

KMC( Kuei Meng) International Inc.  
Minutes of 2018 Annual General Shareholders' Meeting  
(Translation)

Time: 09:00 a.m. on Friday, June 22, 2018

Place: Zenda Suites C Hall (Add : No.2,Dasyue Rd.,East District. Tainan City 701,Taiwan.)

Attendance: All shares represented by shareholders present are 95,395,607 shares (including 68,746,335 shares the voting rights of which are exercised by the electronic means), or 79.49% of the total 120,000,000 outstanding shares, which has formed a quorum in accordance with Article 174 of the provisions of the Company Act.

Chairman: Wu, Ying-Chin, the Chairman of the Board of Directors

Recorder: Chen, Yung-Jen

Directors present: Director Wu, Jui-Chang, Independent Director, Wang, Ming-Lung, and  
Independent Director, Lin, Ting-Ze

Attendant supervisor: Supervisor, Kao, Ting-Nan

Attendance: Deloitte & Touche Accountant, Yang, Chao-Chin

The aggregate shareholding of the attendance has formed a quorum. The Chairman called the meeting to order.

I. Chairman Remarks

II. Report Matters

1. To revise the Rules of Procedure for Board of Directors Meetings

Explanation:

- (1) In order to confirm to the needs of amendments to related commercial laws, the company amend the Rules of Procedure for Board of Directors Meetings.
- (2) Please refer to the page8-9 , Attachment I for a comparison of the contents before and after amendment.

2. 2017 Distribution of Employees' and Directors' Remuneration.

Explanation:

- (1) The Board of Directors approved 2017 employees' profit sharing bonus and directors' compensation on March 13, 2018. The employees' profit sharing bonus and directors' compensation are to be distributed in cash.
- (2) 2017 employees' total profit sharing bonus is NT\$10,312,398, based on 0.88% of profit before income tax for 2017.
- (3) 2017 directors' compensation is NT\$8,000,000, based on 0.683% of profit before income tax for 2017.

3. 2017 Business Reports.

Explanation:

The 2017 Business Report is attached as pp. [10-13], Attachment II .

4. Supervisor's Review Report on the 2017 Financial Statements.

Explanation:

The 2017 Supervisor's Review Report is attached as pp. [14], Attachment III .

### III. Acknowledgement Matters

#### 1. Proposal: Adoption of the 2017 Business Report and Financial Statements.( Proposed by the Board)

##### Explanation:

- (1) KMC's 2017 Financial Statements, including Balance Sheets, Statements of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows, were audited by independent auditors, Mr. Hung Ju Liao and Mr. Chao Chin Yang of Deloitte & Touche.
- (2) The 2017 Business Report, Supervisor's Review Report, and the above-mentioned Financial Statements are attached in the Meeting Agenda, pp. [10,14,15], Attachment II, III, IV.

Resolution: The voting results are as followed:

95,395,607 shares were represented at the time of voting.

Voting results	Proportion to the total represented shares present
Affirmative votes 91,575,719 shares (including 66,134,880 shares the voting rights of which are exercised by the electronic means)	95.99%
Dissentient votes 3,946 shares (including 3,946 shares the voting rights of which are exercised by the electronic means)	0.00%
Invalid votes 0 shares	0.00%
Abstained votes 3,815,942 shares (including 2,607,509 shares the voting rights of which are exercised by the electronic means)	4.00%

The proposal has been adopted by voting without any modification.

#### 2. Proposal: Adoption of the Proposal for Distribution of 2017 Profits.( Proposed by the Board)

##### Explanation:

- (1) The Board has adopted a Proposal for Distribution of 2017 Profits in accordance with the Company Act and Articles of Incorporation. Please refer to the 2017 PROFIT DISTRIBUTION TABLE, please refer to page 26, Appendix V.
- (2) To proposed dividend to shareholders is NT\$ 600,000,000.
- (3) Upon the approval of the Annual Meeting of Shareholders, it is proposed that the Board of Directors be authorized to resolve the ex-dividend date, ex-rights date, and other relevant issues.
- (4) In the event that, before the distribution record date, the proposed profit distribution is affected by an amendment to relevant laws or regulations, a request by the competent authorities, or a buyback of shares or issuance of new shares for transferring treasury shares to employees or employee stock options, it is proposed that the Board of Directors be authorized to adjust the cash and stock to be distributed to each share based on the number of actual shares outstanding on the record date for distribution.

Resolution: The voting results are as followed:

95,395,607 shares were represented at the time of voting.

Voting results	Proportion to the total represented shares present
Affirmative votes 91,575,719 shares (including 66,134,880 shares the voting rights of which are exercised by the electronic means)	95.99%
Dissentient votes 3,946 shares (including 3,946 shares the voting rights of which are exercised by the electronic means)	0.00%
Invalid votes 0 shares	0.00%
Abstained votes 3,815,942 shares (including 2,607,509 shares the voting rights of which are exercised by the electronic means)	4.00%

The proposal has been adopted by voting without any modification.

#### IV. Proposals and Discussions

1. Proposal: To approve the proposal for Capital increase of earnings. Please proceed to discuss. (Proposed by the Board)

Explanation:

- (1) Capitalization of the retained earnings: To meet the needs for future development, the Company plans to capitalize the retained earnings through new stock issuance. NT\$60,000,000 of shareholders' bonus from the available appropriated earnings from 2017 is to set aside and be capitalized through issuance of 6,000,000 new shares.
- (2) The conditions of the new share issuance:
  - A. According to the proposed capital increase plan, 50 common shares will be distributed for every 1,000 common shares. Allotment of fractional shares (less than one share) shall be paid in cash, and the Chairman or his designated representative may subscribe at par value. Actual placement and number of shares will depend on the number of registered shareholders on the ex-rights date.
  - B. The shareholder rights and obligations of the new shares are the same as those of existing shares.
  - C. In the event that, before the distribution record date, the proposed profit distribution is affected by an amendment to relevant laws or regulations, a request by the competent authorities, or a buyback of shares or issuance of new shares for transferring treasury shares to employees or employee stock options, it is proposed that the Board of Directors be authorized to adjust the cash and stock to be distributed to each share based on the number of actual shares outstanding on the record date for distribution.
  - D. After the approval of the Annual Meeting of Shareholders and the competent authority, the new shares will be distributed on a record date determined by the Board.
  - E. It is proposed that the Board of Directors be authorized to take any action that may be required in connection with the capital increase plan as a result of any amendment to applicable laws or regulations or as required by the competent authorities.

Resolution: The voting results are as followed:

95,395,607 shares were represented at the time of voting.

Voting results	Proportion to the total represented shares present
Affirmative votes 91,558,719 shares (including 66,117,880 shares the voting rights of which are exercised by the electronic means)	95.9%
Dissentient votes 20,946 shares (including 20,946 shares the voting rights of which are exercised by the electronic means)	0.02%
Invalid votes 0 shares	0.00%
Abstained votes 3,815,942 shares (including 2,607,509 shares the voting rights of which are exercised by the electronic means)	4.00%

The proposal has been adopted by voting without any modification.

V. Extemporany Motion: None

VI. Adjournment: 09:23 a.m. on Friday, June 22, 2018

(This meeting minutes was recorded in accordance with Article 183 of the provisions of the Company Act. The meeting audio recording still prevails regarding the meeting content, proceedings and shareholders' statements.)

Attachment I Comparison Table of the Amendments to the Rule of Procedure Board of Directors Meetings

Before Amendment	After Amendment
<p>Article 12</p> <p>The matters listed below as they relate to this Corporation shall be raised for discussion at a board meeting:</p> <ol style="list-style-type: none"> <li>1. The Corporation's business plan.</li> <li>2. The Quarterly and Annual financial reports.</li> <li>3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act.</li> <li>4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others.</li> <li>5. The offering, issuance, or private placement of equity-type securities.</li> <li>6. The appointment or discharge of a financial, accounting, or internal audit officer.</li> <li>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief that is made for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</li> <li>8. Any matter that, under Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</li> </ol> <p>The term "related party" in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>With respect to a matter that, under Article 14-3 of the</p>	<p>Article 12</p> <p>The matters listed below as they relate to this Corporation shall be raised for discussion at a board meeting:</p> <ol style="list-style-type: none"> <li>1. The Corporation's business plan.</li> <li>2. <u>Annual and semi-annual financial reports, with the exception of semi-annual financial reports that are not required under relevant laws and regulations to be audited and attested by a certified public accountant (CPA).</u></li> <li>3. Adoption or amendment of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act, <u>and an assessment of the effectiveness of the internal control system.</u></li> <li>4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of any handling procedures for material financial or business transactions, such as the acquisition or disposal of assets, derivatives trading, loans of funds to others, and endorsements or guarantees for others.</li> <li>5. The offering, issuance, or private placement of equity-type securities.</li> <li>6. The appointment or discharge of a financial, accounting, or internal audit officer.</li> <li>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief that is made for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</li> <li>8. Any matter that, under Article 14-3 of the Securities and Exchange Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</li> </ol> <p>The term "related party" in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term "major donation to a non-related party" means an individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NTD100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term "within a 1-year period" in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board</p>

Before Amendment	After Amendment
<p>Securities and Exchange Act, must be approved by resolution at a board meeting, any and all independent directors of this Corporation shall attend the meeting in person or appoint another independent director to attend the meeting as proxy. If an independent director objects to or expresses reservations about such a matter, it shall be recorded in the board meeting minutes; if an independent director intends to express an objection or reservation but is unable to attend the meeting in person, then unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes.</p>	<p>of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p><u>Each meeting of board of directors shall be attended by at least one independent director in person. In the case of a meeting concerning any matter required to be submitted for a resolution by the board of directors under Paragraph 1, all independent directors shall attend in person; if an independent director is unable to attend in person, he or she shall appoint another independent director to attend the meeting as proxy.</u> If an independent director objects to or expresses reservations about such a matter, it shall be recorded in the board meeting minutes; if an independent director intends to express an objection or reservation but is unable to attend the meeting in person, then unless there is a legitimate reason to do otherwise, that director shall issue a written opinion in advance, which shall be recorded in the board meeting minutes.</p>

KMC( Kuei Meng) International Inc.  
2017 Business Report

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.

I. 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 gross 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:

Unit: TWD one 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:

Unit: TWD one 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.



## II. 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.

## III. 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.

IV. 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

## Attachment III

### Attachment III Supervisor's Review Report

#### 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

## 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 descriptions of the key audit matters of the Group's consolidated financial statements for the year ended December 31, 2017 is as follows:

## Goodwill Impairment Assessment

The Group has acquired 100% shareholdings in K.M.C. Automobile Transmission Co., Ltd., KMC Transton Company Limited and KMC Automotive Transmission Co., Ltd. (the acquired Companies) at July, 2017 and the value of goodwill from the acquisition was NT\$ 486,670 thousand (NT\$ is the functional currency here). Including the goodwill was generated by previous acquisitions, the consolidated balance of goodwill 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 the impairment of goodwill, management estimates the future cash flows expected to arise from the cash-generating unit 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 to goodwill. The inputs, assumptions and expected growth rate used for estimating the expected future cash flows and 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 of the impairment of goodwill.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Inquired 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. Calculated the achieved 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. Engaged our valuation specialists in evaluating the rate of weighted average cost of capital when estimating the value in use, which includes the assumptions of risk free interest, volatility and risk premium, etc., by comparing what applied to the Group with the current status of chain industry; in addition, 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	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
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>
<b>NON-CURRENT ASSETS</b>					<b>NON-CURRENT LIABILITIES</b>				
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	-	<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
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>
<b>TOTAL</b>	<u>\$ 10,071,572</u>	<u>100</u>	<u>\$ 8,564,860</u>	<u>100</u>	<b>TOTAL</b>	<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 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>\$ 8.69</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 STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners, of the Company						Total	Non-controlling Interests	Total Equity
	Capital Stock	Capital Surplus	Retained Earnings		Unappropriated Earnings	Other Equity Exchange Differences on Translating Foreign Operations			
			Legal Reserve	Special Reserve					
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 loss 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 loss 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 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 receivables	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>

	<b>2017</b>	<b>2016</b>
Net cash generated from operating activities	<u>987,811</u>	<u>1,091,684</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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 associates (Note 27)	(432,561)	(2,027,032)
Net cash outflow on disposal of associates (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
Dedcrease in other finanacial 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>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES</b>		
	<u>(61,552)</u>	<u>(98,391)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	406,758	48,490
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>1,608,745</u>	<u>1,560,255</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 2,015,503</u>	<u>\$ 1,608,745</u>

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

(Concluded)

## Attachment V 2017 Profit Distribution Table

KMC( Kuei Meng) International Inc.  
2017 PROFIT DISTRIBUTION TABLE

in NT\$

Items	Amount
Accumulated un-appropriated earnings at the beginning of the period	\$843,819,287
Retained earnings adjustment for the beginning of the period	(4,127,802)
Adjusted Accumulated un-appropriated earnings at the beginning of the period	839,691,485
Add: 2017 Net Profit	1,042,892,911
Less: appropriated as legal reserve (10%)	(104,289,291)
Less: special reserve by law	(85,268,600)
Earnings available for appropriation at the end of 2017	1,693,026,505
Allocation Items	
Cash Dividends to Shareholders(NT\$4.5 per share)	(540,000,000)
Stock Dividends to Shareholders(NT\$0.5 per share)	(60,000,000)
Un-appropriated Earnings	\$1,093,026,505