



Ticker Number : 5306

# *KMC( Kuei Meng) International Inc.*

## *2019 Annual Report*



Website for inquiry at MOPS: <http://mops.twse.com.tw>  
KMC official website: <http://www.kmc-international.com>  
Date of printing: May 20, 2020

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- IV. Auditors  
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- 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,

I would very much like to thank our shareholders for their ongoing support without which KMC could not have performed in excellence in 2019, with record high revenue and after tax profit. Trade protectionism has affected world trade since 2018. In response, KMC sought to localize all over the world to adapt to the change in the environment with in-depth development in Mainland China, Taiwan, the ASEAN countries, Europe, and America, in manufacturing and sale channels. These highlighted the core competence of the Company in responding to the unpredictable environment. The increasing penetration of electric bikes and high-end bicycles and the growing demand in the repair markets of Europe and USA helped to push the operation of KMC forward.

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. KMC completed its integration plan in 2017 whereby the territory of the chain operation for bicycles, motorcycles, automotive parts and components, and household driving market have been properly established in Mainland China and other parts of the world. The phase II development plan was kicked off in 2018. KMC acquired 100% of the equity shares of Maya trading co. ltd for enhancing the diversity of product lines and marketing with several brands for the proper deployment of product lines and improvement of efficiency. This investment not only obtains expected results, but also makes the overall KMC operation closer to the market and customers, and create a win-win situation.

## I. Business results of 2019:

### (1) The implementation results of business plan:

KMC has achieved record high consolidated revenue in 2019 was NT\$5.24bn (YoY 3.6%), with net profit was NT\$1bn (YoY 6.3%), and was NT\$8.00. KMC was benefited from the rebound of the domestic demand market in China, the afeter market of bicycle chain and high-end sports and entertainment, and the growth of the shipment of chains exclusive to electric bikes. The gradual recovery of the market beyond bicycle chain also contributed to the result. At the same time, KMC has spared no effort in optimizing its product portfolio and lean management, which contributed to the record high revenue in 2019 with 6.3% increase in profit as compared with the same period of 2018, which was also record high. The operation other than bicycle chains in 2019 was clouded by the rise in tariff in the buyer countries and the depreciation of currency that led to the reduced orders from customers. The performance of the automotive timing system operation was also not as expected under the subsidizing policy of the government on automotive factories in China, the increase in production of new energy cars, and the drop in the demand for fuel cars under the expectation of the transition from China V to China VI standard, which were unfavorable.

(2) The year of 2019 Budget Implementation Status:

Unit: TWD thousands

Item	Actual amount	Budget amount	Achieved rate %
Operating revenue	5,239,635	5,200,000	101%
Gross profit	2,143,280	2,100,000	102%
Operating profit	1,253,552	1,200,000	105%
Net profit after tax	1,007,490	980,000	103%

(3) Financial and Profitability analysis:

Unit: TWD one thousand

Item	2019	2018	The percentage changed
Operating revenue	5,239,635	5,056,832	3.6%
Gross profit	2,143,280	2,138,990	0.2%
Operating profit	1,253,552	1,225,582	2.3%
Net profit after tax	1,007,490	947,666	6.3%
Cross profit margin	40.9%	42.3%	
Operating margin	23.9%	24.2%	
Net margin	19.2%	18.7%	
EPS in NT\$	8.00	7.52	

(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. The durability, hardness, and convenience in replacement, and the smooth shifting of speed for bicycle chain will be the gravity of KMC in research and development

II. Summary of 2020 Business Plan:

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

KMC is a specialized bicycle chain manufacturer that has won the recognition of corporate customers and end users for its manufacturing and technical capabilities, in recent years, we have joined numerous design competitions at home and abroad to sharpen our competences in design and development, we're abreast with market trends and our products are receiving increasing exposure in the international media. The revenues from the bicycle business unit, automotive parts and components business unit, the automotive timing system and garage door system accounted for 77.3%, 10.2%, 6.3%, and 6.2% in 2019, respectively.

In 2018, KMC was ranked among the 21<sup>st</sup> ~35<sup>th</sup> position of the “Interbrand Survey” for the first time and won the “Best Brand of Taiwan”. In 2019, KMC was once again ranked among the top 35 of “Interbrand”. KMC will continue its performance and aim at globalization, and emerge as the most influential international brand through global development by branding power.

KMC committed considerable resources in the development of the market of high-end bicycle chains and repair market. First of all, KMC stepped further in the diversification of the parts and components of electric bikes. Further to the use of exclusive chain, exclusive gear system has also been introduced that gave greater variety of the product line. Secondly, KMC seeks to increase its share in the after market of Europe and USA. The lucrative profit in the after market has long been the prime force driving for profit growth for KMC. In the last 3 years, this market has annual growth of more than 10%. The increase of the penetration rate of electric bikes and high-end bicycles will help to push the repair market forward, which in turn will enhance the performance of KMC in profitability.

KMC has completed the inception of SAP in the plants of Taiwan and Mainland China. This system helps to integrate the information, which has been scattered in different departments in the past. The linking between management and manufacturing in real-time helps to upgraded the transparency of data in the production process so that the managers can adjust and review the time axis of the operation data with flexibility, from monthly, weekly and even daily. They could respond to the unpredictable environment quickly through standard operation procedures to optimize the operation efficiency of the Company.

In vital production policy, KMC will continue to increase advanced production process and capacity to satisfy the needs of the customers and provide them with quicker and instance support in production and sale. At the same time, KMC also seeks to reinforce its “short supply chain” capacity with its foundation of localized production in different places of the world to withstand the rise of global trade protectionism for assurance of absolute advantage of leadership in the industry.

## (2) Sales volume forecast and the accordance of fact

Bicycle , motorcycle, automobile and GDO 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. KMC will oriented towards “Professionalism with Hearty Choice”



In 2020, KMC will focus on three aspects of development in automotive parts and components. First of all, it will align with the development trend of electric bikes and increase its stake in the diversification of parts and components for electric bikes. Secondly, KMC seeks to increase its share in the repair market of Europe and USA. The lucrative profit in the repair market has long been the prime force driving for profit growth for KMC. In the last 3 years, this market has annual growth of more than 10%. The increase of the penetration rate of electric bikes and high-end bicycles will help to push the repair market for further growth, which in turn will enhance the overall performance of KMC. Thirdly, it is the chains for high-end sport vehicles. A number of manufacturers will launch ultra-high performance system in new models, which is expected to bring about another wave of upgrade and replacement for new vehicles, and in turn drive the demand for high-end chains. In the operation beyond bicycle chain, the diminishing of influence from unfavorable factors allows KMC to bolster its operation in the repair operation in ASEAN region in the area of parts and components for motorcycles. In the area of automotive timing system, KMC will speed up its paces in working in conjunction with major customers in the development of automotive timing system and different parts and components. As for the garage door system, KMC will increase the number of projects of system parts for joint development with customers.

- 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. KMC pays no less attention to the value of environmental protection and emphasizes on sustainable coexistence. Being a member of the green transportation industry, and as a leading manufacturer of chains and made the first eco-friendly chain with carbon footprint accreditation, KMC will continue to work hard to achieve the goal of carbon reduction. 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 2019, 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!

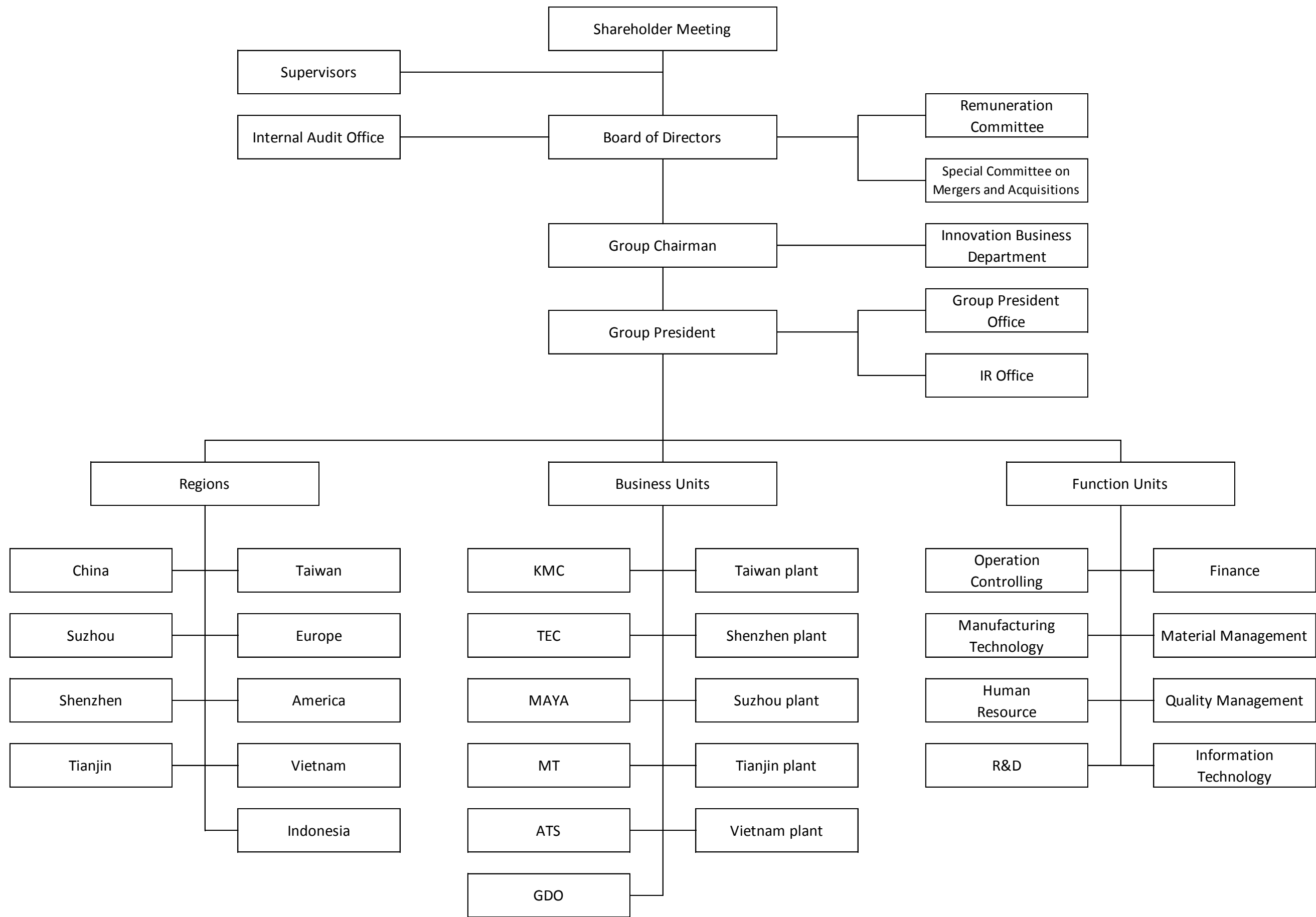
KMC (Kuei Meng) International Inc.  
Chairman: Wu, Ying-chin

## II. Company Overview

1. Date of incorporation: April 20<sup>th</sup>, 1989
2. Company milestone

April, 1989	The company was established 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"> <li>1. Conduct private equity fund raising of 60,000 thousand shares, invite strategy-cooperate investor "KMC TRANSTON Industries Limited."</li> <li>2. Newly established "Transmission Business Department", introduced transmission products for bicycle and motorcycle, activate transformation project.</li> </ol>
October 2011	<ol style="list-style-type: none"> <li>1. Re-elect overall Directors, Supervisors in extra-ordinary shareholders' meeting</li> <li>2. Elect new Chairperson of the Board of Directors</li> <li>3. Relocated to YongKang District</li> </ol>
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 shareholders' decided to rename the company to "KMC (Kuei Meng) International Inc."
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"> <li>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.</li> <li>2. New KMC Investment (China) Co., Ltd. will be the operating headquarters of the group in China.</li> </ol>
March 2015	<p>Win awarded 3rd "Taiwan Mittelstand Award."</p> <p>The Board of Directors resolved to acquire 100% of shareholdings of "KMC Chain (Shenzhen) Co., Ltd." and another company.</p>
May 2015	The Board of Directors resolved to issue new stock of 10,780 thousand shares for capital increase by cash.
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."
September 2018	The Company's board of directors approved the acquisition of 100% shareholding of Maya Chain Co., Ltd
November 2018	KMC ranked in the top 35 of Taiwan's International Brand for the first time
January 2019	Established "KMC Industries (Vietnam) Co., Ltd" to sell various chains and components.

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"> <li>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.</li> <li>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.</li> </ol>
Innovation Business Department	<ol style="list-style-type: none"> <li>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.</li> <li>2. The review of investment in non-related companies, the ahead inspection of due diligence.</li> </ol>
Group General Manager Office	To assist the group General Manager in regular review of group strategy and the execution status of the various projects.
Global Service Location	<ol style="list-style-type: none"> <li>1. Gather and analyze the market information worldwide.</li> <li>2. Responsible for the products marketing and business promotion in the various markets of the world.</li> <li>3. Responsible for the products support after sales and clients technique supporting promotion in the various markets of the world.</li> </ol>
Business unit KMC/TEC/MAYA MT/ATS/GDO	<ol style="list-style-type: none"> <li>1. To provide assistance and support for the various manufacturing line of the group.</li> <li>2. To support the business front-line selling activities. To study and propose marketing strategy.</li> <li>3. To cooperate with global deployment, find and solve the customer's question and improve the satisfaction of the customer.</li> <li>4. To cooperate with global deployment, develop the business opportunities for the various products in different market.</li> </ol>
Taiwan KMC Plant/ Shenzhen KMC Plant Suzhou KMC Plant/ Tianjin Chaohui Plant Vietnam KMC Plant	<ol style="list-style-type: none"> <li>1. Manufacture all products of the group</li> <li>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.</li> </ol>
Function unit	<ol style="list-style-type: none"> <li>1. To assist the group General Manager to implement all management tasks for the group strategy.</li> <li>2. To support all business unit, plant in daily operating tasks.</li> </ol>

2. Information on the directors, supervisors, general manager, vice general manager, assistant vice general manager, heads of divisions and branches
3. Remunerations to the directors, supervisors, general manager and the vice general manager in the previous fiscal year
- (1) Remunerations paid to directors and independent directors

December 31<sup>st</sup>,2019; 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		Compensation Paid to Directors from Non-consolidated Affiliates or Parent Company	
		Remuneration (A)		Pension (B)		Remuneration from distributed earning (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		KMC		All Consolidated entities
Chairman	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin	1,800	2,400	0	0	8,400	8,400	0	0	1.01%	1.07%	3,979	9,583	108	230	0	0	0	0	1.42%	2.05%	15,487
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang																					
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wang,Chiung-Fen																					
Independent Director	Wang,Ming-Lung	1,200	1,200	0	0	0	0	0	0	0.12%	0.12%	0	0	0	0	0	0	0	0	0.12%	0.12%	None
Independent Director	Lin,Ting-Ze																					

Remuneration Brackets

December 31<sup>st</sup>,2019

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 (Include Parent Company and Non-consolidated Affiliates)
Less than NT\$1,000,000	KMC TRANSTON INDUSTRIES LIMITED Representative Wang,Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze	KMC TRANSTON INDUSTRIES LIMITED Representative Wang,Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze	KMC TRANSTON INDUSTRIES LIMITED Representative Wang,Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze	KMC TRANSTON INDUSTRIES LIMITED Representative Wang,Chiung-Fen Wang, Ming-Lung Lin, Ting-Ze
NT\$1,000,000~NT\$2,000,000 (exclusive)	None	None	None	None
NT\$2,000,000~NT\$3,500,000 (exclusive)	None	None	None	None
NT\$3,500,000~NT\$5,000,000 (exclusive)	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin Representative Wu, Jui-Chang	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Ying-Chin Representative Wu, Jui-Chang	None	None
NT\$5,000,000~NT\$10,000,000 (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
NT\$10,000,000~NT\$15,000,000 (exclusive)	None	None	None	None
NT\$15,000,000~NT\$30,000,000 (exclusive)	None	None	None	None
NT\$30,000,000~NT\$50,000,000 (exclusive)	None	None	None	None
NT\$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 31<sup>st</sup>,2019 ; in NT\$ thousands

Title	Name	Remunerations to supervisors						A+B+C in proportion to corporate earnings		Compensation Paid to Supervisors from Non-consolidated Affiliates or Parent Company
		Remuneration (A)		Remuneration from distributed earnin (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%	1,200
Supervisor	Chieh Nai Chih Investment Co., Ltd Representative Hsu,Yang-Kang									

Brackets of remunerations

Brackets of remunerations to the Supervisors of KMC(Kuei Meng) International Inc.	Name	
	A+B+C	
	KMC	All Consolidated entities (Include Parent Company and Non-consolidated Affiliates)
Less than NT\$1,000,000	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\$1,000,000～NT\$2,000,000 (exclusive)	None	None
NT\$2,000,000～NT\$3,500,000 (exclusive)	None	None
NT\$3,500,000～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 31<sup>st</sup>,2019 ; 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		Compensation Paid to General Manager and Vice President from Non-consolidated Affiliates or Parent Company
		KMC	All Consolidated entities	KMC	All Consolidated entities	KMC	All Consolidated entities	KMC		All Consolidated entities		KMC	All Consolidated entities	
								Cash	Stock	Cash	Stock			
Group President	Wu, Jui-Chang	3,714	5,693	0	0	0	0	0	0	0	0	0.37%	0.57%	3,714
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 (Include Parent Company and Non-consolidated Affiliates)
Less than NT\$1,000,000	None	None
NT\$1,000,000～NT\$2,000,000 (exclusive)	None	Wu,Hsing-Chuan
NT\$2,000,000～NT\$3,500,000 (exclusive)	None	None
NT\$3,500,000～NT\$5,000,000 (exclusive)	Wu, Jui-Chang	Wu, Jui-Chang
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	1	2

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

in NT\$ thousands					
Title	Name	Stock	Cash	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	2019		2018	
	KMC	All Consolidated entities	KMC	All Consolidated entities
Directors	1.54%	2.17%	1.63%	2.33%
Supervisors	0.12%	0.12%	0.13%	0.13%
President and Vice President	0.37%	0.57%	0.42%	0.66%

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 2019, according to the Article of Incorporation, the proposed attributed remuneration for Directors and Supervisors is NT\$8,400 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 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 6 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	6	0	100	None
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wu, Jui-Chang	6	0	100	None
Director	KMC TRANSTON INDUSTRIES LIMITED Representative Wang, Chiung-Fen	6	0	100	None
Independent Director	Wang, Ming-Lung	6	0	100	None
Independent Director	Lin, Ting-Ze	6	0	100	None

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
March 18, 2019	The 14th Session of the 11th Board of Directors Meeting	<ol style="list-style-type: none"> <li>Review of the resolution of remuneration committee.</li> <li>Amendment to the Articles of Incorporation.</li> <li>Amendment to the Operational procedures for Acquisition and Disposal of Assets.</li> <li>Amendment to the Operation Procedures for Lending Fund to Other Parties.</li> <li>Amendment to the Operational procedures for Marking Endorsement and Guarantee.</li> </ol>	All the motions listed on the left were approved by the Independent Directors.
May 13, 2019	The 15th Session of the 11th Board of Directors Meeting	Amendment to the Regulations of Internal Control Systems.	
August 13, 2019	The 17th Session of the 11th Board of Directors Meeting	Review of the company's plan to render guarantee to subsidiary.	
November 12, 2019	The 18th Session of the 11th Board of Directors Meeting	Review of the resolution of remuneration committee.	

March 19, 2020	The 20th Session of the 11th Board of Directors Meeting	1. Review of the resolution of remuneration committee. 2. Amendment to the Articles of Incorporation. 3. The motion for the change of independent auditor because of its internal rotation.	
May 11, 2020	The 21th Session of the 11th Board of Directors Meeting	Review the candidates for the 12th Board of Directors.	Director Wang, Ming-Lung recused himself from the voting due to conflicts of interests

(b) Except any of the above matters, other proposals on record which are made either opposite or reserve objections by independent directors: None

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

Director Wang, Ming-Lung recused himself from the voting of reviewing the candidates for the 12th Board of Directors due to conflicts of interests on May 11, 2020.

(C) TWSE/TPEX-listed companies are required to disclose the frequency, period, scope, method and detail of board performance evaluations, and complete the implementation status of Board performance evaluation.

#### Board evaluation status

Frequency	Period	Scope	Method	Description
Conducted at least once a year	From January 1, 2019 to December 31, 2019	Evaluation of performance of the board of directors as a whole, that of individual board members, and that of the functional committees.	Include Board overall performance evaluation and Director self-assessment	Board overall performance evaluation should cover 5 aspects: 1. Degree of participation in company operations 2. Quality of board decisions 3. Board composition and structure 4. Selection of suitable board directors and continuing professional education 5. Internal control.  Director self-assessment should cover 6 aspects: 1. Grasp of company targets and missions 2. Understanding of the director's role and responsibilities 3. Level of participation in company operations 4. Internal relationship management and communication 5. Director's specialty and continued development 6. Internal controls.

- (D) 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.” Six Board meetings were held in 2019 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.
  - (f) The Board of Directors approved the establishment of The Audit Committee on March 19, 2020 and will elect three independent directors to be the members of The Audit Committee on the Year 2020 General Shareholders’ Meeting.

(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 6 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	100%	None
Supervisor	Chieh Nai Chih Investment Co., Ltd Representative Hsu,Yang-Kang	5	83%	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.

(b) 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.)

(a) 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.

(b) 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.

(c) The company's internal auditor convened a closed-door meeting with the supervisors on March 19, 2020, to report the outcome and follow-up status of auditing regularly. Both parties have maintained good communication regarding the opinions of the internal auditing unit or any shortcomings discovered during auditing. The internal auditors will continue to follow-up and conduct further audits, and the improvements made will be submitted to the supervisors in a written or oral report.

(C) 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 has been disclosed to stakeholders under the section of Investors on the company’s website ( <a href="http://www.kmc-international.com/index.php?option=module&amp;lang=cht&amp;task=showlist&amp;id=24&amp;index=1">http://www.kmc-international.com/index.php?option=module&amp;lang=cht&amp;task=showlist&amp;id=24&amp;index=1</a> ) 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?	✓		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, acting spokesperson, investor relations unit and entrust professional stock affairs agency.	No Difference
(2) Does the Company have a list of those who ultimately control the major shareholders of the Company?	✓		2. The company has a full understanding of the principle shareholders structure through stock affairs agency regularly.	
(3) How does the Company establish its risk management mechanism and firewalls involving related enterprises?	✓		Furthermore, the major shareholders of the Company will report changes in shareholding to the company every month pursuant to the law. The list of top 10 shareholders is also disclosed in the annual report every year.	
(4) Has the Company set internal standards to prohibit the use of undisclosed insider information to trade securities on the market?	✓		3. The related control procedures have been established in the internal control system	

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
			<p>according to the regulations.</p> <p>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 regulate the insider of the company with respect to situations related to their duties that may give rise to the conflicts of interest and prohibit using undisclosed information or divulging in order to prevent insider trading.</p>	
<p>3. Organization and responsibilities of the Board of Directors</p> <p>(1) Does the Board of Directors set and implement a diversification policy?</p> <p>(2) Has the Company establish other functional committees besides the Compensation Committee and Audit Committee?</p> <p>(3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis, reported the results of performance to the Board of Directors, and use the results as reference for directors' remuneration and renewal?</p> <p>(4) Does the company regularly evaluate the independence of the CPA?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>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. The member of the Board shall have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the board of directors shall possess the following abilities:</p> <p>1. Ability to make operational judgments.</p> <p>2. Ability to perform accounting and financial analysis.</p> <p>3. Ability to conduct management administration.</p> <p>4. Ability to conduct crisis management.</p> <p>5. Knowledge of the industry.</p> <p>6. An international market perspective.</p> <p>7. Ability to lead.</p>	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>8. Ability to make policy decisions.</p> <p>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, acquire significant shareholdings that the company is going to conduct.</p> <p>3. The company has established Rules of Performace Evaluation of the Board of Directors and Board overall performance evaluation should cover 5 aspects:</p> <ol style="list-style-type: none"> <li>1. Degree of participation in company operations</li> <li>2. Quality of board decisions</li> <li>3. Board composition and structure</li> <li>4. Selection of suitable board directors and continuing professional education</li> <li>5. Internal control.</li> </ol> <p>Director self-assessment should cover 6 aspects:</p> <ol style="list-style-type: none"> <li>1. Grasp of company targets and missions</li> <li>2. Understanding of the director's role and responsibilities</li> <li>3. Level of participation in company operations</li> <li>4. Internal relationship management and communication</li> <li>5. Director's specialty and continued development</li> <li>6. Internal controls.</li> </ol>	



Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
			4. The company assesses the independence of independent auditors regularly (annually, the latest assessment was conducted on August 13, 2019) 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.	

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 appoint competent and appropriate corporate governance personnel and corporate governance officer to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, assisting directors' compliance of law, handling matters related to board meetings and shareholders' meetings according to law, and recording minutes of board meetings and shareholders' meetings)?	✓		<ol style="list-style-type: none"> <li>1. The company designates "Investors Relationship Office" as a dedicated unit which is responsible for corporate governance related affairs.</li> <li>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.</li> <li>3. The work plan and responsibility of Investors Relationship Office are: <ol style="list-style-type: none"> <li>(1) Implement corporate governance, corporate social responsibility and corporate integrity management.</li> <li>(2) Build up the communication bridge between the company and investors, media and stakeholders.</li> <li>(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.</li> <li>(4) Producing relevant documents and handling matters relating to board meetings and shareholders meetings. In addition, assisting directors and supervisors with legal compliance.</li> </ol> </li> </ol>	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. Has the Company established a means of communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?	✓		<p>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.</p> <p>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.</p> <p>3. "Corporate Governance" section was also set up on the company's website for shareholders to check or download relevant rules and regulations of corporate governance and important board resolutions.</p>	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
<p>7. Disclosure of information</p> <p>(1) Does the Company set up website to disclose financial operations and corporate governance information?</p> <p>(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?</p> <p>(3) Does the Company announce and report the annual financial statements within two months after the end of the fiscal year, and</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>1. The company has built up the website (<a href="http://www.kmc-international.com/">http://www.kmc-international.com/</a>) to disclose the finance, business and corporate governance information.</p> <p>2.</p> <p>(1) The company implements spokesperson system and establishes a dedicated contact unit for shareholders' affairs.</p> <p>(2) There is a dedicated staff to update the Chinese and English information of the</p>	No Difference

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
announce and report the first, second, and third quarter financial statements as well as the operating status of each month before the prescribed deadline?			<p>website.</p> <p>(3) 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.</p> <p>(4) The audio and video linkage of the institutional investors' conference is also listed on the company's website. <a href="http://www.kmc-international.com/index.php?option=module&amp;lang=cht&amp;task=showlist&amp;id=296&amp;index=5">http://www.kmc-international.com/index.php?option=module&amp;lang=cht&amp;task=showlist&amp;id=296&amp;index=5</a></p> <p>3. KMC follows relevant laws and regulations to announce and report the annual financial statements within two months after the end of the fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operating status of each month before the prescribed deadline.</p>	
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)?	✓		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	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>up on the company's website to respond the corporate social responsibility issues that the stakeholders care about properly.</p> <p>2. The situation of further study of the Directors, Supervisors and Managers: the situation of further study of the Directors, Supervisors and Managers for 2019 are listed in the schedule below.</p> <p>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 Cathay Insurance Co., Ltd. The insurance amount is USD 1 million and the insurance period covered from August 25, 2019, to August 25, 2020.</p>	
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> <p>1. Enhance the preparation of English version of the company's website and related English documents to improve information transparency.</p> <p>2. To set 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> <p>3. The Board of Directors approved the establishment of "The Audit Committee Charter"</p>	No Difference

Item	State of operation			Discrepancy from Corporate Governance Best Practice Principles by TWSE/GTSM-listed Companies and the reasons
	Yes	No	Description	
			on March 19, 2020. The set up of Audit Committee will be proceeded as planned.	

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	2019.04.27	Taiwan Corporate Governance Association	Discussion on Corporate Management and Tax Systems	3	Yes
		2019.04.27	Taiwan Corporate Governance Association	Case Study and Practice of Corporate Risk Management	3	
Director	Wu,Jui-Chang	2019.10.29	Taiwan Institute of Directors	Mittelstand Sustainability Index: The Key to Achieving the Win-Win Situation of Profitable Growth and Corporate Sustainability	3	Yes
		2019.11.11	Taiwan Corporate Governance Association	Relation Between Information Security and the Board of Directors	3	
Director	Wang,Chiung-Fen	2019.05.13	Securities and Futures Institute	Key Legal Issues of Fintech	3	Yes
		2019.08.12	Securities and Futures Institute	Principle and Application of Artificial Intelligence	3	
		2019.10.31	Securities and Futures Institute	Liability of False Financial Statement for Directors and Supervisors and Risk Management	3	
Independent Director	Wang,Ming-Lung	2019.05.07	Taiwan Corporate Governance Association	Discussion on the Impact and Response of Offshore Companies From a Corporate Governance Point of View	3	Yes
		2019.08.12	Taiwan Corporate Governance Association	Responsibilities of Directors Under the New Corporate Governance Roadmap and Risk Management	3	
Independent Director	Lin,Ting-Ze	2019.05.07	Taiwan Corporate Governance Association	New Regulations of Tax Haven International Tax Co-Operation (Economic Substance) Law and Response Measures for Corporations	3	Yes
		2019.05.07	Taiwan Corporate Governance Association	Corporate Governance and Legal Compliance	3	
Supervisor	Kao,Ting-Nan	2019.04.27	Taiwan Corporate Governance Association	Discussion on Corporate Management and Tax Systems	3	Yes
		2019.04.27	Taiwan Corporate	Case Study and Practice of Corporate Risk Management	3	

Title	Name	Date	Host by	Training	Duration	Compliant or not
			Governance Association			
Supervisor	Hsu, Yang-Kang	2019.10.29	Taiwan Institute of Directors	Mittelstand Sustainability Index: The Key to Achieving the Win-Win Situation of Profitable Growth and Corporate Sustainability	3	Yes
		2019.11.11	Taiwan Corporate Governance Association	Relation Between Information Security and the Board of Directors	3	
Manager of Accounting Division	Chen,Yung-Jen	2019.12.23	Accounting Research and Development Foundation	Impact of Recent Significant Income Tax and Business Tax Reforms on Corporations and Relevant Response Measures	3	Yes
		2019.12.23		Liability of Insider Trading in the Securities Market From a Judicial Point of View and Practical Case Studies	3	
		2019.12.24		Regulations and Practical Analyses of New Corporate Governance Roadmap (2018-2020)	3	
		2019.12.24		Illustrative Example for International Financial Reporting Standards (IFRS) 15 Revenue from Contracts with Customers	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	9	10		
Independent Director	Wang,Ming-Lung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	5	Not applicable
Independent Director	Lin,Ting-Ze (New member starting from May 13, 2019)			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not applicable
Other	Li,Cho-Yu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not applicable
Other	Shih,Hsi-An (Service ended on May 13, 2019.)	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Not applicable

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. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) serving on the company's board based on Article 27 of the Company Law.

6. Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company
7. Not a director, supervisor, or employee of a company of which the chairman or CEO (or equivalent) themselves or their spouse also serve as the company's chairman or CEO (or equivalent).
8. 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.
9. Other than serving as a compensation committee member of the company, not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, and the service provided is an "audit service" or a "non-audit service which total compensation within the recent two years exceeds NTD500,000"
10. 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) The term of office is from August 10, 2017 to June 22, 2020. In the last fiscal period, the Remunerations Committee convened 2 sessions (A). The eligibility of the members and their attendance in committee meetings are shown below:

(C) The Remunerations Committee shall exercise the following duties:

- (1) Establish and review the performance assessment and policy, system, standards and structure relevant to compensation of directors, supervisors and executive officers periodically.
- (2) Evaluate the compensation of directors and executive officers periodically
- (3) The Committee shall comply with the following guidelines when exercise its duties set forth above: Performance assessment and compensation of directors and managers shall be evaluated by the Committee and should be referred to the general level of the industry and considers reasonableness and the correlations between the company's operating performance, personal performance and future risks exposure.  
The Committee shall not solicit directors and managers to engage in any acts beyond the risk that company could tolerate for the pursuance of their compensation. The directors and senior managers' short-term performance based profit sharing ratio and variable compensation payout schedule shall be determined based on industry practice and business nature of the company.
- (4) The "Compensation" set forth herein shall include cash compensation, stock options, profit sharing, retirement benefits or severance pay and other substantive incentive measures.

Title	Name	Attendance in person( B )	By Proxy	Attendance rate in person (%) ( B / A )	Remark
Convener	Wang,Ming-Lung	2	0	100%	None
Member	Lin,Ting-Ze	1	0	100%	New member starting from May 13, 2019
Member	Li,Cho-Yu	2	0	100%	None
Member	Shih,Hsi-An	1	0	100%	Service ended on May 13, 2019
Other noteworthy matters:					
1. The Board of Directors does not accept or amend Remunerations Committee's suggestions: None.					
2. The resolutions of the Remunerations Committee which Committee member has oppositions or reservations: None.					
3. Discussion subjects and resolutions of Remunerations Committee: Note 1					

Note 1 : Discussion subjects and resolutions of Remunerations Committee

Date of Remunerations Committee	Subject	Resolution
March 18, 2019 The 4 <sup>th</sup> in the 3 <sup>rd</sup> term	1. Review the distribution of remuneration for employees, directors and supervisors of 2019. 2. Review the detail of remuneration for directors and supervisors as well as employees' profit for managers of 2019.	Passed by all members unanimously.
November 12, 2019 The 5 <sup>th</sup> in the 3 <sup>rd</sup> term	1. Review the component of remuneration for directors, supervisors and managers of 2020. 2. Discuss the responsibilities and annual plan of Remunerations Committee for 2020.	Passed by all members unanimously.

(5) Social responsibility implementation status as required by the Taiwan financial supervisory commission

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Descriptions	
1. Does the Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management related policy or strategy?	✓		<p>KMC realized that giving proper response to issues which stakeholders concerned is the key to corporate sustainability. First, we identify our major stakeholders with the highest degree of relevance to company operations. Second, we perform surveys to our major stakeholders. With diverse channels, we can collect their feedback and also select the important issues of great concern to stakeholders. At last, we could identify key issues of concern to stakeholders through the two major factors: the extent of stakeholder concerns and the impact of issues in company operations.</p> <ol style="list-style-type: none"> <li>1. Environmental issue: The independent management team has exhibited high efficiency by organizing the sales business unit, staff organization, and factory, etc. through accurate work allocation and organizational structure. The aim is to fulfill the goal of development, strategic integration, as well as sales, production, and client integration, to increase the productivity of KMC and attain organizational targets.</li> <li>2. Social issue: The Company keeps strengthening its investment in human resources and assists 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. The company also holds management meetings and labor-management conference regularly as a communication mechanism between</li> </ol>	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>supervisors, employees, and company management.</p> <p>3. Corporate governance issue: Continue to generate the highest profit for the company and the shareholders by complying with laws such as the Company Act and Securities and Exchange Act, as well as the regulations of relevant authorities. In order to bolster the company's supervisory function, the company website contains business ethics contact that can also be used as a complaint channel when the rights of the stakeholders are violated. This is to foster communication between the company and the stakeholders including employees, customers, suppliers, and investors.</p>	
2. 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>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.</p> <p>In the meeting of the Board of Directors held on August 13, 2019, the Investor Relations Office had reported on "Promotion of Social Responsibility" and "Performing Integrity Business Conduct."</p>	No Difference
<p>3.Environmental Topic</p> <p>(1) Does the Company establish proper environment management systems based on its industrial features?</p> <p>(2) Does the Company endeavor to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment?</p> <p>(3) Does the Company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>		<p>1. 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> <p>2. 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 electricity-saving and</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	
(4) Does the Company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?			<p>water-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. With the advantages of easy recycling, resource saving and low pollution, we also promote simplified and consolidated packaging when delivering our products. Furthermore, KMC is also committed to recycling and reusing of waste packaging material.</p> <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, also start with each employee to provide high-quality, ecofriendly products, 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</p>	

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Descriptions	
			<p>carbon emission review under the PAS2050 requirements regulation. In April 2020, the "X11SL" chain passed the verification for carbon footprint again. The company has also obtained certification label for its products, and take concrete actions to implement environmental protection.</p> <p>4. The greenhouse gas emissions in 2019 was 2,411 ton-CO<sub>2</sub>e which was 2,811 ton-CO<sub>2</sub>e in 2018. The total amount of water used in 2019 was 12.7 thousand tons which was 13 thousand tons in 2018. 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>4.Social Topic</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 established appropriately managed employee welfare measures (include salary and compensation, leave and others), and link operational performance or achievements with employee salary and compensation?</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) Has the Company established an effective competency development career training program for employees?</p> <p>(5) Does the Company's product and service comply with related regulations and international rules for customers' health and safety, privacy, sales, labelling and set policies to protect</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 has established employee welfare measures (include salary and compensation, leave and others) based on various labor laws and regulations. The Company will also evaluate the employee's performance periodically to help managers conduct potential evaluation for employee promotion. According to The Company Article, in case there is surplus after the end of each fiscal year, the Company will allocate bonus as the remuneration for all employees.</p> <p>3. The company conducts workplace safety inspections, labor safety education training every six (6) months and regular employee health examinations to provide employees with a safe and healthy</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>consumers' rights and consumer appeal procedures?</p> <p>(6) Does the Company set supplier management policy and request suppliers to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?</p>	✓		<p>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. Our training program for employees is to improve their talent capabilities in the workplace and also enhance workforce literacy. 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>5. All of the Company's products has complied with related regulations and international rules so as to ensure the transparency and safety of our product labeling and service information. We also provide global after-sales service and dedicate efforts to safeguard consumer rights.</p> <p>6. Before engaging a new vendor, the company will ask necessary information from the vendor to assess the vendor's impact on the</p>	

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Descriptions	
			environment and society. 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.	
5. Does the Company refer to international reporting rules or guidelines to publish CSR Report to disclose non-financial information of the Company? Has the said Report acquire 3rd certification party verification or statement of assurance?	✓		KMC has published its first "Corporate Social Responsibility Report" in 2019 and has disclosed this CSR report on its official website. In the future, we aim to publish our CSR report annually. We disclosed the results of our actions in the environmental, social, and corporate governance dimensions in this report. Also, it disclosed the perspectives and actions of KMC with regards to material issues over the course of sustainability development. This report is based on GRI Standards published by Global Reporting Initiative, and the reporting guideline is according to its "Core" disclosure level for sustainability performance. At present, we did not acquire 3rd certification party verification yet. Under the serious consideration of our management team, we will plan to acquire 3rd certification party verification or statement of assurance for our CSR Report in the future.	No Difference
6. 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				
7. Other important information that helps understand the operation situation in terms of the corporate social responsibilities: (1) The Company has disclosed the operation for Corporate Social Responsibility on the official websites: <a href="http://www.kmc-international.com/userfiles/stock/2019/%E6%A1%82%E7%9B%9FCSR%E5%A0%B1%E5%91%8A(2018%E5%B9%B4)-V4.pdf">http://www.kmc-international.com/userfiles/stock/2019/%E6%A1%82%E7%9B%9FCSR%E5%A0%B1%E5%91%8A(2018%E5%B9%B4)-V4.pdf</a> (2) In the past year and until the printing date of this report, the following major measures were taken A. KMC has published its first "Corporate Social Responsibility Report" in 2019 and has disclosed this CSR report on its official website. In the future, we aim to publish our CSR report annually. We disclosed the results of our actions in the environmental, social, and corporate governance dimensions in this report. Also, it disclosed the perspectives and actions of KMC with regards to material issues over the course of sustainability development. This report is based on GRI Standards published by Global Reporting Initiative, and the reporting guideline is according to its "Core" disclosure level for sustainability performance. B. KMC entered elementary school for the first time:				

Item	Implementation Status			Difference from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and reasons
	Yes	No	Descriptions	
KMC have been continuing contributing our effort through social activities for years. Based on our six individual CSR activities, “Kids” is specific for child which we hold educational camps to deliver safe-riding concept. It’s our first time to enter the elementary school campus, carrying out the riding knowledge and culture to our children.				
C.			Dr. Chian visits the Sindian Drug Abuser Treatment Center to help the inmates learn a new trade, passionate college students cycle around Taiwan to pass on KMC’s message of kindness.	
D.			KMC employees donate money and love in order to help establish a breast cancer center at National Cheng kung University, and donate to the Minghui Social Welfare and Charity Foundation for the purpose of providing proper medical assistance to severely ill patients with liver cancer who cannot afford their medical expenses.	

(6) Taiwan corporate conduct and ethics implementation as required by the Taiwan Financial Supervisory Commission

Item	Implementation Status			Difference from the Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies and reasons
	Yes	No	Descriptions	
<p>1. Establishment of corporate conduct and ethics policy and implementation measures</p> <p>(1) Does the company have a clear ethical corporate management policy approved by its Board of Directors, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board of Directors and the top management team?</p> <p>(2) Whether the company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?</p> <p>(3) Whether the company has established relevant policies that are duly enforced to prevent unethical conduct, provided implementation procedures, guidelines, consequences of violation and complaint procedures, and periodically reviews and revises such policies?</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 the article to prevent unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. The company has also established standard operation procedures and guidelines for all stakeholders to act ethically in all aspects of our business. In addition, we have published the "Ethical Corporate Management Principles" under the "Stakeholders Relationship, "Corporate Social Responsibility" section of our official website.</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 13, 2019, the Investor Relations Office has already reported directly to the BOD on the operation of "Promoting Social Responsibility" and "Performing Ethical Corporate Management".</p>	No Difference
<p>2. Implementing integrity management.</p> <p>(1) Does the Company assess the integrity record of its business</p>			<p>1. Before signing a commercial contract with third parties, the company will assess the credit history of the counterparty and state</p>	No Difference

Item	Implementation Status			Difference from the Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies and reasons
	Yes	No	Descriptions	
<p>partners and set faithful conduct policies in the terms and conditions of its contracts?</p> <p>(2) Whether the company has set up a unit which is dedicated to promoting the company's ethical standards and regularly (at least once a year) reports directly to the Board of Directors on its ethical corporate management policy and relevant matters, and program to prevent unethical conduct and monitor its implementation?</p> <p>(3) Does the Company work out policies to prevent conflicts of interest and provide proper statement channels?</p> <p>(4) To implement relevant policies on ethical conducts, has the company established effective accounting and internal control systems, audit plans based on the assessment of unethical conduct, and have its ethical conduct program audited by internal auditors or CPA periodically?</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>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 13, 2019, the Investor Relations Office has already reported directly to the BOD on the operation of "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. The company's directors, managers, and other stakeholders who are present or in 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. Our Financial Report is in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS endorsed and issued into effect by the Financial Supervisory Commission of the R.O.C. In addition, our internal control system is based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public</p>	

Item	Implementation Status			Difference from the Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies and reasons
	Yes	No	Descriptions	
			<p>Companies to evaluate design and operating effectiveness. The audit office should conduct a regular audit as well as stay vigilant and report any violation of the Ethics Code to the Board of directors directly. Lastly, the audit office is also responsible for the inspection and review of the Company's internal control system, its adequacy in design and effectiveness in operation.</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>3. 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) Whether the company has established standard operation procedures for investigating the complaints received, follow-up measures after investigation are completed, and ensuring such complaints are handled in a confidential manner?</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.</p> <p>Prosecutors may report to the following units:</p> <p>(1) Spokesman: Accept the report from external personnel such as shareholders, investors.</p> <p>Reporting channel: ir@kmc-international.com</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. If the company received any report and verified as ethics violation, the relevant department will be disciplined to the full extent of our policies. Cases investigated and verified as severe violations will be reported to the Board of directors directly.</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>4. Enhance information disclosure</p> <p>Does the company disclose the information of implementation and</p>	✓		The company has disclosed relevant contents and the results of the promotion of the Ethical Corporate Management Principles on the	No Difference

Item	Implementation Status			Difference from the Integrity Operation Practice Principles for TWSE/GTSM-Listed Companies and reasons
	Yes	No	Descriptions	
results of integrity management on its website and the MOPS?			<p>"Company's Website" and "Market Observation Post System". In addition, we disclose relevant policies and information on ethics in our Annual Report and CSR Report.</p> <p>The official website of the company is :  <a href="http://www.kmc-international.com/userfiles/stock/2019/%E6%A1%82%E7%9B%9FCSR%E5%A0%B1%E5%91%8A(2018%E5%B9%B4)-V4.pdf">http://www.kmc-international.com/userfiles/stock/2019/%E6%A1%82%E7%9B%9FCSR%E5%A0%B1%E5%91%8A(2018%E5%B9%B4)-V4.pdf</a> </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.				
6. Other important information for better understanding of the integrity operation (such as review and revision of the regulations on integrity operation) The company has established an "Ethical Corporate Management Principles" as a policy and has disclosed relevant policies on our official website. In addition, we accept reports of any Ethics Code violation from external personnel on the "Stakeholders Relationship" section of our official website.				

- (7) If the company has adopted corporate governance best practice principles or related bylaws, disclose how these are to be searched:  
The Company has established its “Corporate Governance Best Practice Principles”, “Rules of Procedure for Shareholder Meeting”, “Rules of Procedure for Board of Directors Meetings”, “Procedures for Election of Directors and Supervisors”, “Rules Governing the Scope of Powers of Independent Directors”, “Ethical Corporate Management Best Practice Principles”, “Rules Governing the Scope of Powers of Supervisors”, “Ethical Corporate Management Best Practice Principles”, “Remuneration Committee Charter” and “Corporate Social Responsibility Code of Practice”. Please refer to KMC’s website or MOPS for our corporate social responsibility implementation status:  
1. Official website: <http://www.kmc-international.com>  
2. MOPS: <http://mops.twse.com.tw/mops/web/index>
- (8) Other major information that helps to understand the operation of corporate governance shall also be disclosed on the following platform:  
A. The Company also convenes investor meetings and publishes investor reports on the official website at least once a quarter. Through investor meetings and investor reports, our objective is to help investors to fully understand our business, financial and ESG performances. Please refer to the “Investor Meeting” section of MOPS to search relevant information.  
B. The Company also has CSR section on its corporate website to address its corporate social responsibilities management and any other issues. Please refer to our official website:  
[http://www.kmc-international.com/userfiles/stock/2019/%E6%A1%82%E7%9B%9FCSR%E5%A0%B1%E5%91%8A\(2018%E5%B9%B4\)-V4.pdf](http://www.kmc-international.com/userfiles/stock/2019/%E6%A1%82%E7%9B%9FCSR%E5%A0%B1%E5%91%8A(2018%E5%B9%B4)-V4.pdf)
- (9) The implementation of the internal control system:  
A. Declaration of internal control: please refer to Appendix I.  
B. Certified Public Accountant Review Report which is issued by the certified public accountants 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 provision of 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 status
Annual Shareholders Meeting	June 20, 2019	Approve the company’s annual business reports and financial statements for 2018.	The implementation of the resolution of the shareholders' meeting was completed. It was uploaded to the section of shareholders’ meeting minutes on Market Observation Post System on July 4, 2019.
		Acknowledgement of the company’s profit distribution of the year 2018.	The distribution of cash dividends was completed on August 20, 2019.
		Approve the revisions to the Articles of Incorporation	All the revisions have been approved by the authority on July 11, 2019.
		Approve the revisions to the Procedures for Acquisition or Disposal of Assets.	Have been implemented in accordance with the resolutions of the Shareholders’ Meeting.
		Approve the revisions to the	Have been implemented in accordance



	Operational Procedures for Lending Funds to Other Parties.	with the resolutions of the Shareholders' Meeting.
	Approve the revisions to the Operational Procedures for Making Endorsement and Guarantee.	Have been implemented in accordance with the resolutions of the Shareholders' Meeting.

B. During 2019 and as of the date of this Annual Report, major resolutions approved at Board meetings are summarized below:

Meeting	Resolution date	Meeting resolutions
The Board of Directors	January 23, 2019	The motion for the donation to the related party – KMC Cycling Passion Sports Charity Trust Foundation.
The Board of Directors	March 18, 2019	<ol style="list-style-type: none"> <li>1. Internal control system statement for the year 2018</li> <li>2. To revise the Rules of Procedure for Board of Directors Meetings.</li> <li>3. The unconsolidated financial statements and consolidated financial statements for the year 2018.</li> <li>4. Business report for the year 2018.</li> <li>5. Review of the resolution of remuneration committee.</li> <li>6. The distribution of the earnings of 2018.</li> <li>7. The motion to amend the company's "Article of Incorporation"</li> <li>8. The motion to amend the company's "The Procedure to Acquire or Dispose the Assets".</li> <li>9. The motion to amend the company's "The Operation Procedures for Lending Fund to Other Parties"</li> <li>10. The motion to amend the company's "The Operation Procedures for Lending Fund to Other Parties".</li> <li>11. The affairs to hold the annual shareholders' meeting of 2019.</li> <li>12. Accept the proposal from the shareholders with more than 1% of shareholdings.</li> <li>13. Set the "Evaluation of the Board of Directors".</li> <li>14. The motion for the change of independent auditor because of its internal rotation.</li> <li>15. The funds loan between the overseas subsidiaries.</li> <li>16. New and extension of banking facility.</li> </ol>
The Board of Directors	May 13, 2019	<ol style="list-style-type: none"> <li>1. The consolidated financial statements for the first quarter of 2019.</li> <li>2. Amendment to the Regulations of Internal Control Systems</li> <li>3. The assignment of new members of The Remunerations Committee</li> <li>4. New and extension of banking facility.</li> </ol>
The Board of Directors	June 20, 2019	Resolve the record date for shareholders entitled to participate in cash dividend distribution for the year 2019.
The Board of Directors	August 13, 2019	<ol style="list-style-type: none"> <li>1. The consolidated financial statements for the second quarter of 2018.</li> <li>2. The motion of capital increase for the subsidiary KMC Chain Industrial Co., Ltd.</li> <li>3. The motion to render guarantee to its subsidiary.</li> <li>4. The liability insurance for the Directors and Supervisors for 2019</li> <li>5. The motion for the assessment of the independence of the company's independent auditors.</li> <li>6. New and extension of banking facility.</li> </ol>
The Board of Directors	November 12, 2019	<ol style="list-style-type: none"> <li>1. Approve the company's audit plan for the year 2020</li> <li>2. Approve the consolidated financial statements for the third quarter of 2019</li> <li>3. Review of the resolution of remuneration committee.</li> <li>4. Approve new and extension of banking facility.</li> </ol>
The Board of Directors	January 22, 2020	New and extension of banking facility.
The Board of Directors	March 19, 2020	<ol style="list-style-type: none"> <li>1. Internal control system statement for the year 2019</li> <li>2. To revise the Rules of Procedure for Board of Directors Meetings.</li> <li>3. The individual financial reports and consolidated financial reports for the year 2019.</li> <li>4. Business report for the year 2019.</li> </ol>

Meeting	Resolution date	Meeting resolutions
		5. Review of the resolution of remuneration committee. 6. The distribution of the earnings of 2019. 7. The motion to amend the company's "Article of Incorporation" 8. To revise the Rules of Procedure for Shareholders' Meetings. 9. Re-election of directors, including independent directors 10. To release the new board of directors and representatives from the non-competition restrictions 11. The affairs to convene the Year 2020 General Shareholders' Meeting 12. Accept the proposal from the shareholders with more than 1% of shareholdings. 13. Accept the candidate nomination for election as a Board member 14. Set the "Audit Committee Charter". 15. Appoint directors and supervisors of subsidiaries 16. The motion for the change of independent auditor because of its internal rotation. 17. New and extension of banking facility.
The Board of Directors	May 11, 2020	1. The consolidated financial statements for the first quarter of 2020. 2. To revise the "Remuneration Committee Charter". 3. To revise the "Operational Procedures for Applying for Halt and Resumption of Dealings" 4. To revise the "Corporate Governance Best Practice Principles" 5. To revise the "Ethical Corporate Management Best Practice Principles" 6. To revise the "Guidelines for the Adoption of Codes of Ethical Conduct for Directors, Supervisors and Managerial Officers" 7. To revise the "Procedures for Election of Directors and Supervisors" 8. Review the candidates of the 12th Board of Directors 9. Increase the matters to convene the Year 2020 General Shareholders' Meeting. 10. To authorize chairman to change the location of Year 2020 General Shareholders' Meeting, if affected by COVID-19. 11. 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 20 <sup>th</sup> , 2020				
Title	Name	Onboard date	Terminate date	The reason of resignation or dismissal
None				

5. Information on the fees for certified public accountants

(1) Range of accountants' fee

CPA Firm	Name of CPA		Inspection period	Remark
Deloitte & Touche.	Yang,Chao Chin	Liu, Yu-Xiang	January 1 <sup>st</sup> ,2019 December 31 <sup>st</sup> ,2019	None

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
			Syste m Design	Company Registrati on	Human Resourc e	Others	Subtotal		
Deloitte & Touche.	Yang,Chao Chin	4,506	0	0	0	2,295	6,801	January 1 <sup>st</sup> ,2019~ December 31 <sup>st</sup> ,2019	Others included the TransferPrice report and Consultant for projects.
	Liu, Yu-Xiang								

(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:  
KMC accepted the replacement of its certified public accountants allocated by its accounting firm, the new accountants are – Yang, Chao Chin and Lee, Ji-Zhen of Deloitte Taiwan on March 19, 2020.

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	2019		Current Year to April 24 <sup>th</sup>	
		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	0	0	0	0
Supervisor	Chang-Yu Investment Co., Ltd Representative Kao, Ting-Nan	0	0	0	0
Supervisor	Chieh Nai Chih Investment Co., Ltd Representative Hsu, Yang-Kang	0	0	0	0
President	Wu, Jui-Chang	0	0	0	0
Vice President	Wu, Hsing-Chuan	0	0	0	0
Senior Director	Tsai, Chu-Ying	0	0	0	0
Manager of Finance and Accounting Division	Chen, Yung-Jen	0	0	0	0
Shareholders with 10% Shareholdings 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
None						

(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 26,2020

Name	Shareholding		Shares held by spouse & minors		Shares held in the name of others		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	%	share s	%	Name	Relationship	
KMC TRANSTON INDUSTRIES LIMITED (Representative Wu, Ying-Chin)	47,412,256	37.63 %	0	0	0	0	Wu, Ying-Chin Wu,Hsing-Chuan	Chairman for KMC TRANSTON Director for KMC TRANSTON	None
Wu,Hsing-Chuan	7,902,042	6.27%	0	0	0	0	Wu Kao,Ming-Yueh 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	7,902,040	6.27%	0	0	0	0	Wu Kao,Ming-Yueh 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 Depositary APG Emerging Markets Equity Pool	5,851,850	4.64%	0	0	0	0	None	None	None
CTBC Hosting WU,YING-CHIN Trust Treasury Account	3,000,000	2.38%	0	0	0	0	Wu Kao,Ming-Yueh Yu,Wen-Ying	familial relationship within the second degree	None

Name	Shareholding		Shares held by spouse & minors		Shares held in the name of others		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	
							Wu,Hsing-Chuan 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 Chairman for KMC TRANSTON	
Wu, Hui-Lan	2,822,549	2.24%	0	0	0	0	Wu Kao,Ming-Yueh 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
Wu Kao,Ming-Yueh	2,758,780	2.19%	0	0	0	0	Wu, Ying-Chin 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
Fidelity Funds	2,098,511	1.67%	0	0	0	0	None	None	None
HSUN-LI Investment Co., Ltd (Representative: Kao,Ching-Ya)	1,814,144	1.44%	0	0	0	0	None	None	None
Liu,Su-Hua	1,716,492	1.36%	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.	88,600,000	100%	0	0	88,600,000	100%
KMC Chain Industrial Co., Ltd. (Note)	-	-	0	0	-	-
TEC Chains Co., Ltd. (Note)	-	-	0	0	-	-
PRO (TAIWAN) PROCUREMENT CO., LTD.	1,225,000	49%	0	0	1,225,000	49%
KMC Chain(Seychelles) industrial Co., Ltd. (Note)	-	-	0	0	-	-
TEC Chains(Seychelles) industrial Co., Ltd. (Note)	-	-	0	0	-	-
KMC Automobile Transmission Co., Ltd.	3,253,812	100%	0	0	3,253,812	100%
KMC Industries (Vietnam) Co., Ltd	-	100%	0	0	-	100%

Note: The company has completed cancellation of registration before November 2019.

#### IV. Capital Projection and Implementation

##### 1. Company capital and shares

##### (1) Sources of capital stock

in thousand shares and NT\$ thousand

Month/ Year	Issue Price	Authorized share capital		Capital stock		Remark		
		Shares	Amount	Shares	Amount	Source of Capital	Capital increase by assets other than cash	Others
08/2018	10	200,000	2,000,000	126,000	1,260,000	Issue new shares for 6,000 thousand shares	None	Note

Note:

At the approval of Financial Supervisory Commission of the Executive Yuan on capitalization of retained earnings on August 1, 2018. At the approval of Ministry of Economic Affairs under Letter Ching-Shou-Shang-Tzi No. 10701095220.

April 26, 2020

Type	Authorized share capital			Remark
	Outstanding	unissued	Total	
Common shares	126,000,000 shares	74,000,000 shares	200,000,000 shares	None

##### (2) Structure of shareholders

April 26, 2020

Type of Shareholders	Governments	Financial institutions	Other juridical persons	Foreign institutions & natural persons	Natural persons	Treasury stock	Total
Number	0	5	55	86	8,447	0	8,593
Shareholding	0	3,979,087	58,761,146	26,281,464	36,978,303	0	126,000,000
Holding Percentage	0.00%	3.16%	46.63%	20.86%	29.35%	0.00%	100.00%

##### (3) Distribution of shares

##### A. Distribution of common shares

April 26, 2020

Rank	Number of shareholders (in persons)	Total Shares Held	Holding Percentage
1-999	5,055	962,729	0.76%
1,000-5,000	2,779	5,124,166	4.07%
5,001-10,000	321	2,300,746	1.83%
10,001-15,000	127	1,516,262	1.20%
15,001-20,000	73	1,299,004	1.03%
20,001-30,000	65	1,627,560	1.29%
30,001-40,000	48	1,648,358	1.31%



Rank	Number of shareholders (in persons)	Total Shares Held	Holding Percentage
40,001-50,000	26	1,167,567	0.93%
50,001-100,000	41	2,911,711	2.31%
100,001-200,000	18	2,377,554	1.89%
200,001-400,000	9	2,987,089	2.37%
400,001-600,000	8	3,815,245	3.03%
600,001-800,000	3	2,015,845	1.60%
800,001-1,000,000	2	1,789,120	1.42%
More than 1,000,001	18	94,457,044	74.96%
Total	8,593	126,000,000	100.00%

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

(4) List of major shareholders

April 26, 2020

Name	Total Shares Held	Ownership Percentage
KMC TRANSTON INDUSTRIES LIMITED	47,412,256	37.63%
Wu, Hsing-Chuan	7,902,042	6.27%
Yu, Wen-Ying	7,902,040	6.27%
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	5,851,850	4.64%
CTBC Hosting WU,YING-CHIN Trust Treasury Account	3,000,000	2.38%
Wu, Hui-Lan	2,822,549	2.24%
Wu Kao, Ming-Yueh	2,758,780	2.19%
Fidelity Funds	2,098,511	1.67%
HSUN-LI Investment Co., Ltd	1,814,144	1.44%
Liu, Su-Hua	1,716,492	1.36%

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

in thousand shares and NT\$ thousand

Item		Year	2018	2019	Current year to March 31 <sup>st</sup> ,2020
Market price per share	Highest		141.5	120.0	110.5
	Lowest		94.3	97.1	67.4
	Average		124.7	107.2	91.7
Net worth per share	Before distribution		40.3	41.9	43.0
	After distribution		35.8	(note1)	NA
EPS	Weighted average quantity of shares(1,000 shares)		126,000	126,000	126,000
	EPS	Before adjustment	7.52	8.00	1.72
		After adjustment	7.52	Note	1.72
Dividend	Cash Dividend		4.50	4.50(note1)	None
	Stock Dividend	From earning	0	0(note1)	None
		From Capital Reserve	0	0(note1)	None
	Accumulated Unappropriated Dividends		0	0	None
ROI analysis	P/E ratio(note2)		12.66	13.40	None
	P/P ratio(note3)		27.71	23.82	None
	Cash dividend yield(note4)		3.61%	4.20%	None

## Note

1. The proposal of dividends for FY 2019 has been approved by the Board of Directors on March 19th, 2020 pending the ratification at the 2020 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 2019 earnings would be resolved by 2020 Regular Shareholders Meeting as followed:

The accumulated earnings shall be appropriated as NT\$567,000,000 for cash dividends (NT\$4.5 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 to 2020 business performance and EPS resulting from stock dividend distribution:

Not applicable

(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 FY2019 were passed by Board of Directors on March 19th, 2020.
- (B) The amount of remunerations to employees in FY2019 is NT\$12,600,000 in cash.
- (C) The amount of remunerations to the directors in FY2019 is NT\$8,400,000 in cash.
- (D) The actual amount of payment is congruent with the recognized amount for FY 2019.
- (E) The proposed amount of employee bonus in stock: None

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 Retail 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 Retail of Bicycles and Parts
- (J) F214990 Retail 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

Products \ Year	2018		2019		1Q20	
	Amount	%	Amount	%	Amount	%
Bike Chain and component	3,751,070	74.2%	4,051,006	77.3%	809,150	74.5%
Motorbike Chain and component	612,058	12.1%	532,913	10.2%	133,382	12.3%
Automobile Timing System	348,820	6.9%	328,654	6.3%	64,368	5.9%
Garage Door Opener	344,884	6.8%	327,062	6.2%	79,573	7.3%
Total	5,056,832	100.0%	5,239,635	100.0%	1,086,473	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:

According to an analysis by Grand View Research, the global bicycle market will grow to USD 75 billion by 2025, with a compound annual growth rate (CAGR) of 6%. Bicycles play an essential role in the development of sustainable vehicles. Besides, bicycles have more significant advantages than fuel vehicles such as performance, price, and environmental benefits. Due to COVID-19, we see a more favourable policies to promote the use of bicycles. Some governments have announced spending on bike infrastructures and introduced new subsidies to develop two-wheel culture. In this case, people could avoid taking public transportation to adhere to social distancing rules.

With regard to current market conditions around the world, the European market has always been the world's point of gravity of high-end bicycle sales. In recent years, the total sales volume of bicycles in the EU28 countries has been around 25 million bicycles per year, 70% of which is distributed to UK, Germany, Netherlands, Italy, France, and Spain. According to Eurostat data, the EU imported 7.04 million bicycles in 2019, a year-on-year increase of 9%, with an import value of nearly EUR 1.2 billion, a year-on-year increase of 14%. Meanwhile, the EU also imported 390 thousand electric bicycles from Taiwan in 2019, a year-on-year increase of 80%, with an import value of nearly EUR 410 million, a year-on-year increase of 90%.

Based 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 \$6 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. There is about 14% of the population in US that will do bicycle riding as a form of exercise.

Mainland China has been the world's largest bicycle production base for a very long time, and 75% of its production is exported to North America, Japan and emerging markets. With the rise of sharing economy and maturing electronic payment platforms, the bicycle rental boom in 2017 has boosted the number of shared bicycles in Mainland China. Besides, sharing bike has gradually become a part of their daily life and also one of key items in the domestic market of China.

Based on the statistics from the Taiwan Bicycle Association, total bicycles exported from Taiwan in 2019 is 2.12 million units, and the average unit price of exports is US\$631. The EU and the US remained the top two trading partners of Taiwan in the bicycle industry. The total export volume of E-bike has reached 644 thousand units, a year-on-year increase of 125%, with an export value of nearly USD 863 million, a year-on-year increase of 129%. 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:

Statistics indicate that the global motorcycle market recorded sales of 60 million in 2019. 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 India, Mainland China, Indonesia, Vietnam, and other countries in Southeast Asia accounting for approximately 80% of the entire market.

Among ASEAN countries, Indonesia and Vietnam have demonstrated the greatest demand for motorcycles. In particular, the middle class in Indonesia is gradually expanding, where more jobs and higher salaries have endowed more households with the ability to purchase durable goods, in turn driving up the ratio of motorcycle ownership. According to Asosiasi Industri Sepedamotor Indonesia (AISI), the sales of motorcycles in Indonesia increased by 1.6% in 2019 to 6.487 million units.

Vietnam currently lacks public transportation, hence traffic congestion is a serious problem in the country. As a result, motorcycles have become the most common form of transportation. According to the Vietnam Association of Motorcycle Manufacturers (VAMM), the sales of motorcycles in Vietnam was 3.254 million units in 2019, and there is still plenty of development potential. With a sustained growth rate of 3-5% annually, Vietnam is the second-largest motorcycle sales country among ASEAN nations. As the national income of ASEAN countries increases and road infrastructures improve gradually, the demand for motorcycles will continue to rise. With the steady sales of new motorcycles every year, consumers are more willing to embrace the concept of regular services and maintenance to prolong the lifespan of motorcycles. With an estimated market of 350 million motorcycles worldwide, there is an enormous market for repair and maintenance products.

iii. Automobile market

Market research organization Focus2move was the first to publish industry sales figures broken down to region levels. Last year, 90.3 million vehicles (excluding heavy vehicles) were sold worldwide. The car sales in China amounted to 25 million units in 2019, and this market remained the largest in the world. US has conquered the second place and the total car sales has reached 14 million units in 2019.

In recent years, car buyers across Asia have been the main drivers of sales growth, over a quarter of all cars sold worldwide are sold in Mainland China, up from less than 15% ten years ago, this testifies to the growing economy and road construction in Mainland China, which have unlocked enormous demand. Meanwhile, market research organization WardsAuto estimated that total global car ownership may hit 1 billion, which will bring huge opportunities in the automotive aftermarket.

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 USD1.07 billion in 2019, and it is estimated to reach USD1.38 billion by 2024, at least 2.5% of the steady growth each year.

A. 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

B. 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 rise of environmental protection concepts and the significant increase of market demand, E-bikes grow rapidly and become another notable highlight in 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 automobile and motorcycle will accelerate to develop different types of new energy vehicles.

The garage door opener focuses on the home market and the recent development is to combine with intelligent integrated control system so as to add convenience and efficiency to our day-to-day lifestyle.

C. 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 2019 was NT\$43,493 thousand.



i. Business development plan in the short and long terms:

A. Short-term business development plan:

In the bicycle chain business, we will continue to develop the European and US high-end bicycle chain repair market; meanwhile, we also design various E-bike specialized chains to respond to the rapid increase of E-bike market in the near future and to expand our E-bike market share as well. Besides, we will apply the dual-brand strategy to expand the overall market share of bicycle chain.

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

#### 1. Sales of the major products by region:

In NT\$ thousand

Region \ Year	2018		2019	
	Revenue	%	Revenue	%
Asia	4,077,528	80.6%	4,265,204	81.4%
Europe	812,452	16.1%	831,717	15.9%
America	166,852	3.3%	142,714	2.7%
Total	5,056,832	100.0%	5,239,635	100.0%

#### 2. 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.

#### 3. The supply and demand in the market and the future growth:

##### (A) Bicycle chain business:

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 a 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 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

According to statistics, the market size of global garage door opener is about USD1.07 billion in 2019, and it is estimated to reach USD1.38 billion by 2024, at least 2.5% of the steady growth each year.

4. 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 ten 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 fourteen iF Design Awards in eleven consecutive years, five Red Dot Design Awards in three 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 150 countries around the world.

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

The favorable factors:

- (A) In order to restrain further spread of Covid-19, governments are now recommending walking or riding bicycles to work so as to avoid taking public transportation to adhere to social distancing rules. Besides, some governments in Europe are offering subsidies for buying new bicycles or for people getting their bicycles repaired. This will lead to more use of bikes.

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.

- (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) Impacted by COVID-19, the demand for bicycles in European countries and the US might decrease.
- (C) Trade protection measures started by each country.

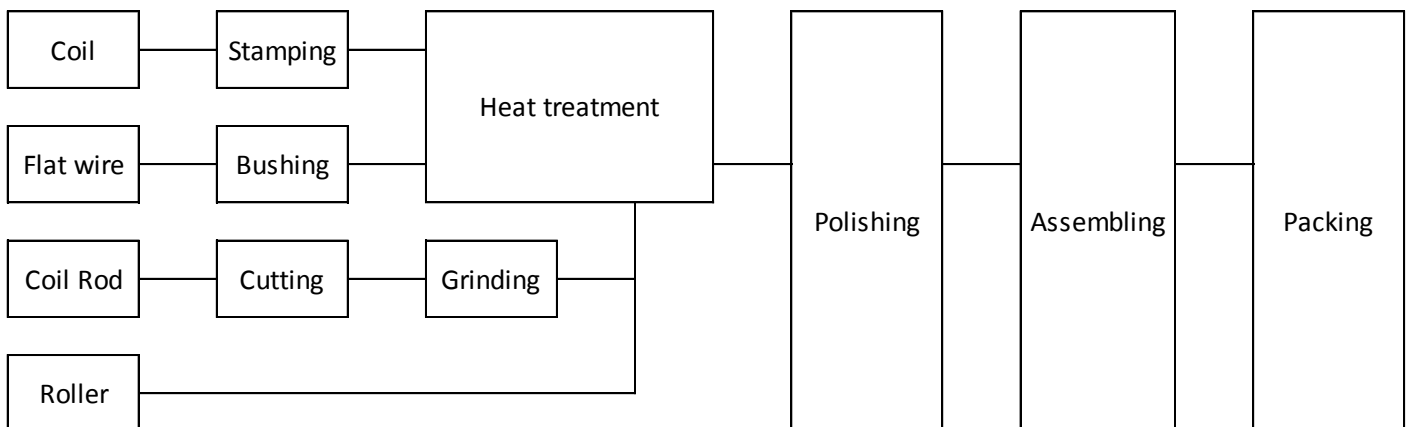
Countermeasures:

- A. Self-operate our channels in developed countries and regions and coordinate our sales promotional activities with subsidies provided by government.
- 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 our major products is to provide the components of transmission system 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	2018				2019				1Q20			
	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	ANSTEEL	315,809	14.8%	none	ANSTEEL	337,780	16.2%	none	ANSTEEL	72,241	17.2%	none
2	Others	1,821,498	85.2%		Others	1,747,422	83.8%		Others	347,006	82.8%	
	Total Net Purchase	2,137,307	100.0%		Total Net Purchase	2,085,202	100.0%		Total Net Purchase	419,247	100.0%	

B. Main customers

Item	2018				2019				1Q20			
	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	5,056,832	100%		Others	5,239,635	100%		Others	1,086,473	100%	
	Total Net Sales	5,056,832	100%		Total Net Sales	5,239,635	100%		Total Net Sales	1,086,473	100%	

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

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

Capacity	Year	2018	2019
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Main products	Capacity	Output	Amount	Capacity	Output	Amount
Transmission components	N/A	N/A	2,917,842	N/A	N/A	3,096,355

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

<div> <div>Year</div> <div>Shipment &amp; Net Revenue</div> <div>Main Products</div> </div>	2018				2019			
	Domestic		Export		Domestic		Export	
	Shipment t	Net Revenue	Shipment	Net Revenue	Shipment	Net Revenue	Shipment t	Net Revenue
Transmission components	N/A	609,515	N/A	4,447,317	N/A	676,897	N/A	4,562,738

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		2018	2019	Current year to March 31th
Number of employees	Direct Labor	1,070	1,023	1,012
	Indirect Labor	793	759	763
	Total	1,863	1,782	1,775
Average age		39.6	40.0	40.2
Average working period		7.5	8.5	8.7
Education	PhD	0.1%	0.1%	0.1%
	Masters	1.0%	1.2%	1.2%
	Bachelors	16.5%	16.8%	16.9%
	Senior high school	30.5%	30.0%	29.9%
	Below senior high school	52.0%	51.9%	51.9%

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.



- (2) The loss incurred by labor disputes in the most recent fiscal year and as of the date of this annual report and the potential expenditures as well as the countermeasures to be taken in the future:

None

6. Important Contracts

None

# VI. Financial Information

## 1. Most Recent 5-Year Concise Financial Information

### (1) Condensed Balance Sheet (Unconsolidated)-IFRS

NT\$ thousand

<div>Year</div> <div>Item</div>		Most Recent 5-Year Financial Information(Audited)					1Q20
		FY15	FY16	FY17	FY18	FY19	
Current Assets		357,574	973,573	982,705	1,084,001	869,835	N/A
Property, Plant and Equipment		574	76	36	13,050	10,640	
Other Assets		5,124,828	6,821,920	7,384,306	8,299,715	8,339,069	
Total Assets		5,482,976	7,795,569	8,367,047	9,396,766	9,219,544	
Current Liability	Before Distribution	726,159	3,068,999	1,856,572	2,323,411	2,856,249	
	After Distribution (note)	1,026,159	3,458,999	2,396,572	2,890,411	3,423,249	
Noncurrent Liabilities		750,316	501,550	1,721,959	2,002,505	1,085,066	
Total Liabilities	Before Distribution	1,476,475	3,570,549	3,578,531	4,325,916	3,941,315	
	After Distribution (note)	1,776,475	3,960,545	4,118,531	4,892,916	4,508,315	
Equity Attributable to Shareholders of the Parent		4,006,501	4,225,020	4,788,516	5,070,850	5,278,229	
Capital Stock		1,200,000	1,200,000	1,200,000	1,260,000	1,260,000	
Capital Surplus		1,541,021	1,541,021	1,541,021	1,541,021	1,541,021	
Retained Earnings	Before Distribution	1,290,521	1,846,880	2,495,645	2,840,982	3,288,101	
	After Distribution (note)	990,521	1,456,880	1,955,645	2,273,982	2,721,101	
Others		(25,041)	(362,881)	(448,150)	(571,153)	(810,893)	
Total Equity	Before Distribution	4,006,501	4,225,020	4,788,516	5,070,850	5,278,229	
	After Distribution (note)	3,706,501	3,835,020	4,248,516	4,503,850	4,711,229	

Note: The amount of after distribution has been approved by Board of Directors on March 19, 2020, but the proposal of earnings distribution of year 2019 had not yet been submitted to the Shareholders' Meeting.

## (2) Condensed Balance Sheet (Consolidated)-IFRS

NT\$ thousand

<div>Year</div> <div>Item</div>		Most Recent 5-Year Financial Information(Audited)					1Q20 (Audited)
		FY15	FY16	FY17	FY18	FY19	
Current Assets		3,080,365	3,577,541	4,270,686	4,440,157	4,073,075	4,129,414
Property, Plant and Equipment		2,476,065	2,958,734	3,171,827	3,174,144	3,072,048	3,008,150
Intangible assets		427,633	842,580	1,365,648	1,371,323	1,613,065	1,591,798
Other Assets		981,763	1,186,005	1,263,411	1,200,290	1,202,984	1,171,219
Total Assets		6,968,826	8,564,860	10,071,572	10,185,914	9,961,172	9,900,581
Current Liability	Before Distribution	1,558,732	3,197,195	2,633,377	2,535,478	3,081,254	2,458,952
	After Distribution (note)	1,858,732	3,587,195	3,173,377	3,102,478	3,648,254	note
Noncurrent Liabilities		1,403,417	1,142,429	2,649,434	2,579,342	1,601,435	2,018,323
Total Liabilities	Before Distribution	2,962,149	4,339,624	5,282,811	5,114,820	4,682,689	4,477,275
	After Distribution (note)	3,262,149	4,729,624	5,822,811	5,681,820	5,249,689	note
Equity Attributable to Shareholders of the Parent		4,006,501	4,225,020	4,788,516	5,070,850	5,278,229	5,423,084
Capital Stock		1,200,000	1,200,000	1,200,000	1,260,000	1,260,000	1,260,000
Capital Surplus		1,541,021	1,541,021	1,541,021	1,541,021	1,541,021	1,541,021
Retained Earnings	Before Distribution	1,290,521	1,846,880	2,495,645	2,840,982	3,288,101	3,505,398
	After Distribution (note)	990,521	1,456,880	1,955,645	2,273,982	2,721,101	note
Others		(25,041)	(362,881)	(448,150)	(571,153)	(810,893)	(883,335)
Noncontrolling Interests		176	216	245	244	254	222
Total Equity	Before Distribution	4,006,677	4,225,236	4,788,761	5,071,094	5,278,483	5,423,306
	After Distribution (note)	3,706,677	3,835,236	4,248,761	4,504,094	4,711,483	note

Note: As of March 19th, 2020, the amount of after distribution has not presented due to the proposal of earnings distribution of year 2019 had not yet been submitted to the Shareholders' Meeting.

## (3) Condensed Statement of Comprehensive Income (Unconsolidated)-IFRS

NT\$ thousand

Item \ Year	Most Recent 5-Year Financial Information(Audited)					1Q20
	FY15	FY16	FY17	FY18	FY19	
Net Revenue	1,023,543	1,618,026	1,806,320	2,054,112	2,185,137	N/A
Gross Profit	193,990	525,497	792,825	982,299	1,093,310	
Income from Operations	205,941	409,560	670,593	816,736	984,879	
Non-operating Income and Expenses	521,745	478,362	482,958	313,144	220,519	
Income before Income Tax	727,686	887,922	1,153,551	1,129,880	1,205,398	
Net Income	699,935	856,581	1,042,893	947,655	1,007,486	
Other Comprehensive Income for the Year, Net of Income Tax	(90,217)	(338,062)	(89,397)	(125,321)	(233,107)	
Total Comprehensive Income for the Year	609,718	518,519	953,496	822,334	774,379	
Basic Earnings Per Share (NT\$ Dollar)	6.22	7.14	8.28	7.52	8.00	

## (4) Condensed Statement of Comprehensive Income (Consolidated)-IFRS

NT\$ thousand

Item \ Year	Most Recent 5-Year Financial Information(Audited)					1Q20 (Audited)
	FY15	FY16	FY17	FY18	FY19	
Net Revenue	3,374,449	4,012,789	5,050,603	5,056,832	5,239,635	1,086,473
Gross Profit	1,297,842	1,792,093	2,122,446	2,138,990	2,143,280	454,444
Income from Operations	758,708	1,093,618	1,319,533	1,225,582	1,253,552	263,640
Non-operating Income and Expenses	113,395	(19,086)	(32,354)	33,035	39,400	24,752
Income before Income Tax	872,103	1,074,532	1,287,179	1,258,617	1,292,952	288,392
Net Income	699,916	856,621	1,042,941	947,666	1,007,490	217,300
Other Comprehensive Income for the Year, Net of Income Tax	(90,230)	(338,062)	(89,416)	(125,333)	(233,101)	(72,477)
Total Comprehensive Income for the Year	609,686	518,559	953,525	822,333	774,389	144,823
Net Income (Loss) Attributable to: Shareholders of the Parent	699,935	856,581	1,042,893	947,655	1,007,486	217,297
Net Income (Loss) Attributable to: Noncontrolling Interests	(19)	40	48	11	4	3
Total Comprehensive Income (Loss) Attributable to: Shareholders of the Parent	609,718	518,519	953,496	822,334	774,379	144,855
Total Comprehensive Income (Loss) Attributable to: Noncontrolling Interests	(32)	40	29	(1)	10	(32)
Basic Earnings Per Share (NT\$ Dollar)	6.22	7.14	8.28	7.52	8.00	1.72

(5) Auditors' Opinions from 2015 to 2019

Year	CPA Firm	CPA	Audit Opinion
2015	Deloitte & Touche	Liao, Hung Ju and Li, Chi-Chen	An Unmodified 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
2018	Deloitte & Touche	Liao, Hung Ju & Yang, Chao Chin	An Unmodified Opinion
2019	Deloitte & Touche	Yang, Chao-Chin & Liu, Yu-Xiang	An Unmodified Opinion

## 2. Most Recent 5-Year Financial Analysis

### (1) Financial Analysis from 2015 to 2019 (Unconsolidated)–IFRS

Item \ Year		Most Recent 5-Year Financial Analysis					1Q20
		FY15	FY16	FY17	FY18	FY19	
Financial structure (%)	Liabilities to assets ratio	26.9	45.8	42.8	46	42.8	N/A
	Long-term capital to real estate, plants, and equipment ratio	828,713.8	6,219,171.1	18,084,652.8	54,202.0	59,805.4	
Ability to repay debts (%)	Current ratio	49.2	31.7	52.9	46.7	30.5	
	Quick ratio	47.8	31.6	52.9	46.3	30.2	
	Debt services coverage ratio	5,505.0	3,668.0	3,309.9	3,036.2	3,540.8	
Utility	Receivables turnover	6.6	7.2	6.4	6.3	6.2	
	Average days for cash receipt	55.5	51.0	57.2	58.0	59.4	
	Inventory turnover	110.0	160.6	577.7	225.6	126.5	
	Payables turnover	5.7	4.1	3.1	2.9	2.6	
	Average days of sales	3.3	2.3	0.6	1.6	2.9	
	Real estate, plants, and equipment turnover	1,153.9	4,978.5	32,255.7	313.9	184.5	
	Total assets turnover	0.3	0.2	0.2	0.2	0.2	
Profitability(%)	ROA	17.8	13.2	13.3	11.0	11.1	
	ROE	22.3	20.8	23.1	19.2	19.5	
	Pre-tax Income to Paid-in Capital Ratio (%)	60.6	74.0	96.1	89.7	95.7	
	Net margin	68.4	52.9	57.7	46.1	46.1	
	EPS(NT\$ Dollar)	6.22	7.14	8.69	7.64	8.00	
Cash flow	Cash flow ratio	22.5	15.9	32.9	31.7	28.7	
	Net cash flow adequacy ratio	14.7	15.5	163.5	144.0	142.7	
	Cash reinvestment ratio	0.0	4.0	3.4	2.8	4.0	
Leverage	Operation leverage	5.0	1.4	2.7	2.5	2.2	
	Financial leverage	1.1	1.1	1.1	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 2019

- (1) Current ratio and Quick ratio: In 2019, some of bank's mid-term facilities will expire within a year. Therefore, the current liability was higher than 2018 as well as current ratio and quick ratio were lower than 2018.
- (2) Inventory turnover (times) and average inventory turnover (days): The expansion of the repair market has led to increase in inventory levels of spare parts other than chains.
- (3) Real estate, plants, and equipment turnover (times): The sales revenue of 2019 increased which resulted in

the increase of real estate, plants, and equipment turnover.

- (4) Cash reinvestment ratio: The Company's operating performance has increased year by year, and the cash inflow has also increased from the previous year. Besides, the required working capital has reduced. Therefore, our cash reinvestment ratio was higher than 2018.

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)



(2) Financial Analysis from 2015 to 2019 (Consolidated)

financial ratios \ Year		Financial information (note1)					Current year to March 31th
		2015	2016	2017	2018	2019	
Financial structure (%)	Liabilities to assets ratio	42.5	50.7	52.5	50.2	47.0	45.2
	Long-term capital to real estate, plants, and equipment ratio	218.5	181.4	234.5	241.0	224.0	247.4
Ability to repay debts (%)	Current ratio	197.6	111.9	162.2	175.1	132.2	167.9
	Quick ratio	159.7	87.9	119.0	125.6	94.4	122.9
	Debt services coverage ratio	4,482.9	2,729.9	3,929.8	3,317.5	3757.2	3618.3
Utility	Receivables turnover	6.5	6.1	5.6	5.2	4.9	3.9
	Average days for cash receipt	55.9	59.9	65.0	69.7	74.0	92.54
	Inventory turnover	3.9	3.7	3.7	2.9	2.9	2.8
	Payables turnover	9.1	9.6	10.1	8.5	8.8	7.7
	Average days of sales	94.4	97.9	98.1	128.1	124.6	132.2
	Real estate, plants, and equipment turnover	1.4	1.4	1.6	1.6	1.7	1.4
	Total assets turnover	0.6	0.5	0.5	0.5	0.5	0.4
Profitability	ROA	13.7	11.5	11.5	9.7	10.3	2.3
	ROE	22.3	20.8	23.1	19.2	19.5	4.1
	Pre-tax Income to Paid-in Capital Ratio (%)	72.7	89.5	107.3	99.9	102.6	22.9
	Net margin	20.7	21.3	20.6	18.7	19.2	20.0
	EPS(NT\$ Dollar)	6.22	7.14	8.69	7.52	8.00	1.72
Cash flow	Cash flow ratio	66.1	34.1	37.5	46.5	47.6	59.6
	Net cash flow adequacy ratio	46.9	45.0	55.4	56.2	65.2	65.2
	Cash reinvestment ratio	17.4	16.5	9.6	9.4	15.8	14.2
Leverage	Operation leverage	2.2	2.4	2.3	2.3	2.2	2.2
	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 2018

- (1) Current ratio and Quick ratio: In 2019, some of bank's mid-term facilities will expire within a year. Therefore, the current liability was higher than 2018 as well as current ratio and quick ratio were lower than 2018.
- (2) Cash reinvestment ratio: The Group's operating performance has increased year by year, and the cash inflow has also increased from the previous year.

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 (III), Financial Statements.

5. Unconsolidated Financial Statements and Independent Auditors' Report

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

6. The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2019 and as of the date of this Annual Report  
None.

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

### 1. Financial Status

NT\$ thousand

Item \ Year	2019	2018	Difference	
			Amount	%
Current Assets	4,073,075	4,440,157	(367,082)	-8.3%
Property, Plant and Equipment	3,072,048	3,174,144	(102,096)	-3.2%
Goodwill	1,339,550	1,226,567	112,983	9.2%
Total Assets	9,961,172	10,185,914	(224,742)	-2.2%
Current Liabilities	3,081,254	2,535,478	545,776	21.5%
Noncurrent Liabilities	1,601,435	2,579,342	(977,907)	-37.9%
Total Liabilities	4,682,689	5,114,820	(432,131)	-8.4%
Capital Stock	1,260,000	1,260,000	0	0.0%
Retained Earnings	3,288,101	2,840,982	447,119	15.7%
Total Equity	5,278,483	5,071,094	207,389	4.1%
Analysis of deviation over 20% and the indicated amount exceeds NTD 10 million :				
Current liabilities and Noncurrent liabilities: In 2019, some of bank's mid-term facilities will expire within a year. Therefore, the current liability was higher than 2018 but the noncurrent liabilities was lower.				

## 2. Financial Performance

Item \ Year	2019	2018	Difference	%
Net Revenue	5,239,635	5,056,832	182,803	3.6%
Cost of good sold	3,096,355	2,917,842	178,513	6.1%
Gross profit	2,143,280	2,138,990	4,290	0.2%
Operating Expenses	883,829	899,232	(15,403)	-1.7%
Income from Operations	1,253,552	1,225,582	27,970	2.3%
Non-operating Income and Expenses	39,400	33,035	6,365	19.3%
Income before Income Tax	1,292,952	1,258,617	34,335	2.7%
Income Tax Expenses	285,462	310,951	(25,489)	-8.2%
Net Income	1,007,490	947,666	59,824	6.3%
Analysis of deviation over 20% and the indicated amount exceeds NTD 10 million : None				

## 3. Cash Flow

### (1) Analysis of Cash Flow

NT\$ thousand					
Cash Balance 12/31/2018	Net Cash Provided by Operating Activities in 2019	Net Cash Used in Investing and Financing Activities in 2019	Cash Balance 12/31/2019	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
2,081,983	1,465,883	1,660,460	1,887,406	-	-

1. Operating activities: Net cash inflows NT\$ 1,465,883 thousand, mainly because net cash inflows from selling transactions.
2. Investing activities: Net cash outflows NT\$ 673,001 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\$ 987,459 thousand because of loan interest payment and cash dividends.
4. The supplementary countermeasures of cash shortage: N/A.

(2) Remedial Actions for Liquidity Shortfall:

Item \ Year	2019	2018	Difference(%)
Cash flow ratio (%)	47.6	46.5	1.1%
Cash Flow Adequacy Ratio (%)	65.2	56.2	9.0%
Cash reinvestment ratio (%)	15.8	9.4	6.4%

- A. The analysis of variances in the ratio of changes: The difference of ratio between 2019 and 2018 is not significant, so detailed analysis is not required.
- B. The improvement plan for insufficient liquidity: Not applicable.

(3) Cash Flow Projection for Next Year:

NT\$ thousand					
Cash Balance 12/31/2019	Net Cash Provided by Operating Activities in 2020	Net Cash Used in Investing and Financing Activities in 2020	Cash Balance 12/31/2020	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
1,825,329	1,400,000		1,925,329	N/A	N/A-

- A. Estimated cash balance for the coming year: NT\$ 1,925,329 thousand
- B. Estimated remedy for cash deficit and liquidity analysis: N/A.

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

In 2019, the Company paid the remaining balance of the acquisition of Maya Chain Co., Ltd and Suzhou Maya Trading Co., Ltd. in the year of 2018. In response to future operational needs, we also purchase real estate, plant and equipment. The total liabilities by the end of 2019 is NT\$ 4,682,689 thousand, the debt ratio is 47% which is reasonable compared with peers (about 35% to 60%).

## 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	240,032	Manufacturing, selling various chains and components of bicycle.	Operation of bicycle component grew steadily	N/A
KMC CHAIN(SAMOA) INDUSTRIAL CO.,LTD (Note)	190	Selling various bicycle chains and components	Operation of bicycle component grew steadily	N/A
TEC CHAINS(SAMOA) CO.,LTD (Note)	(245)	Selling various bicycle chains and components	The indicated amount is not significant, so detailed analysis is not required.	N/A
KMC CHAIN(Seychelles) INDUSTRIAL CO.,LTD (Note)	(20)	Selling various bicycle chains and components	The indicated amount is not significant, so detailed analysis is not required.	N/A
TEC CHAINS(Seychelles) CO.,LTD (Note)	54	Selling various bicycle chains and components	The indicated amount is not significant, so detailed analysis is not required.	N/A
PRO (TAIWAN) PROCUREMENT CO., LTD	1,273	Selling various bicycle components	Operation of bicycle component grew steadily	N/A
K.M.C. Automobile Transmission Co., Ltd	10,511	Manufacturing, selling various chains and components of vehicle.	Operation of vehicle component grew steadily	N/A
KMC Industries (Vietnam) Co., Ltd	(2,856)	Selling various chains and components	The indicated amount is not significant, so detailed analysis is not required.	N/A
KMC(BVI) Holding Co., Ltd.	(16,340)	Investing activities	The subsidiaries have a loss	N/A
KMC Chain (Vietnam) Co., Ltd.	(16,269)	Manufacturing, selling various chains and components of motorcycle.	Caused by the intense competition of motorcycle industry in Vietnam	Will use group resources to help the company to improve its operations
KMC CHAIN EUROPE N.V.	47,564	Selling various bicycle chains and components	Operation of bicycle component grew steadily	N/A
KMC CHAIN AMERICAN CORPORATION	(10,390)	Selling various bicycle chains and components	The indicated amount is not significant, so detailed analysis is not required.	Will use group resources to help the company to improve its operations
PT. Kuei Meng Chain Indonesia	386	Selling various motorcycle chains and components	Operation of motorcycle component grew steadily	N/A

Subsidiaries	Net Income(loss) of Subsidiaries	Investment Policy	main reason for profits or losses	Improvement plan
KMC Investment (China) Co., Ltd	163,826	Investing activities	The subsidiaries earned profit.	N/A
KMC Transmission (Tianjin) Co., Ltd	(2,956)	Manufacturing, selling various chains and components of bicycle.	Our factories and sales companies in China use the dual-branding strategy for manufacturing and business promotion which resulting in a profit or loss.	N/A
KMC Chain (Shenzhen) Co., Ltd.	39,487	Manufacturing, selling various chains and components of bicycle.		N/A
KMC Chain (Suzhou) Co., Ltd.	45,621	Manufacturing, selling various chains and components of bicycle.		N/A
Maya Chain Co., Ltd.	20,140	Manufacturing, selling various chains of bicycle.		N/A
KMC Automotive Transmission Co., Ltd.	(20,417)	Manufacturing, selling various chains and components of vehicle.	Caused by the sluggish demand of vehicles in China	N/A
KMC Transton Company Limited.	30,025	Selling various chains and components of door opener.	Operation of door opener component grew steadily	N/A
Shenzhen Kmc Industrial Co., Ltd.	23,134	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.	8,958	Selling various bicycle chains and components	Our factories and sales companies in China use the dual-branding strategy for manufacturing and business promotion which resulting in a profit or loss.	N/A
Suzhou Kmc Industry and Trade Co., Ltd.	253,532	Selling various bicycle chains and components		N/A
Suzhou Maya Trading Co., Ltd.	(57,072)	Selling various bicycle chains		N/A

Note: The company has completed cancellation of registration before November 2019.

(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. Besides, 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

	2018		2019	
	Amount	Percentage for Net profit before tax	Amount	percentage for Net profit before tax
Interest expense	39,118	3.1%	35,354	2.7%
Exchange gain (loss)	35,290	2.8%	(4,820)	-0.4%

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 2.7% 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 2019 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:  
Having set itself the goal of becoming “The Most Valuable Chain Brand”, KMC consistently invests in product design and innovation to provide its corporate customers and end users with bicycle chain products of the finest quality and best compatibility with conventional transmission systems. As more transmission system manufacturers launch new products, the demand of the 12-speed advanced bicycle is getting more popular, KMC has plans to develop a series of 12-speed advanced bicycles to comply with the market trend. Europe and the U.S. are the most important bicycle chain repair markets where KMC has been deeply cultivated for a long time, with its own strong branding, KMC, its products can be seen and sold in more than 130 countries. Over the past 3 years, KMC’s annual growth rates were maintained at more than 15% from the repair service where most of well-known brands get high margin from, KMC will continue to cultivate in the repair market, expect to achieve another success in brand influence and sales channels, as well as bring in new opportunities.

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:  
None.
- (8) Expected result and possible risks deriving from plant expansion, and the responses:  
None
- (9) The risk deriving from concentration of purchase or sales, and the responses

## A. Main Vendors

NT\$ thousand

item	2018				2019			
	Vendor	Amount	Percentage of total Net Purchases	Relationship	Vendor	Amount	Percentage of total Net Purchases	Relationship
1	ANSTEEL	315,809	14.8%	none	ANSTEEL	337,780	16.2%	none
2	Others	1,821,498	85.2%		Others	1,747,422	83.8%	
	Total Net Purchase	2,137,307	100.0%		Total Net Purchase	2,085,202	100.0%	

In 2019, due to the expansion of operations and the rise in steel prices, the purchase of ANSTEEL reached 16.2%. The company also embarked on the development of other raw material suppliers to reduce the risk of concentration of vendors.

## B. Main customers

Item	2018				2019			
	Customer	Amount	Percentage of total Net Sales	Relationship	Customer	Amount	Percentage of total Net Sales	Relationship
1	note				note			
2	Others	5,056,832	100%		Others	5,239,635	100%	
	Total Net Sales	5,056,832	100%		Total Net Sales	5,239,635	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:  
None.

(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

(13) Other Material Risks

Information security risk assessment and analysis:

In order to implement information security management and regulations, the company has not only stipulated internal control regulations for computer and information operations but also formed the Information Integration Department to reinforce the company's maintenance and management concerning information security. Moreover, we regularly strengthen our employees' information

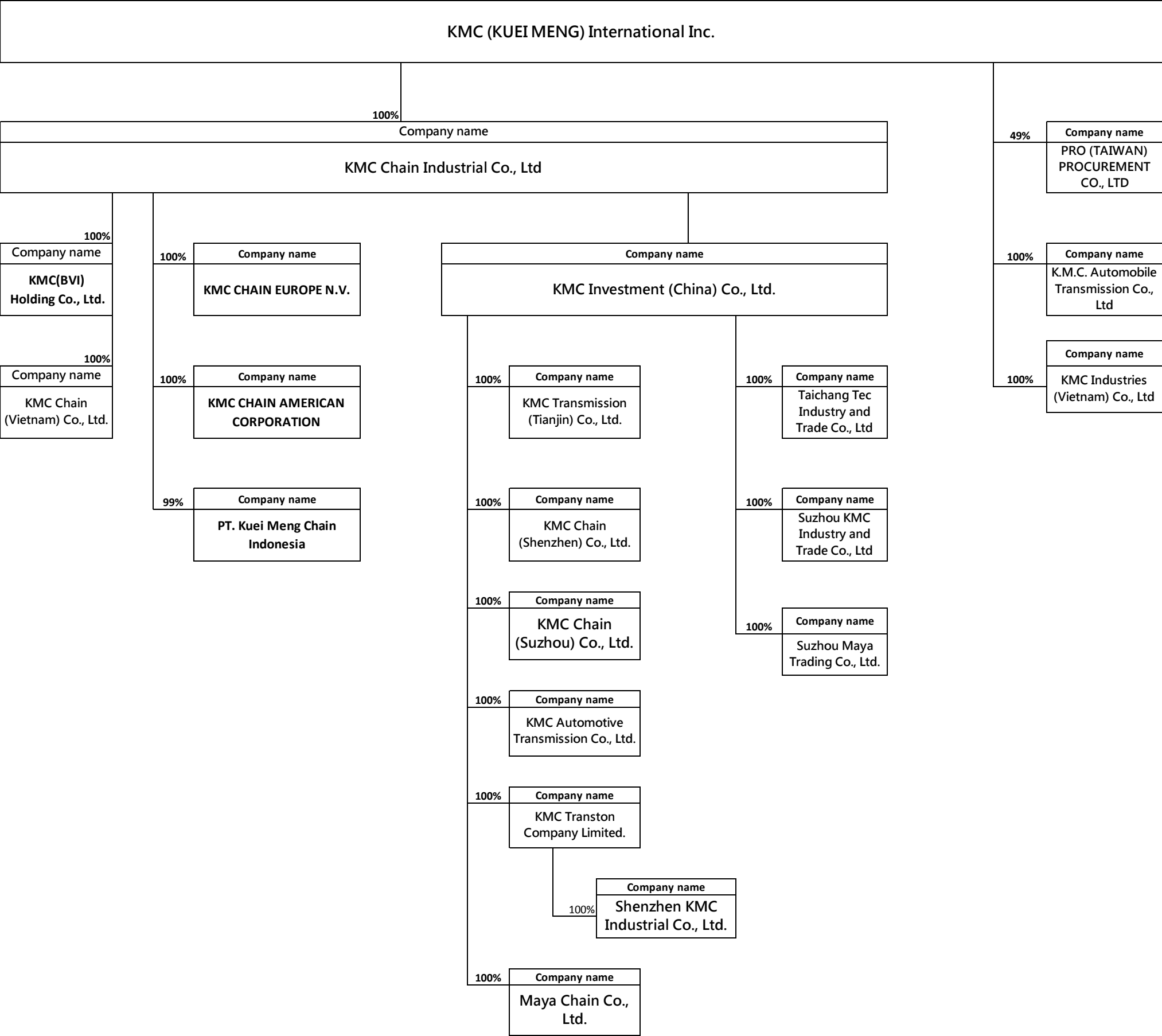
security awareness to minimize the risk and impact of information security-related problems. The following measures have been implemented with an emphasis on the risk assessment of information system-related disasters:

1. File and information equipment safety and control:
    - (a) Increasing backup storage media: Virtual tape library (VTL) and Network Attached Storage (NAS) devices.
    - (b) The Information Integration Department regularly backs up important system files, programs, and data daily, while backup records are kept for future reference.
    - (c) The remote backup mechanism is adopted, and the media storage environment must comply with ISO27001 data center security standards. Furthermore, the backup records are stored in VTL and NAS systems.
    - (d) Access control is applied to various storage media and no external connections are permitted.
    - (e) The usability of various backup equipment is tested from time to time.
  2. Intrusion and virus detection/protection:
    - (a) The Information Integration Department utilizes corporate anti-virus software, and the latest virus database and anti-virus software component are downloaded daily. After updating and testing the anti-virus software of the main system, the update will be delivered to various computers according to schedule.
    - (b) When external data storage media and personal computer assets are brought into the company, an application must be submitted to the Information Integration Department and a virus scan must be executed. Endpoint protection will detect whether the external storage media is accessing the company's information equipment.
    - (c) Corporate firewall and information security analysis systems are established to effectively block packets of unknown origin from attacking the connection and network service. Additionally, it can automatically screen and prevent the transmission of viruses.
  3. Information security check and control:
    - (a) When network packets are transmitted or received through the Internet, email, and communication software, the company's firewall and corporate anti-virus software will conduct a scan to prevent the attack of hackers or computer viruses.
    - (b) Reinforcing information security-related education and training among employees, reminding them to beware of emails, verify the authenticity of their source, and never click on the attached files or links contained within an email of unknown origin to prevent installing backdoors unawares. Users should avoid receiving or downloading emails or software that are not related to the company's business via the company's network to prevent taking up network resources and increasing the chance of virus infection.
    - (c) Without authorization from a superior, the company's employees are prohibited to send company-related information externally via the Internet, email, or communication software.
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	886,000	Manufacturing, selling various chains and components of bicycle.
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	520	Investing activities
KMC Chain (Vietnam) Co., Ltd.	2000/5/31	USD	3,000	Manufacturing, selling various chains and components of motorcycle.
KMC CHAIN EUROPE N.V.	1996/12/23	EUR	45	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	1,061,573	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
KMC Industries (Vietnam) Co., Ltd	2019/1/17	USD	1,000	Selling various chains and components
Maya Chain Co., Ltd.	2014/12/25	RMB	78,338	Manufacturing, selling various chains of bicycle.
Suzhou Maya Trading Co., Ltd.	2017/11/15	RMB	1,200	Selling various bicycle chains

(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
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 Industries (Vietnam) Co., Ltd	KMC (KUEI MENG) INTERNATIONAL INC. Representative Fang,Hsiang	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 N.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
Maya Chain Co., Ltd.	KMC Investment (China) Co., Ltd Representative Chang,Tsung-Hao	100
Suzhou Maya Trading Co., Ltd.	KMC Investment (China) Co., Ltd Representative Chang,Tsung-Hao	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	7,224,981	284,206	6,940,775	567,643	240,032
PRO (TAIWAN) PROCUREMENT CO., LTD	81,486	55,436	26,049	12,958	1,273
K.M.C. Automobile Transmission Co., Ltd	77,035	27,609	49,426	146,690	10,511
KMC(BVI) Holding Co., Ltd.	363,718	0	363,718	0	(3,080)
KMC Chain (Vietnam) Co., Ltd.	453,318	79,972	373,346	533,702	(16,269)
KMC CHAIN EUROPE N.V.	488,892	69,374	419,518	807,089	46,156
KMC CHAIN AMERICAN CORPORATION	147,545	20,759	126,786	138,596	(10,091)
PT. Kuei Meng Chain Indonesia	43,080	17,326	25,754	28,564	390
KMC Investment (China) Co., Ltd	5,461,909	33,180	5,428,728	2,610	157,891
KMC Transmission (Tianjin) Co., Ltd	647,003	222,210	424,793	705,406	(2,849)
KMC Chain (Shenzhen) Co., Ltd.	2,421,886	1,419,429	1,002,457	807,629	38,057
KMC Chain (Suzhou) Co., Ltd.	865,518	105,262	760,256	759,184	43,968
KMC Automotive Transmission Co., Ltd.	428,699	99,123	329,577	297,621	(19,677)
KMC Transton Company Limited.	143,618	34,040	109,578	130,983	28,937
Shenzhen Kmc Industrial Co., Ltd.	108,175	89,356	18,819	225,785	22,296
Taichang Tec Industry and Trade Co., Ltd.	99,009	82,779	16,231	337,914	8,633
Suzhou Kmc Industry and Trade Co., Ltd.	406,364	149,176	257,189	928,648	244,348
KMC Industries (Vietnam) Co., Ltd	29,780	1,828	27,972	17,812	(2,856)
Maya Chain Co., Ltd.	257,687	27,049	230,637	11,957	19,410
Suzhou Maya Trading Co., Ltd.	138,330	191,750	(53,420)	286,288	(55,004)

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:  
None
  2. The attachment
    - (1) Statement of Internal Control for 2019
    - (2) The Supervisors' review report for 2019
    - (3) Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report



KMC Chain Industrial Co., Ltd.

Statement of Internal Control

Date: March 19, 2020

The statement of the company's internal control system for the year of 2019, 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, 2019, 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 19, 2020. 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 2020, KMC ( Kuei Meng) International Inc.

The Board of Directors has prepared and submitted to the undersigned, the 2019 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 19, 2020

**KMC (KUEI MENG) International Inc. and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2019 and 2018 and  
Independent Auditors' Report**

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

KMC (KUEI MENG) INTERNATIONAL INC.

By

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YING-CHIN WU  
Chairman  
March 19, 2020

## **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 referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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, 2019 and 2018, 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 audit of the consolidated financial statements for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission of the Republic of China on February 25, 2020, and auditing standards generally accepted in the Republic of China. We conducted our audit of the consolidated financial statements for the year ended December 31, 2018 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, 2019. 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, 2019 is as follows:

#### Revenue recognition

The Group sells its products in Asia, the Americas and Europe. Sales revenue is significant to the consolidated financial statements and is presumed risk account under the Regulations Governing Auditing and Attestation of Financial Statements; thus, we deemed the validity and occurrence of sales to specific customers whose gross margin rate has significant growth than last year to be a key audit matter. The revenue recognition accounting policy is disclosed in Notes 4(o) and 27 to the consolidated financial statements.

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

- 1. We understood and tested the operating effectiveness of internal controls and operation procedures in sales and payment collection cycle.**
- 2. We selected a moderate number of samples from sales revenue and verified the validity and occurrence of sales against sales invoices, delivery documents, customs documents, and relevant documents of collections.**

#### **Other Matter**

We have also audited the parent company only financial statements of KMC (KUEI MENG) International Inc. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

#### **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 supervisors, 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 the 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, 2019 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 Chao-Chin Yang and Yu-Shiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 19, 2020.

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, 2019 AND 2018  
(In Thousands of New Taiwan Dollars)**

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
<b>ASSETS</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,765,933	18	\$ 2,073,429	20
Financial assets at amortized cost - current (Notes 4, 7 and 8)	59,396	1	8,554	-
Notes receivable (Notes 4 and 9)	107,758	1	113,675	1
Accounts receivable (Notes 4 and 9)	870,226	9	817,389	8
Accounts receivable from related parties (Notes 4, 9 and 34)	52,471	-	56,275	1
Other receivables (Notes 4 and 34)	35,606	-	28,867	-
Current tax assets (Notes 4 and 29)	20,768	-	25,030	-
Inventories (Notes 4 and 10)	880,476	9	1,109,335	11
Prepayments (Notes 3, 12 and 20)	216,037	2	145,605	2
Other current assets (Note 12)	64,404	1	61,998	1
Total current assets	4,073,075	41	4,440,157	44
<b>NON-CURRENT ASSETS</b>				
Investments accounted for using equity method (Notes 4 and 13)	12,764	-	12,140	-
Property, plant and equipment (Notes 4, 14 and 34)	3,072,048	31	3,174,144	31
Right-of-use assets (Notes 3, 4, 15 and 34)	908,305	9	-	-
Investment properties (Notes 4 and 16)	133,458	1	98,395	1
Goodwill (Notes 4 and 18)	1,339,550	13	1,226,567	12
Other intangible assets (Notes 4 and 19)	273,515	3	144,756	1
Deferred tax assets (Notes 4 and 29)	85,605	1	87,633	1
Other financial assets - non-current (Notes 4 and 11)	3,244	-	3,244	-
Long-term prepayments for lease (Note 20)	-	-	924,734	9
Other non-current assets (Notes 3 and 12)	59,608	1	74,144	1
Total non-current assets	5,888,097	59	5,745,757	56
<b>TOTAL</b>	<b>\$ 9,961,172</b>	<b>100</b>	<b>\$ 10,185,914</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Notes 4 and 21)	\$ 898,177	9	\$ 1,712,132	17
Short-term bills payable (Notes 4 and 21)	99,955	1	-	-
Notes payable (Note 22)	944	-	6,507	-
Accounts payable (Note 22)	300,948	3	319,894	3
Accounts payable to related parties (Notes 22 and 34)	35,725	-	37,284	1
Other payables (Note 23)	283,846	3	301,816	3
Current tax liabilities (Notes 4 and 29)	143,778	2	135,127	1
Lease liabilities - current (Notes 3, 4, 15 and 34)	2,828	-	-	-
Current portion of long-term borrowings (Notes 4 and 21)	1,270,000	13	-	-
Deferred revenue - current (Notes 4 and 24)	7,060	-	-	-
Other current liabilities (Note 23)	37,993	-	22,718	-
Total current liabilities	3,081,254	31	2,535,478	25
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings (Notes 4 and 21)	1,085,000	11	2,000,000	20
Deferred tax liabilities (Notes 4 and 29)	472,527	5	534,999	5
Lease liabilities - non-current (Notes 3, 4, 15 and 34)	1,791	-	-	-
Deferred revenue - non-current (Notes 4 and 24)	7,060	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 25)	32,926	-	40,759	-
Other non-current liabilities	2,131	-	3,584	-
Total non-current liabilities	1,601,435	16	2,579,342	25
Total liabilities	4,682,689	47	5,114,820	50
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 26)</b>				
Capital stock - common stock	1,260,000	13	1,260,000	12
Capital surplus	1,541,021	15	1,541,021	15
Retained earnings				
Legal reserve	449,234	4	354,469	4
Special reserve	571,153	6	448,150	4
Unappropriated earnings	2,267,714	23	2,038,363	20
Total retained earnings	3,288,101	33	2,840,982	28
Other equity	(810,893)	(8)	(571,153)	(5)

Total equity attributable to owners of the Company	5,278,229	53	5,070,850	50
NON-CONTROLLING INTERESTS	<u>254</u>	<u>-</u>	<u>244</u>	<u>-</u>
Total equity	<u>5,278,483</u>	<u>53</u>	<u>5,071,094</u>	<u>50</u>
TOTAL	<u>\$ 9,961,172</u>	<u>100</u>	<u>\$ 10,185,914</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, 2019 AND 2018**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	<b>2019</b>		<b>2018</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
OPERATING REVENUE (Notes 4, 27, 34 and 38)	\$ 5,239,635	100	\$ 5,056,832	100
OPERATING COSTS (Notes 10, 28 and 34)	<u>3,096,355</u>	<u>59</u>	<u>2,917,842</u>	<u>58</u>
GROSS PROFIT	<u>2,143,280</u>	<u>41</u>	<u>2,138,990</u>	<u>42</u>
OPERATING EXPENSES (Notes 28 and 34)				
Selling and marketing expenses	389,771	7	406,677	8
General and administrative expenses	450,905	9	426,196	8
Research and development expenses	34,104	1	43,493	1
Expected credit loss	<u>9,049</u>	<u>-</u>	<u>22,866</u>	<u>1</u>
Total operating expenses	<u>883,829</u>	<u>17</u>	<u>899,232</u>	<u>18</u>
OTHER OPERATING INCOME AND EXPENSES (Notes 28 and 34)	<u>(5,899)</u>	<u>-</u>	<u>(14,176)</u>	<u>-</u>
PROFIT FROM OPERATIONS	<u>1,253,552</u>	<u>24</u>	<u>1,225,582</u>	<u>24</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4, 13, 24, 28 and 34)				
Other income	92,646	2	82,624	2
Other gains and losses	(18,516)	-	(11,343)	-
Share of profit of associates	624	-	872	-
Finance cost	<u>(35,354)</u>	<u>(1)</u>	<u>(39,118)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>39,400</u>	<u>1</u>	<u>33,035</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	1,292,952	25	1,258,617	25
INCOME TAX EXPENSE (Notes 4 and 29)	<u>285,462</u>	<u>6</u>	<u>310,951</u>	<u>6</u>
NET PROFIT	<u>1,007,490</u>	<u>19</u>	<u>947,666</u>	<u>19</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 25)	8,291	-	(2,898)	-
Income tax benefit (expense) relating to items that will not be reclassified subsequently to profit or loss (Note 29)	<u>(1,658)</u>	<u>-</u>	<u>580</u>	<u>-</u>
	<u>6,633</u>	<u>-</u>	<u>(2,318)</u>	<u>-</u>

(Continued)

KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 26)	\$ (239,199)	(4)	\$ (103,639)	(2)
Income tax expense relating to items that may be reclassified subsequently to profit or loss (Notes 26 and 29)	<u>(535)</u>	<u>-</u>	<u>(19,376)</u>	<u>(1)</u>
	<u>(239,734)</u>	<u>(4)</u>	<u>(123,015)</u>	<u>(3)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(233,101)</u>	<u>(4)</u>	<u>(125,333)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 774,389</u>	<u>15</u>	<u>\$ 822,333</u>	<u>16</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 1,007,486	19	\$ 947,655	19
Non-controlling interests	<u>4</u>	<u>-</u>	<u>11</u>	<u>-</u>
	<u>\$ 1,007,490</u>	<u>19</u>	<u>\$ 947,666</u>	<u>19</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 774,379	15	\$ 822,334	16
Non-controlling interests	<u>10</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
	<u>\$ 774,389</u>	<u>15</u>	<u>\$ 822,333</u>	<u>16</u>
EARNINGS PER SHARE (Note 30)				
Basic	<u>\$ 8.00</u>		<u>\$ 7.52</u>	
Diluted	<u>\$ 7.99</u>		<u>\$ 7.51</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  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of the Company								
	Retained Earnings					Other Equity			
	Capital Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2018	\$ 1,200,000	\$ 1,541,021	\$ 250,180	\$ 362,881	\$ 1,882,584	\$ (448,150)	\$ 4,788,516	\$ 245	\$ 4,788,761
Appropriation of the 2017 earnings (Note 26)									
Legal reserve	-	-	104,289	-	(104,289)	-	-	-	-
Special reserve	-	-	-	85,269	(85,269)	-	-	-	-
Cash dividends distributed by the Company - NT\$ 4.5 per share	-	-	-	-	(540,000)	-	(540,000)	-	(540,000)
Share dividends distributed by the Company - NT\$ 0.5 per share	60,000	-	-	-	(60,000)	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	947,655	-	947,655	11	947,666
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(2,318)	(123,003)	(125,321)	(12)	(125,333)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	945,337	(123,003)	822,334	(1)	822,333
BALANCE, DECEMBER 31, 2018	1,260,000	1,541,021	354,469	448,150	2,038,363	(571,153)	5,070,850	244	5,071,094
Appropriation of the 2018 earnings (Note 26)									
Legal reserve	-	-	94,765	-	(94,765)	-	-	-	-
Special reserve	-	-	-	123,003	(123,003)	-	-	-	-
Cash dividends distributed by the Company - NT\$ 4.5 per share	-	-	-	-	(567,000)	-	(567,000)	-	(567,000)
Net profit for the year ended December 31, 2019	-	-	-	-	1,007,486	-	1,007,486	4	1,007,490
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	6,633	(239,740)	(233,107)	6	(233,101)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,014,119	(239,740)	774,379	10	774,389
BALANCE, DECEMBER 31, 2019	\$ 1,260,000	\$ 1,541,021	\$ 449,234	\$ 571,153	\$ 2,267,714	\$ (810,893)	\$ 5,278,229	\$ 254	\$ 5,278,483

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(In Thousands of New Taiwan Dollars)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 1,292,952	\$ 1,258,617
Adjustments for:		
Depreciation expenses	292,281	233,474
Amortization expenses	52,170	85,160
Expected credit loss loss recognized on accounts receivable	9,049	22,866
Finance costs	35,354	39,118
Interest income	(24,949)	(29,833)
Share of profit of associates	(624)	(872)
Loss on disposal of property, plant and equipment	5,899	14,176
Write-downs of inventories	-	15,081
Unrealized (gain) loss on foreign currency exchange	12,646	(21,621)
Changes in operating assets and liabilities		
Notes receivable	15,384	(10,804)
Accounts receivable	46,908	61,433
Accounts receivable from related parties	3,739	(15,272)
Other receivables	(1,154)	(8,949)
Inventories	233,921	(190,383)
Prepayments	(104,568)	52,182
Other current assets	(4,869)	(12,839)
Notes payable	(5,563)	(29,946)
Accounts payable	(36,139)	46,063
Accounts payable to related parties	(1,559)	20,295
Other payables	(52,127)	30,791
Deferred revenue	14,668	-
Other current liabilities	6,681	(13,445)
Net defined benefit liability	(7,833)	(26,260)
Cash generated from operations	1,782,267	1,519,032
Income tax paid	(316,384)	(340,820)
Net cash generated from operating activities	<u>1,465,883</u>	<u>1,178,212</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets at amortized cost	(50,842)	-
Acquisition of subsidiaries (Note 31)	(347,046)	(392,590)
Acquisition of property, plant and equipment	(305,162)	(317,203)
Proceeds from disposal of property, plant and equipment	13,467	6,089
Increase in refundable deposits	(1,739)	(6,373)
Decrease in refundable deposits	2,095	5,133
Acquisition of other intangible assets	(4,240)	(57,865)
Acquisition of investment properties	(2,612)	(1,698)
Increase in other financial assets	-	(217)
Decrease in other non-current assets	129	-
Interest received	<u>22,949</u>	<u>29,003</u>
Net cash used in investing activities	<u>(673,001)</u>	<u>(735,721)</u>

(Continued)

**KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
**(In Thousands of New Taiwan Dollars)**

	<b>2019</b>	<b>2018</b>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	\$ 11,087,120	\$ 17,233,375
Repayments of short-term borrowings	(11,923,642)	(16,661,490)
Proceeds from short-term bills payable	3,250,000	2,327,201
Repayments of short-term bills payable	(3,152,401)	(2,651,966)
Proceeds from long-term borrowings	5,150,000	6,715,000
Repayments of long-term borrowings	(4,795,000)	(6,735,000)
Proceeds from guarantee deposits received	-	250
Refund of guarantee deposits received	(281)	-
Repayment of the principal portion of lease liabilities	(3,251)	-
Cash dividends	(567,000)	(540,000)
Interest paid	<u>(33,004)</u>	<u>(39,259)</u>
Net cash used in financing activities	<u>(987,459)</u>	<u>(351,889)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(112,919)</u>	<u>(32,676)</u>
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(307,496)	57,926
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,073,429</u>	<u>2,015,503</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,765,933</u>	<u>\$ 2,073,429</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, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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#### 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 August 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 19, 2020.

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

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 Financial Supervisory Commission (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:

##### IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease



arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

#### Definition of a lease

The Group elected to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

#### The Group as lessee

The Group recognizes right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for both the principal portion and the interest portion of lease liabilities are classified within financing activities. Prior to the application of IFRS 16 payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

The Group elected to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in assets and liabilities on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities the Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounted for those leases for which the lease term ended on or before December 31, 2019 as short-term leases.
- 3) The Group excluded initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 1.0114%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 5,111
Less: Recognition exemption for short-term leases	1,885
Less: Recognition exemption for leases of low-value assets	<u>170</u>
Undiscounted amount on January 1, 2019	<u>\$ 3,056</u>
Discounted amount using the incremental borrowing rate on January 1, 2019	<u>\$ 2,888</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 2,888</u>

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out follows:

	Carrying Amount as of January 1, 2019	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayment for lease - current	\$ 34,963	\$ (34,963)	\$ -
Prepayment for lease - non-current	924,734	(924,734)	-
Right-of-use assets	<u>-</u>	<u>962,585</u>	<u>962,585</u>
Total effect on assets	<u>\$ 959,697</u>	<u>\$ 2,888</u>	<u>\$ 962,585</u>
Lease liabilities - current	\$ -	\$ 1,242	\$ 1,242
Lease liabilities - non-current	<u>-</u>	<u>1,646</u>	<u>1,646</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 2,888</u>	<u>\$ 2,888</u>

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out follows:

	Carrying Amount as of January 1, 2019	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayment for lease - current	\$ 34,963	\$ (34,963)	\$ -
Prepayment for lease - non-current	924,734	(924,734)	-
Right-of-use assets	<u>-</u>	<u>962,585</u>	<u>962,585</u>
Total effect on assets	<u>\$ 959,697</u>	<u>\$ 2,888</u>	<u>\$ 962,585</u>
Lease liabilities - current	\$ -	\$ 1,242	\$ 1,242
Lease liabilities - non-current	<u>-</u>	<u>1,646</u>	<u>1,646</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 2,888</u>	<u>\$ 2,888</u>

#### The Group as lessor

The Group did not make any adjustments for leases in which it is a lessor and it accounts for those leases with application of IFRS 16 starting from January 1, 2019.

The IFRSs endorsed by the FSC for application starting from 2020

<b>New IFRSs</b>	<b>Effective Date Announced by IASB</b>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note)</b>
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 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

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 net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

##### 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 12 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 12 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 12 months after the reporting period.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the 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 17, tables 6 and 7 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 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.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

g. Inventories

Inventories consist of raw materials and supplies, finished goods, work-in-process and merchandise. 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. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost.

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.

Property, plant and equipment in the course of construction are measured 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.

Except for freehold land which is not depreciated, the 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.

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.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method,

with interest expense recognized over the lease terms. When there is a change in a lease term, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

## 2018

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. Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

### r. Government grants

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

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

s. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan.

t. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for 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. If a temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards 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, 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 liabilities are settled or the assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### 3) Current and deferred 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 estimates are 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.

#### 2019

The Group has no critical accounting judgements and key sources of estimation uncertainty.

#### 2018

The Group has no critical accounting judgements. However, key source of estimation uncertainty was the assessment of impairment of financial assets. The provision for impairment of accounts receivable is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 9. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

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 pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. 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.

l. 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. 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 the 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. 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. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

When an impairment loss is subsequently reversed, the carrying amount of the 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 the Group 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 issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

Financial assets are classified into financial assets at amortized cost.

Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, accounts receivable at amortized cost, notes receivable, other receivables, financial assets at amortized cost, refundable deposits (classified under other non-current assets) and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii. Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

- i. Significant financial difficulty of the issuer or the borrower;
- ii. Breach of contract, such as a default;
- iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv. The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months

from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are 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

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable).

The Group always recognizes lifetime expected credit losses (ECLs) for accounts receivable. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Group determines that the internal or external information show that the debtor is unlikely to pay its creditors indicate that a financial asset is in default (without taking into account any collateral held by the Group).

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss 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 at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

## 2) Financial liabilities

### a) Subsequent measurement

The Group measures all financial liabilities 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

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

#### Revenue from the sale of goods

Revenue from the sale of goods comes from sales of various types of chains, motorcycle components and vehicle components.

Revenue and accounts receivable are recognized when the transaction terms have been achieved or after accepting by the buyers, which means the Group has transferred to the buyer the significant risks and rewards of ownership of the goods to the buyers, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

p. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

1) The Group as lessor

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

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 2,045	\$ 2,447
Checking accounts and demand deposits	823,746	937,648
Cash equivalent (investments with original maturities less than three months)		
Time deposits	928,450	1,105,641
Repurchase agreements	<u>11,692</u>	<u>27,693</u>
	<u>\$ 1,765,933</u>	<u>\$ 2,073,429</u>

The ranges of interest rates of time deposits and repurchase agreements were as follows:

	December 31	
	2019	2018
Time deposits	1.43% ~ 2.9%	1.54% ~ 3.8%
Repurchase agreements	2%	3%
7. FINANCIAL ASSETS AT AMORTIZED COST		
	December 31	
	2019	2018

Current

- Time deposits with original maturities of more than 3 months      \$ 59,396      \$ 8,554
- a. The range of interest rates for time deposits with original maturities of more than 3 months were approximately 1.98% ~ 2.85% and 1% ~ 4.537% per annum as of December 31, 2019 and December 31, 2018, respectively.
- b. Refer to Note 8 for information relating to their credit risk management and impairment of investments in financial assets at amortized cost.

8. CREDIT RISK MANAGEMENT OF INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at amortized cost.

	December 31	
	2019	2018
Gross carrying amount	\$ 59,396	\$ 8,554
Less: Allowance for impairment loss	-	-
Amortized cost	<u>\$ 59,396</u>	<u>\$ 8,554</u>

The Group only invests in debt instruments that are rated the equivalent of investment grade or higher and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Group's exposure and the external credit ratings are continuously monitored. The Group reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date.

The Group considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast to estimate 12-month or lifetime expected credit losses. The Group's current credit risk grading framework comprises the following categories:

<b>Category</b>	<b>Description</b>	<b>Basis for Recognizing Expected Credit Losses (ECLs)</b>	<b>Expected Loss Rate</b>	<b>Gross Carrying Amount at December 31, 2019 At Amortized Cost</b>
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECLs	0%	\$ 59,396

<b>Category</b>	<b>Description</b>	<b>Basis for Recognizing Expected Credit Losses (ECLs)</b>	<b>Expected Loss Rate</b>	<b>Gross Carrying Amount at December 31, 2018 At Amortized Cost</b>
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECLs	0%	\$ 8,554

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Notes receivable - operating</u>		
At amortized cost		
Gross carrying amount	\$ 107,758	\$ 113,675
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 107,758</u>	<u>\$ 113,675</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 939,987	\$ 856,540
Less: Allowance for impairment loss	<u>69,761</u>	<u>39,151</u>
	<u>\$ 870,226</u>	<u>\$ 817,389</u>
Accounts receivable from related parties	<u>\$ 52,471</u>	<u>\$ 56,275</u>

The average credit period of sales of goods was 30 to 180 days. No interest was charged on accounts receivable. In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group measures the loss allowance for accounts receivable at an amount equal to lifetime ECLs. The expected credit losses on accounts receivable are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.



The Group writes off an accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes receivable and accounts receivable based on the Group's provision matrix.

a. Notes receivable

All of the Group's notes receivable were not past due as of December 31, 2019 and December 31, 2018 and no loss allowance were accrued.

b. Accounts receivable (including related parties)

December 31, 2019

	<b>Not Past Due</b>	<b>Less than 60 Days</b>	<b>61 to 90 Days</b>	<b>91 to 120 Days</b>	<b>Over 120 Days</b>	<b>Total</b>
Expected credit loss rate	0% ~ 2%	0% ~ 10%	0% ~ 25%	0% ~ 40%	100%	-
Gross carrying amount	\$861,361	\$ 58,961	\$ 4,599	\$ 937	\$ 66,600	\$992,458
Loss allowance (Lifetime ECLs)	<u>(442)</u>	<u>(1,621)</u>	<u>(804)</u>	<u>(294)</u>	<u>(66,600)</u>	<u>(69,761)</u>
Amortized cost	<u>\$860,919</u>	<u>\$ 57,340</u>	<u>\$ 3,795</u>	<u>\$ 643</u>	<u>\$ -</u>	<u>\$922,697</u>

December 31, 2018

	<b>Not Past Due</b>	<b>Less than 60 Days</b>	<b>61 to 90 Days</b>	<b>91 to 120 Days</b>	<b>Over 120 Days</b>	<b>Total</b>
Expected credit loss rate	0% ~ 5%	0% ~ 20%	0% ~ 75%	0% ~ 100%	50% ~ 100%	-
Gross carrying amount	\$772,085	\$120,945	\$ 2,696	\$ 1,479	\$ 15,610	\$912,815
Loss allowance (Lifetime ECLs)	<u>(9,310)</u>	<u>(17,078)</u>	<u>(771)</u>	<u>(230)</u>	<u>(11,762)</u>	<u>(39,151)</u>
Amortized cost	<u>\$762,775</u>	<u>\$103,867</u>	<u>\$ 1,925</u>	<u>\$ 1,249</u>	<u>\$ 3,848</u>	<u>\$873,664</u>

The movements of the loss allowance of notes receivable and accounts receivable were as follows:

	<b>2019</b>		
	<b>Notes receivable</b>	<b>Accounts receivable</b>	<b>Total</b>
Balance at January 1, 2019	\$ -	\$ 39,151	\$ 39,151
Acquisitions through business combinations	-	26,832	26,832
Add: Net remeasurement of loss allowance	-	9,049	9,049
Less: Amounts written off	-	(2,630)	(2,630)
Foreign exchange losses	<u>-</u>	<u>(2,641)</u>	<u>(2,641)</u>
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 69,761</u>	<u>\$ 69,761</u>

	<b>2018</b>		
	<b>Notes receivable</b>	<b>Accounts receivable</b>	<b>Total</b>
Balance at January 1, 2018	\$ 1,578	\$ 15,519	\$ 17,097
Add: Net remeasurement of loss allowance	(1,581)	24,447	22,866
Foreign exchange gains and losses	<u>3</u>	<u>(815)</u>	<u>(812)</u>
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 39,151</u>	<u>\$ 39,151</u>

#### 10. INVENTORIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Merchandise	\$ 164,567	\$ 266,568
Finished goods	274,753	267,039
Work in process	209,714	226,869
Raw materials and supplies	<u>231,442</u>	<u>348,859</u>
	<u>\$ 880,476</u>	<u>\$ 1,109,335</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Cost of inventories sold	\$ 3,218,144	\$ 3,005,844
Write-down of inventories	-	15,081
Revenue from sale of scrap	<u>(121,789)</u>	<u>(103,083)</u>
	<u>\$ 3,096,355</u>	<u>\$ 2,917,842</u>

#### 11. OTHER FINANCIAL ASSETS - NON-CURRENT

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Cash surrender value of life insurance	<u>\$ 3,244</u>	<u>\$ 3,244</u>

## 12. PREPAYMENTS AND OTHER ASSETS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Prepayments</u>		
Prepayments for suppliers	\$ 150,233	\$ 99,869
Prepaid expense	65,804	10,773
Prepayments for lease (Note 20)	<u>-</u>	<u>34,963</u>
	<u>\$ 216,037</u>	<u>\$ 145,605</u>
<u>Current</u>		
Input tax	\$ 33,220	\$ -
Excess VAT Paid	28,849	28,828
Others	<u>2,335</u>	<u>33,170</u>
	<u>\$ 64,404</u>	<u>\$ 61,998</u>
<u>Non-current</u>		
Prepaid equipment	\$ 47,005	\$ 61,628
Refundable deposits	7,459	8,027
Others	<u>5,144</u>	<u>4,489</u>
	<u>\$ 59,608</u>	<u>\$ 74,144</u>

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Associates that are not individually material</u>		
Pro (Taiwan) Procurement Co., Ltd.	<u>\$ 12,764</u>	<u>\$ 12,140</u>

In February 2016, the Group set up a company Pro (Taiwan) Procurement Co., Ltd. with non-related party. The proportion of the Group's ownership was both 49% as of December 31, 2019 and 2018.

Refer to Table 6 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the associates

Aggregate information of associates that are not individually material.

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
The Group's share of:		
Profit from continuing operations and total comprehensive income for the year	\$ <u>624</u>	\$ <u>872</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, 2019 and 2018 were based on the associates' financial statements which have been audited for the same years.

#### 14. PROPERTY, PLANT AND EQUIPMENT

See Table 10 for the movements of property, plant and equipment.

No impairment assessment was performed for the years ended December 31, 2019 and 2018 as there was no indication of impairment.

The following 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

#### 15. LEASE ARRANGEMENTS

##### a. Right-of-use assets - 2019

	<b>December 31, 2019</b>
<u>Carrying amounts</u>	
Land	\$ 903,708
Buildings	1,001
Transportation equipment	<u>3,596</u>
	<u>\$ 908,305</u>

	<b>For the Year Ended December 31, 2019</b>
Additions to right-of-use assets	<u>\$ 948</u>
Depreciation charge for right-of-use assets	
Land	\$ 26,221
Buildings	1,487
Transportation equipment	<u>1,726</u>
	<u>\$ 29,434</u>

b. Lease liabilities - 2019

	<b>December 31, 2019</b>
<u>Carrying amounts</u>	
Current	<u>\$ 2,828</u>
Non-current	<u>\$ 1,791</u>

Discount rate for lease liabilities was as follows:

	<b>December 31, 2019</b>
Land, buildings and transportation equipment	1.0114%

c. Material leasing activities and terms

As lessee, the Group leases certain land, buildings and transportation equipment with lease terms of 3 to 50 years.

d. Other lease information

As lessor, the Group has operating leases of investment properties; details are set out in Notes16

2019

	<b>For the Year Ended December 31, 2019</b>
Expenses relating to short-term leases	\$ <u>2,839</u>
Expenses relating to low-value asset leases	\$ <u>5,420</u>
Total cash outflow for leases	\$ <u>(11,510)</u>

As lessee, the Group leases certain assets which qualify as short-term leases and certain assets which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

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

	<b>December 31, 2018</b>
Not later than 1 year	\$ 3,396
Later than 1 year and not later than 5 years	<u>1,715</u>
	<u>\$ 5,111</u>

## 16. INVESTMENT PROPERTIES

	<b>Buildings</b>
<u>Cost</u>	
Balance at January 1, 2018	\$ 39,927
Additions	1,698
Transferred from property, plant and equipment	92,330
Effect of foreign currency exchange differences	<u>(2,909)</u>
Balance at December 31, 2018	<u>\$ 131,046</u>
<u>Accumulated depreciation</u>	
Balance at January 1, 2018	\$ 5,307
Depreciation	4,068
Transferred from property, plant and equipment	24,009
Effect of foreign currency exchange differences	<u>(733)</u>
Balance at December 31, 2018	<u>\$ 32,651</u>
Carrying amounts at December 31, 2018	<u>\$ 98,395</u>
<u>Cost</u>	
Balance at January 1, 2019	\$ 131,046
Additions	2,612
Transferred from property, plant and equipment	73,488
Effect of foreign currency exchange differences	<u>(7,736)</u>
Balance at December 31, 2019	<u>\$ 199,410</u>
<u>Accumulated depreciation</u>	
Balance at January 1, 2019	\$ 32,651
Depreciation	8,599
Transferred from property, plant and equipment	27,261
Effect of foreign currency exchange differences	<u>(2,559)</u>
Balance at December 31, 2019	<u>\$ 65,952</u>
Carrying amounts at December 31, 2019	<u>\$ 133,458</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.



## 17. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements were as follows:

Investor	Investee	Nature of Activities	Proportion of Ownership (%)		Remark
			December 31		
			2019	2018	
KMC (KUEI MENG) International Inc.	KMC Chain Industrial Co., Ltd.	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	Note a
	TEC Chains Co., Ltd. (TEC)	Selling various bicycle chains and components.	-	100	Note a
	KMC Chain (Seychelles) Industrial Co., Ltd. (KMC Seychelles)	Selling various bicycle chains and components.	-	100	Note b
	TEC Chains (Seychelles) Co., Ltd. (TEC Seychelles)	Selling various bicycle chains and components.	-	100	Note b
	K.M.C. Automobile Transmission Co., Ltd.	Selling equipment and materials for chains and designing products	100	100	
	KMC Industries (Vietnam) Co., Ltd.	Selling various chains and components	100	-	Note c
KMC Chain Industrial Co., Ltd.	KMC (BVI) Holding Co., Ltd. (KMC BVI)	Investing activities	100	100	
	KMC Chain Europe N.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	Nature of Activities	Proportion of Ownership (%)		Remark
			December 31		
			2019	2018	
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	
	KMC Transton Company Limited. (KMC Transton)	Manufacturing and selling Garage Door Opener (GDO)	100	100	
	KMC Automotive Transmission Co., Ltd. (KMC Automotive Shenzhen)	Manufacturing and selling Automotive Timing System (ATS)	100	100	
	Maya Chain Co., Ltd. (Maya Chain)	Manufacturing and selling various chains and components	100	-	Note d
	Suzhou Maya Trading Co., Ltd. (Maya Trading)	Manufacturing and selling various chains and components	100	-	Note e
KMC Transton Company Limited.	Shenzhen KMC Industrial Co., Ltd. (Shenzhen KMC)	Selling of components of garage door	100	100	
(Concluded)					

(Concluded)

a. KMC Samoa and TEC had no actual operating activities in recent years, and had resolved to liquidate, the liquidation base date was on September 23, 2019 for both. The liquidation residual amount of \$16,554 thousand has been collected as of December 31, 2019.

b. KMC Seychelles and TEC Seychelles had no actual operating activities in recent years, and had resolved to liquidate, the liquidation base dates were on November 7, 2019 and November 12, 2019, respectively. The liquidation residual amount of \$4,465 thousand has been collected as of December 31, 2019.

c. The Company founded KMC Industries (Vietnam) Co., Ltd. with investment of US\$ 1,000 thousand on January 5, 2019. The main business of KMC Industries (Vietnam) Co., Ltd is selling various of chains and components.

d. On September 21, 2018, the Company's board of directors approved the acquisition of 100% shareholding of Maya Chain Co., Ltd. (including subsidiary Suzhou Maya Trading Co., Ltd.). The acquisition was made by the subsidiary of KMC Chain Industrial Co., Ltd., KMC China. The acquisition price was not more than RMB 85,000 thousand (or in foreign currency equivalent). The main businesses of the acquired company are manufacturing and selling various of chains and components of automatic bicycle and motorcycle. The subsidiary is included in the consolidated financial statements in 2019. 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.

e. The Group reorganized after the acquisition of Maya Chain Co., Ltd. On March 21, 2019, KMC Investment (China) Co., Ltd. acquired Suzhou Maya Trading Co., Ltd. from Maya Chain Co., Ltd. The shareholdings had been transferred on March 31, 2019.

## 18. GOODWILL

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 1,226,567	\$ 1,219,715
Additional amount recognized from business combinations occurring during the year (Note 31)	114,460	-
Effect of foreign currency exchange differences	<u>(1,477)</u>	<u>6,852</u>
Balance at December 31	<u>\$ 1,339,550</u>	<u>\$ 1,226,567</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 11.23% and 10.78% per annum growth rate as of December 31, 2019 and 2018. 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, 2019 and 2018, the Group did not recognize impairment loss on goodwill.

## 19. OTHER INTANGIBLE ASSETS

	Patents	Customer Relationshi ps	Computer Software	Skills	Total
<u>Cost</u>					
Balance at January 1, 2018	\$ 23,801	\$363,150	\$ 21,590	\$ -	\$408,541
Additions	2,761	-	55,104	-	57,865
Effect of foreign currency exchange differences	(6)	(4,339)	(187)	-	(4,532)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at December 31, 2018	<u>\$ 26,556</u>	<u>\$358,811</u>	<u>\$ 76,507</u>	<u>\$ -</u>	<u>\$461,874</u>
<u>Accumulated amortization</u>					
Balance at January 1, 2018	\$ 23,801	\$220,258	\$ 18,549	\$ -	\$262,608
Amortization expense	485	49,694	7,026	-	57,205
Effect of foreign currency exchange differences	(1)	(2,521)	(173)	-	(2,695)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at December 31, 2018	<u>\$ 24,285</u>	<u>\$267,431</u>	<u>\$ 25,402</u>	<u>\$ -</u>	<u>\$317,118</u>
Carrying amounts at December 31, 2018	<u>\$ 2,271</u>	<u>\$ 91,380</u>	<u>\$ 51,105</u>	<u>\$ -</u>	<u>\$144,756</u>
<u>Cost</u>					
Balance at January 1, 2019	\$ 26,556	\$358,811	\$ 76,507	\$ -	\$461,874
Acquisitions through business combinations	96,296	17,853	1,213	70,193	185,555
Additions	409	-	3,831	-	4,240
Effect of foreign currency exchange differences	(3,621)	(8,458)	(478)	(2,622)	(15,179)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at December 31, 2019	<u>\$119,640</u>	<u>\$368,206</u>	<u>\$ 81,073</u>	<u>\$ 67,571</u>	<u>\$636,490</u>

(Continued)

	Patents	Customer Relationships	Computer Software	Skills	Total
<u>Accumulated amortization</u>					
Balance at January 1, 2019	\$ 24,285	\$267,431	\$ 25,402	\$ -	\$317,118
Amortization expense	(1,296)	35,952	9,715	7,799	52,170
Effect of foreign currency exchange differences	67	(5,721)	(368)	(291)	(6,313)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at December 31, 2019	<u>\$ 23,056</u>	<u>\$297,662</u>	<u>\$ 34,749</u>	<u>\$ 7,508</u>	<u>\$362,975</u>
Carrying amounts at December 31, 2019	<u>\$ 96,584</u>	<u>\$ 70,544</u>	<u>\$ 46,324</u>	<u>\$ 60,063</u>	<u>\$273,515</u>

(Concluded)

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

Patents	5 - 20 years
Customer relationship	4.5 - 10 years
Computer software	2 - 8 years
Skills	9 years

## 20. PREPAYMENTS FOR LEASE

	For the Year Ended December 31, 2018
Balance at January 1	\$ 1,002,952
Amortizations	(26,582)
Effect of foreign currency exchange differences	<u>(16,673)</u>
Balance at December 31	<u>\$ 959,697</u>
	December 31, 2018
Current assets (classified under prepayments)	\$ 34,963
Non-current assets	<u>924,734</u>
	<u>\$ 959,697</u>

Prepayments for lease are the rights to use 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

## 21. BORROWINGS

### a. Short-term borrowings

	December 31	
	2019	2018
<u>Unsecured borrowings</u>		
Line of credit borrowings	\$ <u>898,177</u>	\$ <u>1,712,132</u>

The ranges of weighted average effective interest rates on bank loans were 0.74%-1.0525% and 0.63%-1.05% per annum as of December 31, 2019 and 2018, respectively.

### b. Short-term bills payable - December 31, 2019

Outstanding short-term bills payable as follows:

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral	Carrying Amount of collateral
<u>Commercial Paper</u>						
International Bills Finance Corporation	\$ <u>100,000</u>	\$ <u>(45)</u>	\$ <u>99,955</u>	1%	None	\$ <u>-</u>

c. Long-term borrowings

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Unsecured borrowings</u>		
Line of credit borrowings		
Amount	\$ 2,355,000	\$ 2,000,000
Less: Current portions	<u>1,270,000</u>	<u>-</u>
	<u>\$ 1,085,000</u>	<u>\$ 2,000,000</u>

The range of weighted average effective interest rates on bank loans were 0.97%-1.15% and 0.98%-1.05% per annum as of December 31, 2019 and 2018, respectively.

22. NOTES PAYABLE AND ACCOUNTS PAYABLE (INCLUDING RELATED PARTIES)

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

23. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Other payables		
Payable for salaries or bonus	\$ 110,414	\$ 120,144
Payable for purchase of equipment	17,403	21,774
Payable for employees' compensation	14,500	11,865
Payable for taxes	12,652	3,696
Output tax	8,449	13,446
Payable for remuneration to directors and supervisors	8,400	8,473
Payable for promotions	7,132	7,321
Payable for annual leave	4,986	5,118
Others	<u>99,910</u>	<u>109,979</u>
	<u>\$ 283,846</u>	<u>\$ 301,816</u>
Other current liabilities		
Contract liabilities (Note 27)	\$ 35,959	\$ 20,885
Others	<u>2,034</u>	<u>1,833</u>
	<u>\$ 37,993</u>	<u>\$ 22,718</u>



#### 24. DEFERRED REVENUE - December 31, 2019

	December 31, 2019
Current	\$ 7,060
Non-current	<u>7,060</u>
	<u>\$ 14,120</u>

The subsidiary company, KMC Automotive Shenzhen, received a government grant for its technical transformation. The amount was recognized as deferred revenue and subsequently transferred to profit or loss over the useful life of 3 years. The credit to income was \$7,334 thousand (classified under other income) in the year ended December 31, 2019.

#### 25. RETIREMENT BENEFIT PLANS

##### a. Defined contribution plans

The Company, KMC Chain Industrial Co., Ltd. and K.M.C Automobile Transmission Co., Ltd. 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 from 2009, the employees of the Group's subsidiary, KMC 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 KMC Chain Industrial Co., Ltd. of 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 KMC Chain Industrial Co., Ltd. and KMC Vietnam's defined benefit plans were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
KMC Chain Industrial Co., Ltd.		
Present value of defined benefit obligation	\$ 56,739	\$ 70,510
Fair value of plan assets	<u>(28,214)</u>	<u>(34,252)</u>
Net defined benefit liabilities	28,525	36,258
KMC Vietnam		
Net defined benefit liabilities	<u>4,401</u>	<u>4,501</u>
	<u>\$ 32,926</u>	<u>\$ 40,759</u>

Movements in net defined benefit liability of KMC Chain Industrial Co., Ltd. were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Balance at January 1, 2018	<u>\$ 79,356</u>	<u>\$ (16,794)</u>	<u>\$ 62,562</u>
Service cost			
Current service cost	589	-	589
Net interest expense (income)	<u>893</u>	<u>(192)</u>	<u>701</u>
Recognized in profit or loss	<u>1,482</u>	<u>(192)</u>	<u>1,290</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(650)	(650)
Actuarial loss - changes in demographic assumptions	476	-	476
Actuarial loss - changes in financial assumptions	909	-	909
Actuarial loss - experience adjustments	<u>2,163</u>	<u>-</u>	<u>2,163</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liabilities</b>
Recognized in other comprehensive income	\$ 3,548	\$ (650)	\$ 2,898
Contributions from the employer	-	(30,492)	(30,492)
Benefits paid	(13,876)	13,876	-
Balance at December 31, 2018	<u>70,510</u>	<u>(34,252)</u>	<u>36,258</u>
Service cost			
Current service cost	557	-	557
Net interest expense (income)	705	(345)	360
Recognized in profit or loss	<u>1,262</u>	<u>(345)</u>	<u>917</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(982)	(982)
Actuarial loss - changes in financial assumptions	1,284	-	1,284
Actuarial gain - experience adjustments	(8,593)	-	(8,593)
Recognized in other comprehensive income	<u>(7,309)</u>	<u>(982)</u>	<u>(8,291)</u>
Contributions from the employer	-	(359)	(359)
Benefits paid	<u>(7,724)</u>	<u>7,724</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 56,739</u>	<u>\$ (28,214)</u>	<u>\$ 28,525</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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate	0.75%	1%
Expected rate of salary increase	2.5%	2.5%

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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate		
0.25% increase	\$ (1,284)	\$ (1,808)
0.25% decrease	\$ 1,326	\$ 1,873
Expected rate of salary increase		
0.25% increase	\$ 1,281	\$ 1,814
0.25% decrease	\$ (1,247)	\$ (1,760)

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.

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Expected contributions to the plan for the next year	\$ <u>385</u>	\$ <u>480</u>
Average duration of the defined benefit obligation	9.1 years	10.4 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 \$4,401 thousand and \$4,501 thousand as of December 31, 2019 and 2018.

## 26. EQUITY

### a. Share capital

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Number of authorized shares (in thousands)	<u>200,000</u>	<u>200,000</u>
Amount of authorized shares	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>
Number of issued and fully paid shares (in thousands)	<u>126,000</u>	<u>126,000</u>
Amount of issued and fully paid shares	\$ <u>1,260,000</u>	\$ <u>1,260,000</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.

The Company's shareholders approved to increase capital by the transfer of retained earnings to capital in 2017 at \$10 (in dollars) per share, or a total of \$60,000 thousand. On June 28, 2018, the transaction was approved by the FSC, and the subscription base date was July 23, 2018 as decided by the board of directors. The issuance had been registered on August 1, 2018.

b. Capital surplus

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<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

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 28(g).

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. 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.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No.

1030006415 issued by the FSC and in the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs” should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 had been approved in the stockholders’ meetings on June 20, 2019 and June 22, 2018, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	
	<b>For the Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Legal reserve	\$ 94,765	\$ 104,289
Special reserve	123,003	85,269
Cash dividends	567,000	540,000
Share dividends	-	60,000
Cash dividends per share (NT\$)	4.5	4.5
Share dividends per share (NT\$)	-	0.5

The appropriation of earnings for 2019 had been proposed by the Company’s board of directors on March 19, 2020; the amounts were as follows:



	<b>For the Year Ended December 31, 2019</b>
Legal reserve	\$ 101,412
Special reserve	239,740
Cash dividends	567,000
Cash dividends per share (NT\$)	4.5

The appropriation of earnings for 2019 are subject to the resolution in the shareholders' meeting to be held on June 24, 2020.

d. Special reserves

Under Rule No. 1010012865 issued by the FSC, the Company appropriated to special reserve \$123,003 thousand in 2019 and \$85,269 thousand in 2018 to reinstate amounts previously transferred to make up for deficit.

e. Other equity items

Exchange differences on translating the financial statements of foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance as of January 1	\$ (571,153)	\$ (448,150)
Recognized for the year		
Exchange differences on translating the financial statements of foreign operations	(239,205)	(103,627)
Loss on tax of exchange differences on translating the financial statements of foreign operations	(535)	(19,376)
Balance as of December 31	<u>\$ (810,893)</u>	<u>\$ (571,153)</u>

f. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 244	\$ 245
Attributable to non-controlling interests:		
Share of profit for the year	4	11
Exchange difference on translating the financial statements of foreign entities	<u>6</u>	<u>(12)</u>
Balance at December 31	<u>\$ 254</u>	<u>\$ 244</u>

27. REVENUE

The Company and its subsidiaries which sell components of various chains, motorcycle and vehicle and garage door have been aggregated into a single operating segment. Contract revenue is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Revenue from contracts with customers		
Revenue from sale of goods	<u>\$ 5,239,635</u>	<u>\$ 5,056,832</u>

a. Contract information

1) Revenue from sale of goods

Transmission goods are sold at respective fixed amounts as agreed in the contracts. Accounts receivable, which usually have short term of payment and without significant financing component, are recognized in most of contract when the goods are transferred and the Group has an unconditional right to receive the transaction price. Some of contract set that the Group receive part of transaction price before transferring the goods to the buyers. The Group has the obligation to undertake the transfer, which contract liabilities are recognized.

b. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes receivable (Note 9)	\$ <u>107,758</u>	\$ <u>113,675</u>	\$ <u>101,293</u>
Accounts receivable (Note 9)	\$ 870,226	\$ 817,389	\$ 896,159
Accounts receivable from related parties (Note 9)	<u>52,471</u>	<u>56,275</u>	<u>41,003</u>
	\$ <u>922,697</u>	\$ <u>873,664</u>	\$ <u>937,162</u>
Contract liabilities (classified under other current liabilities) (Note 23)			
Sale of goods	\$ <u>35,959</u>	\$ <u>20,885</u>	\$ <u>33,949</u>

The changes in the balance of contract liabilities primarily result from the timing of the performance obligations which were satisfied.

Revenue recognized in the current year that was included in the contract liability balance at the beginning of the year and from the performance obligations satisfied in the previous periods is as follows:

	For the Year Ended December 31	
	2019	2018
From contract liabilities at the start of the year		
Sale of goods	\$ <u>20,359</u>	\$ <u>33,949</u>

## 28. NET PROFIT

### a. Other operating income and expenses

	For the Year Ended December 31	
	2019	2018
Loss on disposal of property, plant and equipment	\$ (5,899)	\$ (14,176)

### b. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	\$ 24,949	\$ 29,833
Rental income	12,660	11,401
Others	<u>55,037</u>	<u>41,390</u>
	\$ <u>92,646</u>	\$ <u>82,624</u>

### c. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Foreign exchange gains	\$ 39,989	\$ 60,538
Foreign exchange losses	(44,809)	(25,248)
Others	<u>(13,696)</u>	<u>(46,633)</u>
	\$ <u>(18,516)</u>	\$ <u>(11,343)</u>

### d. Finance cost

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	\$ 32,937	\$ 35,981
Interest on bills payable	2,356	3,137
Interest on lease liabilities	<u>61</u>	<u>-</u>
	\$ <u>35,354</u>	\$ <u>39,118</u>

e. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating costs	\$ 170,531	\$ 145,795
Operating expenses	113,151	83,611
Other losses	<u>8,599</u>	<u>4,068</u>
	<u>\$ 292,281</u>	<u>\$ 233,474</u>
	(Continued)	

	For the Year Ended December 31	
	2019	2018
An analysis of amortization by function		
Operating costs	\$ 265	\$ 4,441
Operating expenses	<u>51,905</u>	<u>80,719</u>
	<u>\$ 52,170</u>	<u>\$ 85,160</u>
	(Concluded)	

f. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	<u>\$ 807,588</u>	<u>\$ 813,333</u>
Post-employment benefits		
Defined contribution plans	43,828	42,357
Defined benefit plans	<u>917</u>	<u>1,290</u>
	<u>44,745</u>	<u>43,647</u>
	<u>\$ 852,333</u>	<u>\$ 856,980</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 493,740	\$ 475,914
Operating expenses	<u>358,593</u>	<u>381,066</u>
	<u>\$ 852,333</u>	<u>\$ 856,980</u>

g. Employees' compensation and remuneration of directors and supervisors.

According the Company's Articles, the Company accrued employees'

compensation and remuneration of directors and supervisors at the rates of 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, 2019 and 2018, which were approved by the Company's board of directors on March 19, 2020 and March 18, 2019, respectively are as follows:.

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Employees' compensation	1.027%	0.977%
Remuneration of directors and supervisors	0.685%	0.737%

Amount

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 12,600	\$ 11,233
Remuneration of directors and supervisors	8,400	8,473

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

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

## 29. INCOME TAXES

- a. Major components of tax expense recognized in profit or loss were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax		
In respect of the current year	\$ 317,173	\$ 281,222
Income tax on unappropriated earnings	8,028	24,921
Adjustment for prior periods	<u>(345)</u>	<u>(2,457)</u>
	<u>324,856</u>	<u>303,686</u>
Deferred tax		
In respect of the current year	(39,394)	3,969
Changes in tax rate	<u>-</u>	<u>3,296</u>
	<u>(39,394)</u>	<u>7,265</u>
Income tax expense recognized in profit	<u>\$ 285,462</u>	<u>\$ 310,951</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Profit before income tax	<u>\$ 1,292,952</u>	<u>\$ 1,258,617</u>
Income tax expense calculated at the statutory rate	\$ 368,638	\$ 265,512
Nondeductible expense in determining taxable income	-	26,766
Share of profits of subsidiaries and associates	(48,571)	-
Unrecognized deductible temporary differences	(42,288)	(7,087)
Additional income tax on unappropriated earnings	8,028	24,921
Effect of tax rate changes	-	3,296
Adjustments for prior years' tax	<u>(345)</u>	<u>(2,457)</u>
Income tax expense recognized in profit	<u>\$ 285,462</u>	<u>\$ 310,951</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Deferred tax</u>		
In respect of the current year		
Translation of foreign operations	\$ (535)	\$ (19,376)
Remeasurement on defined benefit plans	<u>(1,658)</u>	<u>580</u>
	<u>\$ (2,193)</u>	<u>\$ (18,796)</u>

c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax assets		
Tax refund receivable	\$ 18,963	\$ 23,853
Prepaid income tax	<u>1,805</u>	<u>1,177</u>
	<u>\$ 20,768</u>	<u>\$ 25,030</u>
Current tax liabilities		
Income tax payable	<u>\$ 143,778</u>	<u>\$ 135,127</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, 2019

	Opening Balance	Influence of acquisition	Recognize d in Profit or Loss	Recognize d in Other Comprehe nsive Income	Exchange Difference s	Closing Balance
<u>Deferred Tax Assets</u>						
Temporary differences						
Provision for loss on inventories	\$ 6,864	\$ 4,995	\$ (9,880)	\$ -	\$ (20)	\$ 1,959
Allowance for impair receivables	9,406	6,708	(14,133)	-	(12)	1,969
Unrealized foreign exchange loss	-	-	2,329	-	-	2,329
Defined benefit obligation	7,635	-	538	(1,658)	5	6,520
Unrealized gross profit	50,077	-	(6,086)	-	-	43,991
Unrealized gross profit of exported inventories after declared	3,483	-	(3,483)	-	-	-
Exchange difference on translating the financial statements of foreign operations	10,168	-	-	(535)	-	9,633
	<u>87,633</u>	<u>11,703</u>	<u>(30,715)</u>	<u>(2,193)</u>	<u>(27)</u>	<u>66,401</u>
Tax losses	<u>-</u>	<u>-</u>	<u>19,949</u>	<u>-</u>	<u>(745)</u>	<u>19,204</u>
	<u>\$ 87,633</u>	<u>\$ 11,703</u>	<u>\$ (10,766)</u>	<u>\$ (2,193)</u>	<u>\$ (772)</u>	<u>\$ 85,605</u>

(Continued)

	Opening Balance	Influence of acquisition	Recognize d in Profit or Loss	Recognize d in Other Comprehe nsive Income	Exchange Difference s	Closing Balance
<u>Deferred Tax Liabilities</u>						
Temporary differences						
Unrealized foreign exchange gain	\$ 150	\$ -	\$ (148)	\$ -	\$ -	\$ 2
Cash surrender value of life insurance	261	-	-	-	-	261
Unappropriated earnings of subsidiaries	71,451	-	(40,959)	-	-	30,492
Reserve for land value increment tax	124,388	-	-	-	-	124,388
Deferred revenue	<u>338,749</u>	<u>-</u>	<u>(9,053)</u>	<u>-</u>	<u>(12,312)</u>	<u>317,384</u>
	<u>\$534,999</u>	<u>\$ -</u>	<u>\$ (50,160)</u>	<u>\$ -</u>	<u>\$ (12,312)</u>	<u>\$472,527</u>
					(Concluded)	

For the year ended December 31, 2018

	Opening Balance	Influence of acquisition	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred Tax Assets</u>						
Temporary differences						
Provision for loss on inventories	\$ 4,655	\$ -	\$ 2,318	\$ -	\$ (109)	\$ 6,864
Allowance for impair receivables	3,302	-	6,298	-	(194)	9,406
Unrealized foreign exchange loss	3,006	-	(3,006)	-	-	-
Defined benefit obligation	11,481	-	(4,435)	580	9	7,635
Unrealized gross profit	53,743	-	(3,666)	-	-	50,077
Unrealized gross profit of exported inventories after declared	3,116	-	440	-	(73)	3,483
Exchange difference on translating the financial statements of foreign operations	29,544	-	-	(19,376)	-	10,168
	<u>108,847</u>	<u>-</u>	<u>(2,051)</u>	<u>(18,796)</u>	<u>(367)</u>	<u>87,633</u>
Tax losses	<u>23,725</u>	<u>-</u>	<u>(23,725)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 132,572</u>	<u>\$ -</u>	<u>\$ (25,776)</u>	<u>\$ (18,796)</u>	<u>\$ (367)</u>	<u>\$ 87,633</u>
<u>Deferred Tax Liabilities</u>						
Temporary differences						
Unrealized foreign exchange gain	\$ 290	\$ -	\$ (140)	\$ -	\$ -	\$ 150
Cash surrender value of life insurance	222	-	39	-	-	261
Unappropriated earnings of subsidiaries	80,572	-	(9,121)	-	-	71,451
Reserve for land value increment tax	124,388	-	-	-	-	124,388
Deferred revenue	<u>355,065</u>	<u>-</u>	<u>(9,289)</u>	<u>-</u>	<u>(7,027)</u>	<u>338,749</u>
	<u>\$ 560,537</u>	<u>\$ -</u>	<u>\$ (18,511)</u>	<u>\$ -</u>	<u>\$ (7,027)</u>	<u>\$ 534,999</u>

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

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries and branches for which no deferred tax liabilities have been recognized were \$ 1,380,975 thousand and \$1,048,260 thousand, respectively.

f. Income tax assessments

The tax returns of the Company, KMC Chain Industrial Co., Ltd. and K.M.C Automobile Transmission Co., Ltd. through 2017 have been assessed by the tax authorities.

### 30. EARNINGS PER SHARE

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Basic earnings per share	\$ <u>8.00</u>	\$ <u>7.52</u>
Diluted earnings per share	\$ <u>7.99</u>	\$ <u>7.51</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Profit for the period attributable to owners of the Company	\$ <u>1,007,486</u>	\$ <u>947,655</u>

#### Number of ordinary shares outstanding (in thousand shares)

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Weighted average number of ordinary shares used in the computation of basic earnings per share	126,000	126,000
Effect of potentially dilutive ordinary shares:		
Employees' compensation	<u>138</u>	<u>130</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>126,138</u>	<u>126,130</u>

If the Group offered to settle compensation to employees in cash or shares, the Group assume that the entire amount of the compensation will be settled in shares, and any resulting potentially dilutive shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share. 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.

### 31. BUSINESS COMBINATION

#### a. Subsidiaries acquired

<b>Subsidiary</b>	<b>Principal Activity</b>	<b>Date of Acquisition</b>	<b>Proportion of Voting Equity Interest Acquired (%)</b>	<b>Consideration Transferred</b>
Maya Chain (including subsidiary Maya Trading)	Manufacturing and selling various chains and components	Jan 1, 2019	100	Note

Note: The total consideration in the acquisition of Maya Chain amounted to RMB85,000 thousand.

The Group acquired Maya Chain in order to expand the market in China for bicycle components, and also to expand the customer base in overseas markets

#### b. Consideration transferred

Consideration transferred was in cash. Acquisition-related costs amounting to \$430 thousand were excluded from the consideration transferred and were recognized as an expense in the period, within the other expenses line item in the consolidated statements of comprehensive income.

c. Assets and liabilities assumed at the date of acquisition

	<b>MAYA CHAIN &amp; MAYA TRADING</b>
Current assets	
Cash and cash equivalents	\$ 33,074
Accounts receivables	117,443
Other receivables	1,122
Inventories	2,855
Prepayment	827
Non-current assets	
Property, plant and equipment	6,723
Other intangible assets - customer relationships	17,853
Other intangible assets - patents	96,296
Other intangible assets - skills	70,193
Other intangible assets - computer software	1,213
Deferred tax assets	11,704
Other non-current assets	784
Current liabilities	
Short-term borrowings	(22,360)
Accounts payable	(17,193)
Other payables	(38,636)
Current tax liabilities	(7,644)
Other current liabilities	(8,594)
	<u>\$ 265,660</u>

d. Goodwill recognized on acquisition

	<b>MAYA CHAIN</b>
Consideration transferred	\$ 380,120
Less: Fair value of identifiable net assets acquired	<u>265,660</u>
Goodwill recognized on acquisition	<u>\$ 114,460</u>

e. Net cash outflow on acquisition of subsidiaries

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Consideration paid in cash	\$ 380,120	\$ 392,590
Less: Cash and cash equivalents balances acquired	<u>33,074</u>	<u>-</u>
	<u>\$ 347,046</u>	<u>\$ 392,590</u>

f. Impact of acquisitions on the results of the Group

The financial results of the acquirees since the acquisition dates, which are included in the consolidated statements of comprehensive income, are as follows:

	For the Year Ended December 31, 2019
Revenue	
Maya Chain	\$ 12,407
Maya Trading	<u>297,049</u>
	<u>\$ 309,456</u>

32. 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, debt service payments and dividend payments requirements.

33. 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, financial assets at amortized cost – current, notes and accounts receivable (including related parties), other receivables (including related parties), refundable deposits (classified under other non-current assets), other financial assets - non-current, bank loans, notes and accounts payable (including related parties), other payables and guarantee deposits received (classified under other non-current liabilities).



b. Categories of financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at amortized cost (i)	\$ 2,902,093	\$ 3,109,459
<u>Financial liabilities</u>		
Amortized cost (ii)	3,976,726	4,377,633

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

(ii) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, notes and accounts payable (including related parties), other payables, guarantee deposits received (classified under other non-current liabilities), current portion of long-term borrowings and long-term borrowings.

c. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, accounts payable, borrowings and lease liabilities. 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.

#### 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 has foreign currency denominated 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 36.

##### Sensitivity analysis

The Group was mainly exposed to the currencies United States dollars (USD), Euro dollars (EUR) and Ren Min Bi (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 rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. 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.

		<b>USD impact</b>	
		<b>For the Year Ended December 31</b>	
		<b>2019</b>	<b>2018</b>
Profit or loss		\$ 7,359	\$ 8,996
		<b>EUR impact</b>	
		<b>For the Year Ended December 31</b>	
		<b>2019</b>	<b>2018</b>
Profit or loss		\$ 318	\$ 229
		<b>RMB impact</b>	
		<b>For the Year Ended December 31</b>	
		<b>2019</b>	<b>2018</b>
Profit or loss		\$ 690	\$ (973)

The Group's sensitivity to the currency rate decreased during the current period mainly due to the decrease in net assets in the currency USD.

b) Interest rate risk

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

The 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:

		<b>December 31</b>	
		<b>2019</b>	<b>2018</b>
Fair value interest rate risk			
Financial assets		\$ 999,538	\$ 1,141,888
Financial liabilities		99,955	-
Cash flow interest rate risk			
Financial assets		823,743	974,368
Financial liabilities		3,253,177	3,712,132

### Sensitivity analysis

If interest rates had been 1% higher and all other variables were held constant, the Group's profit before tax for the year ended December 31, 2019 and 2018 would decrease by \$24,294 thousand and \$27,378 thousand, respectively; the change was mainly attributable to the Group's exposure to cash flow interest rate risk on its variable-rate bank borrowings and deposits.

#### 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 of the balance sheet date, 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; the customers were no significant credit risk exposure. The Group continuously review the customer's credit status.

#### 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.

- a) Liquidity and interest risk rate table for non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The table 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, 2019

	<b>Less than 3 Months</b>	<b>3 Months to 6 Months</b>	<b>More than 6 Months</b>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing liabilities	\$ 585,165	\$ 9,293	\$ 27,005
Lease liabilities	838	838	2,985
Variable interest rate liabilities	527,962	723,925	2,020,748
Fixed interest rate liabilities	<u>100,250</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,214,215</u>	<u>\$ 734,056</u>	<u>\$ 2,050,738</u>

Additional information about the maturity analysis for lease liabilities:

	<b>Less than 1 Year</b>	<b>1-5 Years</b>
Lease liabilities	<u>\$ 2,860</u>	<u>\$ 1,801</u>

December 31, 2018

	<b>Less than 3 Months</b>	<b>3 Months to 6 Months</b>	<b>More than 6 Months</b>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 593,942	\$ 46,869	\$ 24,690
Variable interest rate liabilities	<u>2,516,194</u>	<u>60,448</u>	<u>1,155,184</u>
	<u>\$ 3,110,136</u>	<u>\$ 107,317</u>	<u>\$ 1,179,874</u>

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	<u>December 31</u>	
	<b>2019</b>	<b>2018</b>
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	\$ 3,353,132	\$ 3,712,132
Amount unused	<u>5,241,868</u>	<u>4,349,856</u>
	<u>\$ 8,595,000</u>	<u>\$ 8,061,988</u>

### 34. TRANSACTIONS WITH RELATED PARTIES

The Company's parent, ultimate parent, and ultimate controlling party is KMC Transton Industries Limited, which held 37.63% of the ordinary shares and half of seats in the board of directors of the Company as of December 31, 2019 and 2018.

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. Besides information disclosed elsewhere in the other

notes, details of transactions between the Group and other related parties are disclosed as follows.

<b>Name of Related Party</b>	<b>Relationship with the Group</b>
KMC Transton Industries Limited	Ultimate parent company
Wincorp Enterprises Limited	Same members of the key management personnel
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
Top Leader Industries Limited	Substantial related party
KMC Taiwan Physical Activity Foundation	Same members of the key management personnel

a. Sales of goods

<b>Related Party Type</b>	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Same members of the key management personnel	\$ <u>135,675</u>	\$ <u>99,917</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 60 to 180 days and for non-related parties were 30 to 90 days.

b. Purchases of goods

Related Party Type	For the Year Ended December 31	
	2019	2018
Same members of the key management personnel	\$ <u>119,943</u>	\$ <u>94,794</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.

c. Receivables from related parties

Account Item	Related Party Type	December 31	
		2019	2018
Accounts receivable from related parties	Same members of the key management personnel	\$ <u>52,471</u>	\$ <u>56,275</u>
Other receivables from related parties (classified under other receivables)	Same members of the key management personnel	\$ <u>3,967</u>	\$ <u>1,627</u>

The outstanding receivables from related parties are unsecured. For the year ended December 31, 2019 and 2018, no impairment loss was recognized for receivables from related parties.

d. Payables to related parties

Account Item	Related Party Type	December 31	
		2019	2018
Accounts payable to related parties	Same members of the key management personnel	\$ <u>35,725</u>	\$ <u>37,284</u>

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

e. Acquisitions of property, plant and equipment



Related Party Type / Name	Purchase Price	
	For the Year Ended December 31	
	2019	2018
Same members of the key management personnel		
President Industry Development (Shenzhen) Co., Ltd.	\$ 52,246	\$ 44,710
Others	<u>-</u>	<u>753</u>
	<u>\$ 52,246</u>	<u>\$ 45,463</u>

f. Disposals of property, plant and equipment

For the Year Ended December 31, 2019

Related Party Category / Name	Proceeds	Gain on Disposal
Same member of the key management personnel		
President Industry Development (Shenzhen) Co., Ltd.	<u>\$ 894</u>	<u>\$ 81</u>

g. Acquisitions of subsidiaries

For the Year Ended December 31, 2019

Related Party Category / Name	Item	Purchase Price
Substantial related party		
Top Leader Industries Limited	Shareholdings of Maya Chain Co., Ltd.	<u>\$ 380,120</u>

- h. Lease arrangements - Group is lessee

Acquisition of right-of-use assets

The Group leases offices and plants from the parent company. The lease terms are from August 2015 to October 2020, and the rentals are paid quarterly.

Account Item	Related Party Category	December 31	
		2019	2018
Lease liabilities	Parent Company	\$ 1,006	\$ -
		For the Year Ended December 31	
		2019	2018
<u>Interest expense</u>			
Parent company		\$ 18	\$ -
<u>Rent expense</u>			
Parent company		\$ -	\$ 1,500

- i. Lease arrangements - Group is lessor

Lease arrangements - Group is lessor under operating leases

The Group leases out lands and buildings to the key management personnel under operating leases with lease term of 1 year. The contract is re-signed every year. The lease prices are determined in accordance with mutual agreements. The rental income is received monthly.

Future lease payment receivable are as follows:

Related Party Category/Name	December 31	
	2019	2018
Same members of the key management personnel		
President Industry Development (Shenzhen) Co., Ltd.	\$ 1,094	\$ 2,272
Surmount Technology Shenzhen Co., Ltd.	<u>879</u>	<u>1,826</u>
	<u>\$ 1,973</u>	<u>\$ 4,098</u>

Lease income was as follows:

Related Parties Types / Name	For the Year Ended December 31	
	2019	2018
Same members of the key management personnel		
President Industry Development (Shenzhen) Co., Ltd.	\$ 2,272	\$ 1,696
Surmount Technology Shenzhen Co., Ltd.	<u>1,826</u>	<u>1,636</u>
	<u>\$ 4,098</u>	<u>\$ 3,332</u>

j. Others

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2019	2018
Donations	Same members of the key management personnel		
	KMC Taiwan Physical Activity Foundation	<u>\$ 1,400</u>	<u>\$ 1,000</u>

k.Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 15,942	\$ 18,655
Post-employment benefits	<u>223</u>	<u>306</u>
	<u>\$ 16,165</u>	<u>\$ 18,961</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.

### 35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

Unrecognized commitments of the Group were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Acquisition of property, plant and equipment	\$ <u>25,153</u>	\$ <u>43,710</u>

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

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2019

	Foreign Currencies (In Thousands)	Exchange Rate	New Taiwan Dollars (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 19,465	30.02 (USD : NTD)	\$ 584,321
USD	1,450	23,151 (USD : VND)	39,283
USD	439	13,752 (USD : IDR)	13,174
USD	8,015	7.8163 (USD : RMB)	240,288
EUR	1,554	33.59 (EUR : NTD)	52,208
EUR	83	7.8155 (EUR : RMB)	2,782
RMB	52,945	4.31 (RMB : NTD)	227,927
<u>Financial liabilities</u>			
Monetary items			
USD	2,076	30.17 (USD : NTD)	62,618
USD	1,695	23,229 (USD : VND)	46,071
USD	534	13,752 (USD : IDR)	16,018
USD	551	6.984 (USD : RMB)	16,506
EUR	690	33.59 (EUR : NTD)	23,192
RMB	36,916	4.31 (RMB : NTD)	158,924

December 31, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	New Taiwan Dollars (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,974	30.715 (USD : NTD)	\$ 705,655
USD	1,249	23,220 (USD : VND)	38,367
USD	5	14,420 (USD : IDR)	159
USD	9,067	6.8632 (USD : RMB)	278,479
EUR	4,422	35.2 (EUR : NTD)	155,661
EUR	116	7.8473 (EUR : RMB)	4,086
RMB	27,808	4.472 (RMB : NTD)	124,357
<u>Financial liabilities</u>			
Monetary items			
USD	2,399	30.715 (USD : NTD)	73,687
USD	1,000	23,220 (USD : VND)	30,706
USD	39	14,420 (USD : IDR)	1,183
USD	569	6.8632 (USD : RMB)	17,480
EUR	3,888	35.2 (EUR : NTD)	136,847
RMB	49,571	4.472 (RMB : NTD)	221,680

The Group is mainly exposed to USD, EUR and RMB. 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	2019		2018	
	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1(NTD:NTD)	\$ (11,627)	1(NTD:NTD)	\$ 26,768
VND	0.0013305(VND:NTD)	705	0.00126(VND:NTD)	1,592
IDR	0.00221(IDR:NTD)	168	0.00222(IDR:NTD)	(2,549)
RMB	4.472(RMB:NTD)	5,836	4.574(RMB:NTD)	9,467
USD	30.912(USD:NTD)	<u>98</u>	30.13(USD:NTD)	<u>12</u>
		<u>\$ (4,820)</u>		<u>\$ 35,290</u>

### 37. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding 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 3)
- 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 4)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)

- 9) Trading in derivative instruments. (N/A)
- 10) Intercompany relationships and significant intercompany transactions. (Table 9)
- 11) Information on investees. (Table 6)

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 7)
- 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 8)
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 8)
  - 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. (N/A)
  - 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)

### 38. 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, 2019 and 2018, and information on assets is referred to the consolidated balance sheets as of December 31, 2019 and 2018.

#### 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:

<b>Revenue from External Customers For the Year Ended December 31</b>		
	<b>2019</b>	<b>2018</b>
Asia	\$ 4,265,204	\$ 4,077,528
Europe	831,717	812,452
America	<u>142,714</u>	<u>166,852</u>
	<u>\$ 5,239,635</u>	<u>\$ 5,056,832</u>

<b>Non-current Assets</b>		
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Asia	\$ 5,699,680	\$ 5,538,961
Europe	29,481	42,950
America	<u>49,864</u>	<u>52,802</u>
	<u>\$ 5,779,025</u>	<u>\$ 5,634,713</u>

Non-current assets excluded those classified as financial instruments, deferred tax assets and investments accounted for using equity method.

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, 2019 and 2018.

**KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES**

**FINANCING PROVIDED TO OTHERS**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

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

No. (Note 1)	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing (Note 2)	Business Transaction Amount (Note 3)	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 1)	Aggregate Financing Limit (Note 1)	Note
													Item	Value			
1	KMC Chain (Shenzhen) Co., Ltd.	KMC Transmission (Tianjin) Co., Ltd.	Other receivable	Y	\$ 86,100 (RMB 20,000 thousand)	\$ 86,100 (RMB 20,000 thousand)	\$ 8,610 (RMB 2,000 thousand)	3.5%	2	\$ -	Operating capital	\$ -	-	-	\$5,006,469	\$ 10,556,458	
		KMC Automotive Transmission Co., Ltd.	Other receivable	Y	21,525 (RMB 5,000 thousand)	21,525 (RMB 5,000 thousand)	-	3.5%	2	-	Operating capital	-	-	-	5,006,469	10,556,458	

Note 1: The upper limit is equivalent to 500% of the net asset value of financier. But the total upper limit is equivalent to 200% of the net asset value of the Company.

Note 2: Nature of financing:

1) For business transaction is 1.

2) For short-term financing is 2.

Note 3: The needed amount for operation.

Note 4: The rate of exchange was NT\$4.305 to one RMB.

**TABLE 2****KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES****ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

No. (Note 1)	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period (Note 2)	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 1)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
0	KMC (KUEI MENG) International Inc.	KMC ( BVI ) Holding Co., Ltd.	Subsidiary	\$10,556,458	\$ 359,760 (USD 12,000 thousand)	\$ 359,760 (USD 12,000 thousand)	\$ -	\$ -	7	\$10,556,458	Y	N	N	
		KMC Chain (Vietnam) Co., Ltd.	Subsidiary	10,556,458	449,700 (USD 15,000 thousand)	449,700 (USD 15,000 thousand)	-	-	9	10,556,458	Y	N	N	

Note 1: The total amount of guarantee is two-hundred percent (200%) of net equity.

Note 2: The maximum balance for the period and ending balance represent the amounts approved by the board of directors.

Note 3: The rate of exchange was NT\$29.98 to one US dollar.

**TABLE 3****KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES****MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Company Name	Type and Name of Marketable Securities	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 Investment (China) Co., Ltd.	Maya Chain Co., Ltd.	Investments accounted for using equity method	Top Leader Industries Limited	Substantial related party	-	\$ -	-	\$ 380,120	-	\$ -	\$ -	\$ -	-	\$ 330,423 (Note)

Note : The amount of investment accounted for using equity method included share of profit of subsidiaries of \$20,140 thousand, disposal gain of subsidiary Suzhou Maya Trading Co., Ltd. of \$3,689 thousand, amortization of loss from difference between the investment cost and fair value of identifiable net assets acquired of \$7,691 thousand, unrealized gain of \$53,016 thousand and exchange differences on translating foreign operations of \$12,819 thousand.

**TABLE 4**

**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, 2019  
(In Thousands of New Taiwan Dollars)**

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 N.V.	Subsidiary	Sales	\$ (601,974)	(28)	Net 90 days after month end close	Negotiation method	Net 90 days after month end close	\$ 49,436	15	
	WINCORP ENTERPRISES LIMITED	Same members of the key management personnel	Sales	(133,909)	(6)	Net 90 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	52,033	16	
	KMC Chain Industrial Co., Ltd.	Subsidiary	Purchases	512,362	47	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(224,796)	(56)	
	KMC Chain (Vietnam) Co., Ltd.	Subsidiary	Purchases	126,758	12	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(15,110)	(4)	
	KMC Chain (Shenzhen) Co., Ltd.	Subsidiary	Purchases	382,047	35	Net 150 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(146,019)	(36)	
KMC Chain Industrial Co., Ltd.	KMC Chain (Shenzhen) Co., Ltd.	Affiliates	Purchases	110,757	24	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(20,152)	(44)	
KMC Automobile Transmission Co., Ltd.	KMC Automotive Transmission Co., Ltd.	Affiliates	Purchases	119,816	96	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(21,865)	(91)	
KMC Transmission (Tianjin) Co., Ltd.	Suzhou KMC Industry and Trade Co., Ltd.	Affiliates	Sales	(258,449)	(35)	Net 90 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	28,162	13	
	Taichang Tec Industry and Trade Co., Ltd.	Affiliates	Sales	(107,321)	(15)	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	6,952	3	
	KMC Chain (Shenzhen) Co., Ltd.	Affiliates	Purchases	120,583	17	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(84,307)	(43)	
	Suzhou Maya Trading Co., Ltd.	Affiliates	Sales	(250,236)	(34)	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	153,643	71	
	KMC Chain (Suzhou) Co., Ltd.	Affiliates	Purchases	121,095	17	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	(32,325)	(70)	
KMC Chain (Suzhou) Co., Ltd.	Suzhou KMC Industry and Trade Co., Ltd.	Affiliates	Sales	(246,094)	(31)	Net 60 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	24,463	14	
	Taichang Tec Industry and Trade Co., Ltd.	Affiliates	Sales	(181,260)	(23)	Net 120 days after month end close	No comparable payment terms for general customers	No comparable sales prices for general customers	63,088	36	

**TABLE 5****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, 2019**  
**(In Thousands of New Taiwan Dollars)**

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	\$ 146,019	2.14	\$ -	-	\$ 70,278	\$ -
KMC Chain Industrial Co., Ltd.	KMC (KUEI MENG) International Inc.	Parent company	224,796	2.32	-	-	109,133	-
KMC Transmission (Tianjim) Co., Ltd.	Suzhou Maya Trading Co., Ltd.	Affiliates	153,643	3.09	-	-	18,322	-

TABLE 6

## KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

## INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2019

(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, 2019			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2019	December 31, 2018	Shares	%	Carrying Amount			
KMC (KUEI MENG) International Inc.	KMC Chain Industrial Co., Ltd.	Taiwan	Manufacturing, selling various chains and components of motorcycle and vehicle	\$ 7,261,427	\$ 7,021,427	88,600,000	100	\$ 7,602,311	\$ 240,032	\$ 234,599	
	KMC Chain Industrial Co., Ltd. (Samoa)	Samoa	Selling various bicycle chains and components	-	152,625 (USD 5,000 thousand)	-	-	-	190	190	
	TEC Chains Co., Ltd.	Samoa	Selling various bicycle chains and components	-	3,053 (USD 100 thousand)	-	-	-	(245)	(245)	
	Pro (Taiwan) Procurement Co., Ltd	Taiwan	Selling various bicycle components	12,250	12,250	1,225,000	49	12,764	1,273	624	
	KMC Chain (Seychelles) Industrial Co., Ltd.	Seychelles	Selling various bicycle chains and components	-	308,383	-	-	-	(20)	(20)	
	TEC Chains (Seychelles) Co., Ltd.	Seychelles	Selling various bicycle chains and components	-	138,241	-	-	-	54	54	
	K.M.C. Automobile Transmission Co., Ltd	Taiwan	Selling equipment and materials for chains and designing products	597,520	597,520	3,253,812	100	629,740	10,511	10,511	
	KMC Industries (Vietnam) Co., Ltd.	Vietnam	Selling various chains and components	29,980 (USD 1,000 thousand)	-	-	100	27,196	(2,856)	(2,856)	
KMC Chain Industrial Co., Ltd.	KMC (BVI) Holding Co., Ltd.	British Virgin IS	Investing activities	15,590 (USD 520 thousand)	15,873 (USD 520 thousand)	520,000	100	363,234	(16,340)		
	KMC Chain Europe N.V.	Netherlands	Selling various bicycle chains and components	320,919	320,000	100	100	485,086	47,564		
	KMC Chain American Corporation	United States	Selling various bicycle chains and components	130,845	130,845	10,000	100	130,861	(10,390)		
	P.T. Kuei Meng Chain Indonesia	Indonesia	Selling various motorcycle chains and components	24,750	24,750	-	99	25,151	386		
KMC (BVI) Holding Co., Ltd.	KMC Chain (Vietnam) Co., Ltd.	Vietnam	Manufacturing and selling various chains and components	89,940 (USD 3,000 thousand)	91,575 (USD 3,000 thousand)	-	100	363,002	(16,269)		

Note 1: Information on investment in mainland China is provided in Table 7.



TABLE 7

## KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

## INFORMATION ON INVESTMENTS IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2019

(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, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outward	Inward							
KMC Investment (China) Co., Ltd	Investing activities.	\$ 4,570,072 (RMB 1,061,573 thousand)	1.(1)	\$ 5,036,936	\$ -	\$ -	\$ 5,036,936	\$ 163,826	100	\$ 163,826	\$ 5,422,431	\$ -	
KMC Transmission (Tianjin) Co., Ltd.	Manufacturing and selling various chains of bicycle.	382,241 (RMB 88,790 thousand)	1.(3)	1.(3)	-	-	1.(3)	(2,956)	100	(16,520)	589,141	-	Note 5
Taichang Tec Industry and Trade Co., Ltd.	Selling various bicycle chains .	8,610 (RMB 2,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	8,958	100	8,958	16,212	-	
Suzhou KMC Industry and Trade Co., Ltd.	Selling various bicycle chains .	8,610 (RMB 2,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	253,532	100	253,522	256,890	-	
KMC Chain (Shenzhen) Co., Ltd.	Manufacturing and selling various chains of bicycle.	748,243 (RMB 173,808 thousand)	1.(3)	1.(3)	-	-	1.(3)	39,487	100	6,640	2,263,095	-	Note 5
KMC Chain (Suzhou) Co., Ltd.	Manufacturing and selling various chains of bicycle.	347,422 (RMB 80,702 thousand)	1.(3)	1.(3)	-	-	1.(3)	45,621	100	24,709	940,252	-	Note 5
KMC Automotive Transmission Co., Ltd.	Manufacturing and selling ATS.	176,505 (RMB 41,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	(20,417)	100	(32,232)	357,629	-	Note 5
KMC Transton Company Limited.	Manufacturing and selling GDO.	38,745 (RMB 9,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	30,025	100	24,737	322,818	-	Note 5
Shenzhen KMC Industrial Co., Ltd.	Selling of GDO.	4,305 (RMB 1,000 thousand)	1.(3)	1.(3)	-	-	1.(3)	23,134	100	23,134	-	-	
Maya Chain Co., Ltd.	Manufacturing and selling various chains of bicycle.	337,245 (RMB 78,338 thousand)	1.(3)	1.(3)	-	-	1.(3)	20,140	100	(40,567)	330,423	-	Note 5
Suzhou Maya Trading Co., Ltd.	Selling various bicycle chains.	5,166 (RMB 1,200 thousand)	1.(3)	1.(3)	-	-	1.(3)	(57,072)	100	(57,072)	(55,358)	-	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 4,570,072 (RMB 1,061,573 thousand)	\$ 5,546,840 (USD 185,018 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\$4.305 to one RMB and NT\$ 29.98 to one US dollar.

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.

## 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, 2019

(In Thousands of New Taiwan Dollars)

Buyer	Counterparty	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Unrealized Gain
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
KMC (KUEI MENG) International Inc.	KMC Chain (Shenzhen) Co., Ltd.	Subsidiary	Purchases	\$ 382,047	12	Net 150 days after month end close	Bargain	Equivalent	\$ (146,019)	(36)	\$ (11,349)
	KMC Chain (Suzhou) Co., Ltd.	Subsidiary	Purchases	48,047	2	Net 60 days after month end close	Bargain	Equivalent	(12,902)	(3)	-
KMC Chain Industrial Co., Ltd.	KMC Chain (Shenzhen) Co., Ltd.	Affiliates	Sales	(20,542)	-	Net 60 days after month end close	Bargain	Equivalent	7,855	3	134
	KMC Chain (Suzhou) Co., Ltd.	Affiliates	Sales	(5,663)	-	Net 60 days after month end close	Bargain	Equivalent	2,093	1	422
	KMC Chain (Shenzhen) Co., Ltd.	Affiliates	Purchases	110,757	4	Net 60 days after month end close	Bargain	Equivalent	(20,152)	(44)	(2,214)
	KMC Chain (Suzhou) Co., Ltd.	Affiliates	Purchases	9,403	-	Net 60 days after month end close	Bargain	Equivalent	(636)	(1)	(1,812)
K.M.C. Automobile Transmission Co., Ltd	KMC Automotive Transmission Co., Ltd.	Affiliates	Purchases	119,816	4	Net 60 days after month end close	Bargain	Equivalent	(21,865)	(91)	-

TABLE 9

## KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

**SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**  
**(In Thousands of New Taiwan Dollars)**

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 N.V.	1.	Sales	\$ 601,974	Negotiation method	11
		KMC Chain American Corporation	1.	Sales	76,539	Negotiation method	1
		KMC Chain (Vietnam) Co., Ltd.	1.	Purchases	126,758	Negotiation method	2
		KMC Chain Industrial Co., Ltd.	1.	Purchases	512,362	Negotiation method	10
		KMC Chain (Shenzhen) Co., Ltd.	1.	Purchases	382,047	Negotiation method	7
		KMC Chain (Suzhou) Co., Ltd.	1.	Purchases	48,047	Negotiation method	1
		KMC Chain Europe N.V.	1.	Accounts receivable	49,436	Net 90 days after month end close	-
		KMC Chain American Corporation	1.	Accounts receivable	10,250	Net 90 days after month end close	-
		KMC Chain (Vietnam) Co., Ltd.	1.	Accounts payable	15,110	Net 60 days after month end close	-
		KMC Chain Industrial Co., Ltd.	1.	Accounts payable	224,796	Net 120 days after month end close	2
		KMC Chain (Shenzhen) Co., Ltd.	1.	Accounts payable	146,019	Net 150 days after month end close	1
		KMC Chain (Suzhou) Co., Ltd.	1.	Accounts payable	12,902	Net 60 days after month end close	-
		KMC Chain (Vietnam) Co., Ltd.	1.	Other receivable	17,218	-	-
		KMC Chain Europe N.V.	1.	Other payable	8,374	-	-
		KMC Chain American Corporation	1.	Other receivable	6,296	-	-
		KMC Chain Europe N.V.	1.	Unrealized gain	100,389	-	2
		KMC Chain American Corporation	1.	Unrealized gain	9,736	-	-
1	KMC Chain Industrial Co., Ltd.	KMC Chain (Shenzhen) Co., Ltd.	3.	Sales	20,542	Negotiation method	-
		KMC Chain (Suzhou) Co., Ltd.	3.	Sales	5,663	Negotiation method	-
		KMC Chain (Shenzhen) Co., Ltd.	3.	Purchases	110,757	Negotiation method	2
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchases	9,403	Negotiation method	-
		KMC Chain (Shenzhen) Co., Ltd.	3.	Accounts receivable	7,855	Net 60 days after month end close	-
		KMC Chain (Shenzhen) Co., Ltd.	3.	Accounts payable	20,152	Net 60 days after month end close	-
2	K.M.C. Automobile Transmission Co., Ltd	KMC Automotive Transmission Co., Ltd.	3.	Purchases	119,816	Negotiation method	2
		KMC Automotive Transmission Co., Ltd.	3.	Accounts payable	21,865	Net 60 days after month end close	-
3	KMC Chain (Vietnam) Co., Ltd.	P.T. Kuei Meng Chain Indonesia	3.	Sales	25,634	Negotiation method	-
		KMC Transmission (Tianjin) Co., Ltd.	3.	Sales	8,349	Negotiation method	-
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchases	7,063	Negotiation method	-
		Shenzhen KMC Industrial Co., Ltd	3.	Purchases	9,647	Negotiation method	-
		P.T. Kuei Meng Chain Indonesia	3.	Accounts receivable	16,019	Net 120 days after month end close	-
		KMC Transmission (Tianjin) Co., Ltd.	3.	Accounts receivable	6,256	Net 60 days after month end close	-
4	KMC Transmission (Tianjin) Co., Ltd.	Taichang Tec Industry and Trade Co., Ltd.	3.	Sales	107,321	Negotiation method	2
		Suzhou KMC Industry and Trade Co., Ltd.	3.	Sales	258,449	Negotiation method	5
		KMC Chain (Suzhou) Co., Ltd.	3.	Sales	11,248	Negotiation method	-
		Shenzhen KMC Industrial Co., Ltd.	3.	Sales	79,010	Negotiation method	2
		Suzhou Maya Trading Co., Ltd.	3	Sales	250,236	Negotiation method	5
		KMC Chain (Shenzhen) Co., Ltd.	3.	Purchases	120,583	Negotiation method	2
		KMC Chain (Suzhou) Co., Ltd.	3	Purchases	121,095	Negotiation method	2
		Taichang Tec Industrial and Trades Co., Ltd.	3.	Accounts receivable	6,952	Net 120 days after month end close	-
		Suzhou KMC Industry and Trade Co., Ltd.	3.	Accounts receivable	28,162	Net 90 days after month end close	-
		Shenzhen KMC Industrial Co., Ltd.	3.	Accounts receivable	20,235	Net 60 days after month end close	-
		Suzhou Maya Trading Co., Ltd.	3	Accounts receivable	153,643	Net 120 days after month end close	2
		KMC Chain (Shenzhen) Co., Ltd.	3.	Accounts payable	84,307	Net 120 days after month end close	1
		KMC Chain (Suzhou) Co., Ltd.	3.	Accounts payable	32,325	Net 120 days after month end close	-
		Maya Chain Co., Ltd.	3.	Accounts payable	29,868	Net 120 days after month end close	-
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchase PPE	6,277	Negotiation method	-

(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.	Suzhou KMC Industry and Trade Co., Ltd.	3.	Sales	\$ 87,064	Negotiation method	2
		Taichang Tec Industry and Trade Co., Ltd.	3.	Sales	29,539	Negotiation method	1
		KMC Chain (Suzhou) Co., Ltd.	3.	Sales	45,951	Negotiation method	1
		KMC Transton Company Limited.	3.	Sales	51,207	Negotiation method	1
		Shenzhen KMC Industrial Co., Ltd.	3.	Sales	20,853	Negotiation method	-
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchases	37,707	Negotiation method	1
		Suzhou KMC Industry and Trade Co., Ltd.	3.	Accounts receivable	20,842	Net 60 days after month end close	-
		Taichang Tec Industry and Trade Co., Ltd.	3.	Accounts receivable	7,941	Net 90 days after month end close	-
		KMC Transton Company Limited.	3.	Accounts receivable	13,258	Net 120 days after month end close	-
		KMC Chain (Suzhou) Co., Ltd.	3.	Accounts receivable	8,546	Net 60 days after month end close	-
		Shenzhen KMC Industrial Co., Ltd.	3.	Accounts receivable	7,138	Net 120 days after month end close	-
		KMC Transmission (Tianjin) Co., Ltd.	3.	Other receivable	8,610	-	-
		Maya Chain Co., Ltd.	3.	Other payable	30,910	-	-
		KMC Chain (Suzhou) Co., Ltd.	3.	Purchase PPE	7,178	Negotiation method	-
		Maya Chain Co., Ltd.	3.	Purchase PPE	28,415	Negotiation method	1
		KMC (KUEI MENG) International Inc.	2.	Unrealized gain	11,349	-	-
6	KMC Chain (Suzhou) Co., Ltd.	Suzhou KMC Industry and Trade Co., Ltd.	3.	Sales	246,094	Negotiation method	5
		Taichang Tec Industry and Trade Co., Ltd.	3.	Sales	181,260	Negotiation method	3
		KMC Transton Company Limited.	3.	Sales	18,246	Negotiation method	-
		TEC Chains Co., Ltd.	3.	Sales	9,285	Negotiation method	-
		Suzhou Maya Trading Co., Ltd.	3.	Sales	90,658	Negotiation method	2
		Suzhou KMC Industry and Trade Co., Ltd.	3.	Accounts receivable	24,463	Net 60 days after month end close	-
		Taichang Tec Industry and Trade Co., Ltd.	3.	Accounts receivable	63,088	Net 120 days after month end close	1
		KMC Transton Company Limited.	3.	Accounts receivable	5,139	Net 120 days after month end close	-
		Suzhou Maya Trading Co., Ltd.	3.	Accounts receivable	29,584	Negotiation method	-
		Shenzhen KMC Industrial Co., Ltd.	3.	Sales	28,924	Negotiation method	1
7	KMC Transton Company Limited.	Shenzhen KMC Industrial Co., Ltd.	3.	Accounts receivable	8,009	Net 120 days after month end close	-
		Shenzhen KMC Industrial Co., Ltd.	3.	Other receivable	38,562	-	-
8	Maya Chain Co., Ltd.	Suzhou Maya Trading Co., Ltd.	3.	Accounts receivable	5,999	Negotiation method	-
9	KMC Investment (China) Co., Ltd	Suzhou Maya Trading Co., Ltd.	3.	Sales	7,805	Negotiation method	-
		Suzhou KMC Industry and Trade Co., Ltd.	3.	Other receivable	43,005	-	-

(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.

TABLE 10

## KMC (KUEI MENG) INTERNATIONAL INC. AND SUBSIDIARIES

**MOVEMENTS OF PROPERTY, PLANT AND EQUIPMENT  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
(In Thousands of New Taiwan Dollars)

	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, 2018	\$ 239,087	\$ 2,527,137	\$ 1,249,264	\$ 75,802	\$ 9,879	\$ 22,873	\$ 172,353	\$ 192,555	\$ 4,488,950
Additions	-	4,773	149,756	3,864	1,099	15,414	52,586	101,285	328,777
Disposals	-	(12,128)	(75,743)	(7,081)	-	(2,147)	(10,925)	1,240	(106,784)
Reclassification	-	(88,703)	45,354	(651)	-	(187)	5,946	(15,693)	(53,934)
Effect of foreign currency exchange differences	647	(44,775)	(12,243)	(1,075)	(103)	(162)	(3,373)	(5,858)	(66,942)
Balance at December 31, 2018	<u>\$ 239,734</u>	<u>\$ 2,386,304</u>	<u>\$ 1,356,388</u>	<u>\$ 70,859</u>	<u>\$ 10,875</u>	<u>\$ 35,791</u>	<u>\$ 216,587</u>	<u>\$ 273,529</u>	<u>\$ 4,590,067</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2018	\$ -	\$ 468,807	\$ 668,473	\$ 56,888	\$ 4,312	\$ 18,285	\$ 100,358	\$ -	\$ 1,317,123
Disposals	-	(12,128)	(57,324)	(5,414)	-	(2,142)	(9,511)	-	(86,519)
Depreciation	-	86,150	99,123	4,589	2,693	3,111	33,740	-	229,406
Reclassification	-	(24,008)	(1,852)	(1,976)	-	(141)	(105)	-	(28,082)
Effect of foreign currency exchange differences	-	(8,226)	(5,055)	(769)	(41)	(124)	(1,790)	-	(16,005)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 510,595</u>	<u>\$ 703,365</u>	<u>\$ 53,318</u>	<u>\$ 6,964</u>	<u>\$ 18,989</u>	<u>\$ 122,692</u>	<u>\$ -</u>	<u>\$ 1,415,923</u>
Carrying amounts at December 31, 2018	<u>\$ 239,734</u>	<u>\$ 1,875,709</u>	<u>\$ 653,023</u>	<u>\$ 17,541</u>	<u>\$ 3,911</u>	<u>\$ 16,802</u>	<u>\$ 93,895</u>	<u>\$ 273,529</u>	<u>\$ 3,174,144</u>
<u>Cost</u>									
Balance at January 1, 2019	\$ 239,734	\$ 2,386,304	\$ 1,356,388	\$ 70,859	\$ 10,875	\$ 35,791	\$ 216,587	\$ 273,529	\$ 4,590,067
Acquisitions through business combinations	-	-	128,547	855	-	-	1,111	-	130,513
Additions	-	3,600	136,493	4,631	12	2,294	66,875	63,540	277,445
Disposals	-	-	(153,119)	(12,044)	-	(390)	(32,166)	-	(197,719)
Reclassification	-	217,191	34,295	1,519	(1,519)	1,760	17,585	(308,637)	(37,806)
Effect of foreign currency exchange differences	(658)	(93,080)	(42,986)	(2,297)	(317)	(895)	(8,536)	(1,062)	(149,831)
Balance at December 31, 2019	<u>\$ 239,076</u>	<u>\$ 2,514,015</u>	<u>\$ 1,459,618</u>	<u>\$ 63,523</u>	<u>\$ 9,051</u>	<u>\$ 38,560</u>	<u>\$ 261,456</u>	<u>\$ 27,370</u>	<u>\$ 4,612,669</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2019	\$ -	\$ 510,595	\$ 703,365	\$ 53,318	\$ 6,964	\$ 18,989	\$ 122,692	\$ -	\$ 1,415,923
Acquisitions through business combinations	-	-	121,954	855	-	-	981	-	123,790
Disposals	-	-	(153,174)	(10,958)	-	(322)	(13,899)	-	(178,353)
Depreciation	-	92,174	115,040	4,793	2,626	4,613	35,002	-	254,248
Reclassification	-	(27,261)	(1,029)	444	(443)	1,527	(1,692)	-	(28,454)
Effect of foreign currency exchange differences	-	(18,376)	(21,280)	(1,652)	(312)	(738)	(4,175)	-	(46,533)
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 557,132</u>	<u>\$ 764,876</u>	<u>\$ 46,800</u>	<u>\$ 8,835</u>	<u>\$ 24,069</u>	<u>\$ 138,909</u>	<u>\$ -</u>	<u>\$ 1,540,621</u>
Carrying amounts at December 31, 2019	<u>\$ 239,076</u>	<u>\$ 1,956,883</u>	<u>\$ 694,742</u>	<u>\$ 16,723</u>	<u>\$ 216</u>	<u>\$ 14,491</u>	<u>\$ 122,547</u>	<u>\$ 27,370</u>	<u>\$ 3,072,048</u>

KMC (Kuei Meng) International Inc.

Chairman: Wu,Ying-Chin



/// LINK TO PERFECTION