471,856	\$ 460,195	
	KMC Chain Industrial Co., Ltd.	Samoa	Selling various bicycle chains and components	148,800 (USD 5,000 thousand)	161,250 (USD 5,000 thousand)	50,000	100	167,060	3,269	3,269	
	TEC Chains Co., Ltd.	Samoa	Selling various bicycle chains and components	2,976 (USD 100 thousand)	3,225 (USD 100 thousand)	100,000	100	3,116	-	-	
	PRO (TAIWAN) PROCUREMENT CO., LTD	Taiwan	Selling various bicycle components	12,250	12,250	1,225,000	49	11,268	(506)	(248)	
	KMC Chain (Seychelles) Industrial Co., Ltd.	Seychelles	Selling various bicycle chains and components	308,383	308,383	50,000	100	308,203	(36)	(36)	
	TEC Chains (Seychelles) Co., Ltd.	Seychelles	Selling various bicycle chains and components	138,241	138,241	100,000	100	137,946	(9)	(9)	
	K.M.C. Automobile Transmission Co., Ltd	Taiwan	Selling equipment and materials for chains and designing products	597,520	-	3,253,812	100	662,495	59,679	64,975	Note 2
KMC Chain Industrial Co., Ltd.	KMC (BVI) Holding Co., Ltd.	British Virgin IS	Investing activities	15,475 (USD 520 thousand)	48,375 (USD 1,500 thousand)	520,000	100	338,431	11,060		
	KMC Chain Europe B.V.	Netherlands	Selling various bicycle chains and components	320,000	320,000	42	100	425,899	30,436		
	KMC Chain American Corporation	United States	Selling various bicycle chains and components	130,845	130,845	10,000	100	135,508	2,322		
	P.T. Kuei Meng Chain Indonesia	Indonesia	Selling various motorcycle chains and components	24,750	24,750	-	99	24,255	4,738		
KMC (BVI) Holding Co., Ltd.	KMC Chain (Vietnam) Co., Ltd.	Vietnam	Manufacturing and selling various chains and components	89,280 (USD 3,000 thousand)	96,750 (USD 3,000 thousand)	-	100	338,064	10,976		

Note 1: Information on investment in mainland China is provided in Table 6.

Note 2: The difference between share of profit and net income of the investee was timing difference when the Group acquired the company.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

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

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017	Note
					Outward	Inward							
KMC Investment (China) Co., Ltd	Investing activities.	\$ 4,274,803 (RMB 936,430 thousand)	1.(1)	\$ 4,125,946	\$ 341,750	\$ -	\$ 4,467,696	\$ 213,940	100	\$ 213,940	\$ 4,867,764	\$ -	
KMC Transmission (Tianjin) Co., Ltd.	Manufacturing, selling various chains of bicycle.	405,326 (RMB 88,790 thousand)	1.(3)	1.(3)	-	-	1.(3)	(15,077)	100	(36,266)	678,790	-	Note 5
Taichang Tec Industry and Trade Co., Ltd.	Selling various bicycle chains .	9,130 (RMB 2,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	23,074	100	23,074	1,482	-	
Suzhou Kmc Industry and Trade Co., Ltd.	Selling various bicycle chains .	9,130 (RMB 2,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	257,957	100	257,957	276,685	-	
KMC Chain (Shenzhen) Co., Ltd.	Manufacturing, selling various chains of bicycle.	793,434 (RMB 173,808 thousand)	1.(3)	1.(3)	-	-	1.(3)	34,551	100	1,373	2,453,274	-	Note 5
KMC Chain (Suzhou) Co., Ltd.	Manufacturing, selling various chains of bicycle.	368,405 (RMB 80,702 thousand)	1.(3)	1.(3)	-	-	1.(3)	(17,216)	100	(38,221)	1,019,316	-	Note 5
KMC Automotive Transmission Co., Ltd.	Manufacturing and selling ATS.	187,165 (RMB 41,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	61,137	100	15,743	367,264	-	Note 6
KMC Transton Company Limited.	Manufacturing and selling GDO.	41,085 (RMB 9,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	36,057	100	10,379	69,601	-	Note 6
Shenzhen Kmc Industrial Co., Ltd.	Selling of GDO.	4,565 (RMB 1,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	24,331	100	10,110	19,985	-	Note 6

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 4,275,191 (RMB 936,515 thousand)	\$ 5,089,496 (USD 171,018 thousand)	\$ -(Note 3)

Note 1 : The investing methods are categorized as follows:

- 1) Direct investment in companies in mainland China.
- 2) Investment in companies in mainland China, which is made by a company incorporated via a third region
- 3) Others (invested by KMC Investment (China) Co., Ltd.)

Note 2 : The recognition of gains or losses on investment is based on the financial statements audited by the certified public accountant of the parent company in Taiwan.

Note 3 : Pursuant to the Jing-Shen-Zi Letter No. 09704604680 of the Ministry of Economic Affairs, ROC which amended the 'Guidelines Governing the Review of Investment or Technical Cooperation in the Mainland Area' dated August 29, 2008, as KMC Chain Industrial Co., Ltd. has obtained the certificate of being qualified for operating headquarters issued by the Industrial Development Bureau, MOEA, the ceiling amount of the investment in Mainland China is not applicable to the Company.

Note 4 : The rates of exchange are NT\$ 29.76 to one US dollar and NT\$4.565 to one RMB.

Note 5 : The difference between share of profit and net income of the investee was due to the difference between the investment cost and fair value of identifiable net assets acquired.

Note 6 : The difference between share of profit and net income of the investee was the timing difference when the Group acquired the company.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Counterparty	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Unrealized Gain (Note)
			Purchase/Sale	Amount (Note)	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance (Note)	% to Total	
KMC (KUEI MENG) International Inc.	KMC Chain (Shenzhen) Co., Ltd.	Subsidiary	Purchases	\$ 396,967	14	Net 150 days after month end close	Bargain	Equivalent	\$ (165,698)	(57)	\$ 9,313
	KMC Chain (Suzhou) Co., Ltd.	Subsidiary	Purchases	56,695	2	Net 60 days after month end close	Bargain	Equivalent	(11,488)	(4)	(1,893)
KMC Chain Industrial Co., Ltd.	KMC Chain (Shenzhen) Co., Ltd.	Same ultimate parent company	Sales	(35,157)	(1)	Net 60 days after month end close	Bargain	Equivalent	2,484	2	2,211
	KMC Chain (Suzhou) Co., Ltd.	Same ultimate parent company	Sales	(20,043)	-	Net 60 days after month end close	Bargain	Equivalent	3,158	2	782
	KMC Chain (Shenzhen) Co., Ltd.	Same ultimate parent company	Purchases	113,862	4	Net 60 days after month end close	Bargain	Equivalent	(32,810)	54	4,578
K.M.C. Automobile Transmission Co., Ltd	KMC Chain (Shenzhen) Co., Ltd.	Same ultimate parent company	Purchases	50,172	2	Net 150 days after month end close	Bargain	Equivalent	(50,088)	181	-
	KMC Automotive Transmission Co., Ltd.	Same ultimate parent company	Purchases	19,861	1	Net 60 days after month end close	Bargain	Equivalent	(9,495)	34	-

Note : All the transactions had been eliminated when preparing consolidated financial statement.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Related Party	Counterparty	Relationship (Note 2)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales Or Assets (Note 3)
0	KMC (KUEI MENG) International Inc.	KMC Chain Europe B.V.	1.	Sales	\$ 572,673	Negotiation method	11
		KMC Chain American Corporation	1.	Sales	113,264	Negotiation method	2
		P.T. Kuei Meng Chain Indonesia	1.	Sales	31,938	Negotiation method	1
		KMC Chain Industrial Co., Ltd.	1.	Sales	167,077	Negotiation method	3
		KMC Chain (Vietnam) Co., Ltd.	1.	Purchases	264,167	Negotiation method	5
		KMC Chain Industrial Co., Ltd.	1.	Purchases	178,337	Negotiation method	4
		KMC Chain (Shenzhen) Co., Ltd.	1.	Purchases	396,967	Negotiation method	8
		KMC Chain (Suzhou) Co., Ltd.	1.	Purchases	56,695	Negotiation method	1
		K.M.C. Automobile Transmission Co., Ltd	1.	Purchases	112,935	Negotiation method	2
		KMC Chain Europe B.V.	1.	Accounts receivable	91,674	Net 90 days after month end close	1
		KMC Chain American Corporation	1.	Accounts receivable	18,750	Net 90 days after month end close	-
		KMC Chain Industrial Co., Ltd.	1.	Accounts payable	57,151	Net 120 days after month end close	1
		KMC Chain (Shenzhen) Co., Ltd.	1.	Accounts payable	165,698	Net 150 days after month end close	2
		KMC Chain (Suzhou) Co., Ltd.	1.	Accounts payable	11,488	Net 60 days after month end close	-
		K.M.C. Automobile Transmission Co., Ltd	1.	Accounts payable	57,255	Net 45 days after month end close	1
		KMC Chain (Vietnam) Co., Ltd.	1.	Payment on behalf of others	7,175	-	-
		1	KMC Chain Industrial Co., Ltd.	KMC Chain Europe B.V.	1.	Unrealized gain	131,526
KMC Chain American Corporation	1.			Unrealized gain	33,254	-	1
KMC Chain (Shenzhen) Co., Ltd.	3.			Sales	35,157	Negotiation method	1
KMC Chain (Suzhou) Co., Ltd.	3.			Sales	20,043	Negotiation method	-
KMC Chain (Shenzhen) Co., Ltd.	3.			Purchases	113,862	Negotiation method	2
2	K.M.C. Automobile Transmission Co., Ltd	KMC Chain (Shenzhen) Co., Ltd.	3.	Accounts payable	32,810	Net 60 days after month end close	-
		KMC Automotive Transmission Co., Ltd.	3.	Purchases	19,861	Negotiation method	-
		KMC Chain (Shenzhen) Co., Ltd.	3.	Purchases	50,172	Negotiation method	1
		KMC Chain (Shenzhen) Co., Ltd.	3.	Accounts payable	50,088	Net 150 days after month end close	-
3	KMC Chain (Vietnam) Co., Ltd.	KMC Automotive Transmission Co., Ltd.	3.	Accounts payable	9,495	Net 60 days after month end close	-
		P.T. Kuei Meng Chain Indonesia	3.	Sales	19,857	Negotiation method	-
		P.T. Kuei Meng Chain Indonesia	3.	Accounts receivable	14,100	Net 120 days after month end close	-
4	KMC Transmission (Tianjin) Co., Ltd.	KMC Chain (Suzhou) Co., Ltd.	3.	Purchase property, building and equipment	14,253	-	-
		Taichang Tec Industry and Trade Co., Ltd.	3.	Sales	265,393	Negotiation method	5
		Suzhou Kmc Industry and Trade Co., Ltd.	3.	Sales	237,917	Negotiation method	5
		Shenzhen Kmc Industrial Co., Ltd.	3.	Sales	45,999	Negotiation method	1
		KMC Chain (Shenzhen) Co., Ltd.	3.	Purchases	64,146	Negotiation method	1
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchases	141,993	Negotiation method	3
		Taichang Tec Industry and Trade Co., Ltd.	3.	Accounts receivable	87,994	Net 120 days after month end close	1
		Suzhou Kmc Industry and Trade Co., Ltd.	3.	Accounts receivable	90,904	Net 90 days after month end close	1
		Shenzhen Kmc Industrial Co., Ltd.	3.	Accounts receivable	36,880	Net 60 days after month end close	-
		KMC Chain (Shenzhen) Co., Ltd.	3.	Accounts payable	19,028	Net 120 days after month end close	-
KMC Chain (Suzhou) Co., Ltd.	3.	Accounts payable	39,490	Net 120 days after month end close	-		

(Continued)

No. (Note 1)	Related Party	Counterparty	Relationship (Note 2)	Transaction Details					
				Financial Statement Account	Amount	Payment Terms	% of Total Sales Or Assets (Note 3)		
5	KMC Chain (Shenzhen) Co., Ltd.	KMC (KUEI MENG) International Inc.	2.	Unrealized gain	\$ 9,313	-	-		
		Suzhou Kmc Industry and Trade Co., Ltd.	3.	Sales	97,332	Negotiation method	2		
		Taichang Tec Industry and Trade Co., Ltd.	3.	Sales	124,899	Negotiation method	2		
		KMC Chain (Suzhou) Co., Ltd.	3.	Sales	52,986	Negotiation method	1		
		KMC Transton Company Limited.	3.	Sales	20,352	Negotiation method	-		
		Shenzhen Kmc Industrial Co., Ltd.	3.	Sales	13,201	Negotiation method	-		
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchases	89,440	Negotiation method	2		
		Suzhou Kmc Industry and Trade Co., Ltd.	3.	Accounts receivable	18,904	Net 60 days after month end close	-		
		Taichang Tec Industry and Trade Co., Ltd.	3.	Accounts receivable	27,603	Net 90 days after month end close	-		
		KMC Transton Company Limited.	3.	Accounts receivable	9,479	Net 120 days after month end close	-		
		6	KMC Chain (Suzhou) Co., Ltd.	Suzhou Kmc Industry and Trade Co., Ltd.	3.	Sales	231,375	Negotiation method	5
				Taichang Tec Industry and Trade Co., Ltd.	3.	Sales	248,322	Negotiation method	5
				KMC Transton Company Limited.	3.	Sales	12,671	Negotiation method	-
Suzhou Kmc Industry and Trade Co., Ltd.	3.			Accounts receivable	32,048	Net 60 days after month end close	-		
7	KMC Transton Company Limited.	Taichang Tec Industry and Trade Co., Ltd.	3.	Accounts receivable	78,788	Net 120 days after month end close	1		
		Shenzhen Kmc Industrial Co., Ltd.	3.	Sales	13,599	Negotiation method	-		
		Shenzhen Kmc Industrial Co., Ltd.	3.	Accounts receivable	10,035	Net 120 days after month end close	-		

(Concluded)

Note 1: No.0: Represents parent Company. No.1~: Represents subsidiaries.

Note 2: The transaction relationships with the counterparties are as follows:

No.1: Represents transactions from parent Company to subsidiary.

No.2: Represents transactions from the subsidiary to the parent Company.

No.3: Represents transactions among subsidiaries.

Note 3: The percentage of total assets is for balance sheet accounts, and the percentage of total sales is for profit or loss accounts

Note 4: All the transactions had been eliminated when preparing consolidated financial statement.

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Land	Buildings	Machinery and equipment	Transportation equipment	Leasehold improvement	Furniture and fixtures	Miscellaneous equipment	Construction in progress	Total
<u>Cost</u>									
Balance at January 1, 2016	\$ 238,960	\$ 2,038,146	\$ 794,800	\$ 54,101	\$ 4,282	\$ 19,338	\$ 57,960	\$ 17,934	\$ 3,225,521
Acquisitions through business combinations	-	697,173	265,305	35,764	-	-	41,210	-	1,039,452
Additions	2,329	924	62,377	5,375	7,965	2,815	23,507	31,685	136,977
Disposals	-	-	(16,902)	(6,967)	(1,660)	(164)	(2,224)	-	(27,917)
Disposals through disposal of subsidiaries	-	-	-	-	-	-	(53)	-	(53)
Reclassification	-	14,712	13,117	-	-	46	(1,474)	(17,055)	9,346
Effect of foreign currency exchange differences	(575)	(176,346)	(55,877)	(4,639)	(88)	(734)	(5,006)	(2,024)	(245,289)
Balance at December 31, 2016	<u>\$ 240,714</u>	<u>\$ 2,574,609</u>	<u>\$ 1,062,820</u>	<u>\$ 83,634</u>	<u>\$ 10,499</u>	<u>\$ 21,301</u>	<u>\$ 113,920</u>	<u>\$ 30,540</u>	<u>\$ 4,138,037</u>
<u>Accumulated depreciation and impairment</u>									
Balance at January 1, 2016	\$ -	\$ 204,202	\$ 448,840	\$ 39,840	\$ 3,252	\$ 14,547	\$ 38,775	\$ -	\$ 749,456
Acquisitions through business combinations	-	127,877	177,733	29,003	-	-	27,934	-	362,547
Depreciation	-	77,224	63,438	4,990	672	2,278	11,836	-	160,438
Disposals	-	-	(14,163)	(5,797)	(1,660)	(154)	(1,626)	-	(23,400)
Disposals through disposal of subsidiaries	-	-	-	-	-	-	(42)	-	(42)
Reclassification	-	-	(5,852)	-	-	46	(2,647)	-	(8,453)
Effect of foreign currency exchange differences	-	(20,173)	(32,443)	(4,434)	(27)	(703)	(3,463)	-	(61,243)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 389,130</u>	<u>\$ 637,553</u>	<u>\$ 63,602</u>	<u>\$ 2,237</u>	<u>\$ 16,014</u>	<u>\$ 70,767</u>	<u>\$ -</u>	<u>\$ 1,179,303</u>
Carrying amounts at December 31, 2016	<u>\$ 240,714</u>	<u>\$ 2,185,479</u>	<u>\$ 425,267</u>	<u>\$ 20,032</u>	<u>\$ 8,262</u>	<u>\$ 5,287</u>	<u>\$ 43,153</u>	<u>\$ 30,540</u>	<u>\$ 2,958,734</u>
<u>Cost</u>									
Balance at January 1, 2017	\$ 240,714	\$ 2,574,609	\$ 1,062,820	\$ 83,634	\$ 10,499	\$ 21,301	\$ 113,920	\$ 30,540	\$ 4,138,037
Acquisitions through business combinations	-	1,427	84,811	2,252	-	43	35,054	-	123,587
Additions	-	9,451	143,133	6,495	-	1,470	30,636	194,910	386,095
Disposals	-	-	(68,248)	(15,305)	(339)	(68)	(4,790)	(454)	(89,204)
Reclassification	-	(37,918)	51,302	(16)	-	(304)	(1,236)	(34,821)	(22,993)
Effect of foreign currency exchange differences	(1,627)	(20,432)	(24,554)	(1,258)	(281)	431	(1,231)	2,380	(46,572)
Balance at December 31, 2017	<u>\$ 239,087</u>	<u>\$ 2,527,137</u>	<u>\$ 1,249,264</u>	<u>\$ 75,802</u>	<u>\$ 9,879</u>	<u>\$ 22,873</u>	<u>\$ 172,353</u>	<u>\$ 192,555</u>	<u>\$ 4,488,950</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2017	\$ -	\$ 389,130	\$ 637,553	\$ 63,602	\$ 2,237	\$ 16,014	\$ 70,767	\$ -	\$ 1,179,303
Acquisitions through business combinations	-	27	32,791	1,543	-	4	16,951	-	51,316
Depreciation	-	86,707	76,681	5,052	2,529	2,173	20,243	-	193,385
Disposals	-	-	(56,387)	(12,176)	(339)	(54)	(4,109)	-	(73,065)
Reclassification	-	(3,302)	(3,374)	(14)	-	(188)	(2,624)	-	(9,502)
Effect of foreign currency exchange differences	-	(3,755)	(18,791)	(1,119)	(115)	336	(870)	-	(24,314)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 468,807</u>	<u>\$ 668,473</u>	<u>\$ 56,888</u>	<u>\$ 4,312</u>	<u>\$ 18,285</u>	<u>\$ 100,358</u>	<u>\$ -</u>	<u>\$ 1,317,123</u>
Carrying amounts at December 31, 2017	<u>\$ 239,087</u>	<u>\$ 2,058,330</u>	<u>\$ 580,791</u>	<u>\$ 18,914</u>	<u>\$ 5,567</u>	<u>\$ 4,588</u>	<u>\$ 71,995</u>	<u>\$ 192,555</u>	<u>\$ 3,171,827</u>

KMC (Kuei Meng) International Inc.

Chairman: Wu, Ying-Chin