

Merida Industry Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2020 and 2019 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, 2020 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as prepared in conformity with International Financial Reporting Standard 10 “Consolidated Financial Statements”. The information required to be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Consequently, Merida Industry Co., Ltd. and subsidiaries did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

MERIDA INDUSTRY CO., LTD.

By:

Michael S. T. Tseng
President

March 25, 2021

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Merida Industry Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Merida Industry Co., Ltd. and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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 (collectively referred to as the “consolidated financial statements”).

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section of this report), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, 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 of the Republic of China.

Basis for Opinion

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

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, 2020. 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 key audit matter identified in the Group's consolidated financial statements for the year ended December 31, 2020 is as follows:

Revenue Recognition

The Group's sales revenue mainly comes from the manufacture and sale of bicycles, e-bikes, and bicycle components. As export revenue from the sale of e-bikes for the year ended December 31, 2020 accounted for a significant proportion of sales revenue, recognition of sales revenue from the sale of e-bikes has been identified as a key audit matter. For the accounting policies on the recognition of sales revenue, refer to Note 4.

Our audit procedures performed in respect of revenue recognition included the following:

1. We understood and evaluated the design and appropriateness of implementation of the internal controls related to the recognition of sales revenue and the operating procedures and risks related to revenue collection, and tested the continuous effectiveness of its related procedures during the year.
2. We obtained the sales revenue receipts from the export of e-bikes, sampled the orders, and subsequently recognized the documents and receipt vouchers related to sales revenue to verify the occurrence of the sales revenue recognized.

Other Matter

We did not audit the financial statements of some of the investees accounted for using the equity method as of and for the years ended December 31, 2020 and 2019, but such financial statements were audited by other auditors, whose reports have been furnished to us. The balance of the investments accounted for using the equity method was NT\$13,544,791 thousand and NT\$10,440,751 thousand, accounting for 46% and 41% of the Group's consolidated total assets as of December 31, 2020 and 2019, respectively. The share of profit of associates was NT\$3,359,564 thousand and NT\$1,374,891 thousand, accounting for 92% and 67% of the Group's consolidated comprehensive income for the years ended December 31, 2020 and 2019, respectively.

We have also audited the parent company only financial statements of Merida Industry Co., Ltd. as of and for the years ended December 31, 2020 and 2019 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 the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 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 Shu-Chin Chiang and Done-Yuin Tseng.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 25, 2021

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 applied in the Republic of China.

For the convenience of readers, the independent 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.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6(1))	\$ 3,931,022	14	\$ 3,271,253	13
Financial assets at fair value through profit or loss - current (Notes 4 and 6(2))	1,563,734	5	1,078,809	4
Notes receivable (Notes 4 and 6(15))	6,954	-	12,474	-
Trade receivables (Notes 4, 6(3) and 6(15))	622,119	2	759,041	3
Trade receivables from related parties (Notes 4, 6(3), 6(15) and 7)	1,226,649	4	1,745,195	7
Other receivables (Note 7)	88,017	-	110,062	-
Inventories (Notes 4, 5 and 6(4))	4,990,061	17	4,653,985	18
Other current assets	160,381	1	127,752	-
Total current assets	<u>12,588,937</u>	<u>43</u>	<u>11,758,571</u>	<u>45</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 6(5))	3,400	-	3,400	-
Investments accounted for using the equity method (Notes 4 and 6(7))	13,828,216	47	10,658,905	42
Property, plant and equipment (Notes 4 and 6(8))	2,685,572	9	2,400,791	10
Right-of-use assets (Notes 4 and 6(9))	353,328	1	540,505	2
Investment properties (Notes 4 and 6(10))	34,836	-	35,403	-
Intangible assets (Note 4)	56,399	-	45,307	-
Deferred tax assets (Notes 4 and 6(17))	76,068	1	188,991	1
Prepayments for equipment	28,778	-	30,496	-
Other non-current assets	26,943	-	18,421	-
Total non-current assets	<u>17,093,540</u>	<u>57</u>	<u>13,922,219</u>	<u>55</u>
TOTAL	<u>\$ 29,682,477</u>	<u>100</u>	<u>\$ 25,680,790</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Notes 4 and 6(11))	\$ 1,634,949	6	\$ 1,880,773	7
Contract liabilities - current (Notes 4 and 6(15))	160,028	1	33,916	-
Notes payable and trade payables	4,996,651	17	4,453,631	17
Trade payables to related parties (Note 7)	58,689	-	46,543	-
Other payables (Note 6(12))	1,084,989	4	813,144	3
Current tax liabilities (Notes 4 and 6(17))	171,422	1	301,936	1
Lease liabilities - current (Notes 4 and 6(9))	41,716	-	57,107	-
Current portion of long-term bank loans (Notes 4 and 6(11))	33,017	-	158,982	1
Other current liabilities	71,352	-	68,072	-
Total current liabilities	<u>8,252,813</u>	<u>29</u>	<u>7,814,104</u>	<u>29</u>
NON-CURRENT LIABILITIES				
Long-term bank loans (Notes 4 and 6(11))	994,190	3	355,830	1
Deferred tax liabilities (Notes 4 and 6(17))	3,423,416	12	2,702,913	11
Lease liabilities - non-current (Notes 4 and 6(9))	92,976	-	174,038	1
Net defined benefit liabilities (Notes 4 and 6(13))	108,391	-	195,207	1
Guarantee deposits received	30,104	-	33,098	-
Credit balance of investments accounted for using the equity method (Notes 4 and 6(7))	-	-	1,740	-
Total non-current liabilities	<u>4,649,077</u>	<u>15</u>	<u>3,462,826</u>	<u>14</u>
Total liabilities	<u>12,901,890</u>	<u>44</u>	<u>11,276,930</u>	<u>43</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Ordinary shares	2,989,838	10	2,989,838	12
Capital surplus				
Share premiums from issuance of ordinary shares	416,290	1	416,290	2
Retained earnings				
Legal reserve	2,732,977	9	2,482,733	10
Special reserve	1,163,048	4	769,489	3
Unappropriated earnings	10,406,346	35	8,283,384	32
Other equity	(1,674,363)	(6)	(1,163,049)	(5)
Total equity attributable to owners of the Corporation	<u>16,034,136</u>	<u>53</u>	<u>13,778,685</u>	<u>54</u>
NON-CONTROLLING INTERESTS				
Total equity	<u>16,780,587</u>	<u>56</u>	<u>14,403,860</u>	<u>57</u>
TOTAL	<u>\$ 29,682,477</u>	<u>100</u>	<u>\$ 25,680,790</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 25, 2021)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
SALES (Notes 4, 6(15) and 7)	\$ 27,072,342	100	\$ 28,243,214	100
COST OF GOODS SOLD (Notes 6(4), 6(16) and 7)	<u>23,285,132</u>	<u>86</u>	<u>24,423,564</u>	<u>87</u>
GROSS PROFIT	3,787,210	14	3,819,650	13
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>278,539</u>	<u>1</u>	<u>(83,322)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>4,065,749</u>	<u>15</u>	<u>3,736,328</u>	<u>13</u>
OPERATING EXPENSES (Notes 6(16) and 7)				
Selling and marketing expenses	1,046,703	4	1,088,300	4
General and administrative expenses	<u>1,134,824</u>	<u>4</u>	<u>937,202</u>	<u>3</u>
Total operating expenses	<u>2,181,527</u>	<u>8</u>	<u>2,025,502</u>	<u>7</u>
PROFIT FROM OPERATIONS	<u>1,884,222</u>	<u>7</u>	<u>1,710,826</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 7)	34,325	-	80,674	-
Other income (Note 7)	167,307	1	65,129	-
Net foreign exchange gains (losses) (Note 4)	(131,819)	-	78,155	-
Gain on fair value changes of financial assets at fair value through profit or loss (Note 4)	23,716	-	10,549	-
Share of profit of subsidiaries and associates (Note 4)	3,385,363	13	1,350,284	5
Interest expense	(52,006)	-	(43,874)	-
Other expenses (Note 6(16))	<u>(70,291)</u>	<u>-</u>	<u>(48,063)</u>	<u>-</u>
Total non-operating income and expenses	<u>3,356,595</u>	<u>14</u>	<u>1,492,854</u>	<u>5</u>
PROFIT BEFORE INCOME TAX	5,240,817	21	3,203,680	11
INCOME TAX EXPENSE (Notes 4 and 6(17))	<u>1,128,670</u>	<u>4</u>	<u>702,696</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>4,112,147</u>	<u>17</u>	<u>2,500,984</u>	<u>9</u>

(Continued)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 6(13))	\$ 37,111	-	\$ (19,797)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 6(17))	<u>(7,422)</u>	<u>-</u>	<u>3,959</u>	<u>-</u>
	<u>29,689</u>	<u>-</u>	<u>(15,838)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(490,893)</u>	<u>(2)</u>	<u>(419,746)</u>	<u>(2)</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(461,204)</u>	<u>(2)</u>	<u>(435,584)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,650,943</u>	<u>15</u>	<u>\$ 2,065,400</u>	<u>7</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 3,993,317	15	\$ 2,502,443	9
Non-controlling interests	<u>118,830</u>	<u>-</u>	<u>(1,459)</u>	<u>-</u>
	<u>\$ 4,112,147</u>	<u>15</u>	<u>\$ 2,500,984</u>	<u>9</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 3,511,692	13	\$ 2,093,046	7
Non-controlling interests	<u>139,251</u>	<u>1</u>	<u>(27,646)</u>	<u>-</u>
	<u>\$ 3,650,943</u>	<u>14</u>	<u>\$ 2,065,400</u>	<u>7</u>
EARNINGS PER SHARE (Note 6(18))				
Basic	<u>\$ 13.36</u>		<u>\$ 8.37</u>	
Diluted	<u>\$ 13.27</u>		<u>\$ 8.33</u>	

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

(With Deloitte & Touche auditors' report dated March 25, 2021)

(Concluded)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Corporation							Total	Non-controlling Interest	Total
	Common Shares (Note 6(14))	Capital Surplus (Note 6(14))		Retained Earnings (Note 6(14))			Other Equity			
		Share Premium from Issuance of Common Share	Capital Surplus from Investments Accounted for Using Equity Method	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange			
							Differences on Translating the Financial Statements of Foreign Operations			
BALANCE AT JANUARY 1, 2019	\$ 2,989,838	\$ 416,290	\$ 258	\$ 2,311,849	\$ 807,624	\$ 6,995,807	\$ (769,490)	\$ 12,752,176	\$ 524,841	\$ 13,277,017
Appropriation of 2018 earnings	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	170,884	-	(170,884)	-	-	-	-
Reversal of special reserve	-	-	-	-	(38,135)	38,135	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,046,443)	-	(1,046,443)	-	(1,046,443)
Difference between carrying amount and consideration on the actual acquisition or disposal of equity interests in subsidiaries	-	-	(258)	-	-	(19,836)	-	(20,094)	20,094	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	107,886	107,886
Net profit for the year ended December 31, 2019	-	-	-	-	-	2,502,443	-	2,502,443	(1,459)	2,500,984
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(15,838)	(393,559)	(409,397)	(26,187)	(435,584)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	2,486,605	(393,559)	2,093,046	(27,646)	2,065,400
BALANCE AT DECEMBER 31, 2019	2,989,838	416,290	-	2,482,733	769,489	8,283,384	(1,163,049)	13,778,685	625,175	14,403,860
Appropriation of 2019 earnings	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	250,244	-	(250,244)	-	-	-	-
Special reserve	-	-	-	-	393,559	(393,559)	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,255,732)	-	(1,255,732)	(3,289)	(1,259,021)
Difference between carrying amount and consideration on the actual acquisition or disposal of equity interests in subsidiaries	-	-	-	-	-	(509)	-	(509)	509	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(15,195)	(15,195)
Net profit for the year ended December 31, 2020	-	-	-	-	-	3,993,317	-	3,993,317	118,830	4,112,147
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	-	29,689	(511,314)	(481,625)	20,421	(461,204)
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	4,023,006	(511,314)	3,511,692	139,251	3,650,943
BALANCE AT DECEMBER 31, 2020	\$ 2,989,838	\$ 416,290	\$ -	\$ 2,732,977	\$ 1,163,048	\$ 10,406,346	\$ (1,674,363)	\$ 16,034,136	\$ 746,451	\$ 16,780,587

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

(With Deloitte & Touche audit report dated March 25, 2021)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,240,817	\$ 3,203,680
Adjustments for:		
Depreciation expenses	268,297	260,726
Amortization expenses	7,908	10,246
Expected credit loss recognized on trade receivables	6,637	3,858
Net gain on fair value changes of financial assets at fair value through profit or loss	(23,716)	(10,549)
Interest expense	52,006	43,874
Interest income	(34,325)	(80,674)
Dividend income	(1,389)	(4,813)
Share of profit of associates	(3,385,363)	(1,350,284)
Loss on disposal of property, plant and equipment	858	2,310
Write-down of inventories	1,315	212
Unrealized loss (gain) on transactions with associates	(278,539)	83,322
Unrealized net (gain) loss on foreign currency exchange	(10,529)	35,068
Gain on lease modification	(774)	-
Loss on disposal of right-of-use assets	8,225	-
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(461,209)	(568,565)
Notes receivable	5,344	6,807
Trade receivables	638,137	(24,800)
Other receivables	529,822	(184,274)
Inventories	(331,846)	(376,793)
Other current assets	(23,847)	(18,116)
Contract liabilities	126,112	1,607
Notes payable and trade payables	559,051	652,414
Other payables	(260,186)	3,477
Other current liabilities	2,304	(15,923)
Net defined benefit liabilities	(49,705)	2,688
Cash generated from operations	2,585,405	1,675,498
Interest received	45,414	71,674
Dividends received	1,389	14,497
Interest paid	(52,966)	(42,562)
Income tax paid	(466,876)	(508,759)
Net cash generated from operating activities	<u>2,112,366</u>	<u>1,210,348</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments accounted for using equity method	(13,848)	-
Net cash inflow on acquisitions of associates	-	61,150
Acquisition for property, plant and equipment	(419,566)	(271,411)
Proceeds from disposal of property, plant and equipment	1,271	1,942

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MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2020	2019
Decrease (increase) in refundable deposits	\$ (5,530)	\$ 552
Decrease (increase) in other receivables from related parties	37,379	(37,379)
Payments for intangible assets	(18,947)	(3,249)
Proceeds from disposal of intangible assets	-	83
Acquisitions of right-of-use assets	-	(5,962)
Increase in other non-current assets	(3,073)	(4,430)
Increase in prepayments for equipment	(35,338)	(17,815)
Proceeds from disposal of right-of-use assets	<u>79,211</u>	<u>-</u>
Net cash used in investing activities	<u>(378,441)</u>	<u>(276,519)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (repayments for) short-term bank loans	(230,446)	27,777
Proceeds from long-term borrowings	641,193	299,601
Repayments of long-term bank loans	(157,837)	(111,359)
Increase (decrease) in refundable deposits	(3,075)	1,912
Repayment of the principal portion of lease liabilities	(49,673)	(50,269)
Dividends paid to owners of the Corporation	(1,246,476)	(1,046,443)
Acquisition of subsidiaries	(15,195)	-
Changes in non-controlling interests	<u>-</u>	<u>69,188</u>
Net cash used in financing activities	<u>(1,061,509)</u>	<u>(809,593)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(12,647)</u>	<u>(73,002)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	659,769	51,234
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>3,271,253</u>	<u>3,220,019</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 3,931,022</u>	<u>\$ 3,271,253</u>

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

(With Deloitte & Touche auditors' report dated March 25, 2021)

(Concluded)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Merida Industry Co., Ltd. (the “Corporation”) was incorporated in September 1972 in the Republic of China (“ROC”). It manufactures and sells bicycles and related parts.

Shares of the Corporation have been listed on the Taiwan Stock Exchange (“TWSE”) since September, 1992.

The consolidated financial statements of the Corporation and its subsidiaries (the Group) are presented in the Corporation’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 25, 2021.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC didn’t have material impact on the Group’s accounting policies.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2021

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2”	January 1, 2021
Amendment to IFRS 16 “Covid-19-Related Rent Concessions”	June 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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 2)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 3)
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 1 “Disclosure of Accounting Policies”	January 1, 2023 (Note 6)
Amendments to IAS 8 “Definition of Accounting Estimates”	January 1, 2023 (Note 7)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 4)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 5)

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

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

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 and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value, and net defined benefit liabilities that are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

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

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 12 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 Corporation and the entities controlled by the Corporation (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 dates of acquisitions up to the effective dates 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 Corporation.

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 Corporation 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 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 Corporation.

See Note 6(6), and Tables 8 and 9 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (i.e. 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 in which they arise.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date transaction.

For the purpose of presenting the consolidated financial statements, the functional currencies of the group entities (including subsidiaries and associates, in other countries that use currencies which are different from the currency of the Corporation) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and 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 Corporation and non-controlling interests as appropriate).

f. Inventories

Inventories consist of raw materials, supplies, work-in-progress and finished goods and 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 their weighted-average costs on the balance sheet date.

g. Investments in associates

An associate is an entity over which the Group has significant influence and which 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, investments in an associate are 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates. If the Group's ownership interest is reduced due to its additional subscription of the new shares of an associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any assets, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant, and equipment

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

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Costs include 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 their intended uses.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, such asset is depreciated over its lease term. 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 the 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.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

j. 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 is 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 any 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. Any impairment loss recognized on goodwill is not reversed in subsequent periods.

k. Intangible assets

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 lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

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.

l. Impairment of property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication that those assets have suffered any 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 corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (less amortization and depreciation) 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.

m. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL 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 categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 6(21).

ii. 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, note receivables, trade receivables, other receivables and refundable deposits at amortized cost, 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.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets and contract assets

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

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables. 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 following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 90 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

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.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and any associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

n. Revenue recognition

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

For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

Revenue from the sale of goods is recognized as revenue when the goods are delivered to the customer's specific location or when the goods are shipped, because it is the time when the customer has full discretion over the manner of distribution and bears the risks of obsolescence. Trade receivables are recognized concurrently.

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

o. Leases

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 (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

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.

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 impairment losses 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, which comprise fixed 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 the lessee's 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 future lease payments resulting from a change in a lease term 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.

p. 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 expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined retirement benefit plans are determined using the projected unit credit method. Service costs and net interest on the net defined benefit liabilities are recognized as employee benefits expenses in the period in which 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

it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans.

q. Taxation

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

1) Current tax

Income tax payable (recoverable) is based on taxable profit (loss) for the year determined according to the applicable tax laws of each tax jurisdiction.

According to the Income Tax Law in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain 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 calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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 that 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 is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets 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 liabilities are settled or 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 tax for the year

Current and deferred tax 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 tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS 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 Group considers the economic implications of the COVID-19 when making its critical accounting estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty - Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. EXPLANATION OF IMPORTANT ACCOUNTING ITEMS

1) Cash and cash equivalents

	<u>December 31</u>	
	2020	2019
Cash on hand	\$ 2,973	\$ 1,938
Checking accounts and demand deposits	3,530,520	2,589,408
Cash equivalents		
Time deposits with original maturities of less than 3 months	<u>397,529</u>	<u>679,907</u>
	<u>\$ 3,931,022</u>	<u>\$ 3,271,253</u>
Time deposit interest rate per annum (%)	0.66-2.20	0.50-2.85

2) Financial instruments at fair value through profit or loss

	<u>December 31</u>	
	2020	2019
Financial assets		
Non-derivative financial assets		
Mutual funds	\$ 1,511,654	\$ 951,309
Domestic listed shares	<u>52,080</u>	<u>127,500</u>
Financial assets at FVTPL - current	<u>\$ 1,563,734</u>	<u>\$ 1,078,809</u>

3) Trade receivables

	December 31	
	2020	2019
Trade receivables	\$ 1,867,419	\$ 2,530,808
Less: Allowance for impairment loss	<u>(18,651)</u>	<u>(26,572)</u>
	<u>\$ 1,848,768</u>	<u>\$ 2,504,236</u>

In principle, the payment term granted to customers is 90 days from the invoice date and D/A or O/A of 60 to 180 days. The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

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 trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the 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 forecasted 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 a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables 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 trade receivables of the Group.

December 31, 2020

	Not Past Due	Past due up to 3 months	Total
Expected credit loss rate	0%-1%	3%	
Gross carrying amount	\$ 1,847,706	\$ 19,713	\$ 1,867,419
Loss allowance (Lifetime ECLs)	<u>(18,060)</u>	<u>(591)</u>	<u>(18,651)</u>
Amortized cost	<u>\$ 1,829,646</u>	<u>\$ 19,122</u>	<u>\$ 1,848,768</u>

December 31, 2019

	Not Past Due	Past due up to 3 months	Total
Expected credit loss rate	0%-1%	3%	
Gross carrying amount	\$ 2,467,201	\$ 63,607	\$ 2,530,808
Loss allowance (Lifetime ECLs)	<u>(22,223)</u>	<u>(4,349)</u>	<u>(26,572)</u>
Amortized cost	<u>\$ 2,444,978</u>	<u>\$ 59,258</u>	<u>\$ 2,504,236</u>

The movements of the loss allowance of trade receivables were as follows:

	<u>For the Year Ended December 31</u>	
	2020	2019
Balance at January 1	\$ 26,572	\$ 24,063
Add: Net remeasurement of loss allowance	6,637	3,858
Less: Amounts written off	(14,773)	(788)
Foreign exchange differences	<u>215</u>	<u>(561)</u>
Balance at December 31	<u>\$ 18,651</u>	<u>\$ 26,572</u>

4) Inventories

	<u>December 31</u>	
	2020	2019
Finished goods	\$ 2,442,959	\$ 3,338,743
Work in progress	830,436	456,346
Raw materials and supplies	1,647,428	735,926
Inventory in transit	<u>69,238</u>	<u>122,970</u>
	<u>\$ 4,990,061</u>	<u>\$ 4,653,985</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2020 and 2019 was \$23,285,132 thousand and \$24,423,564 thousand, respectively. The cost of goods sold for the years ended December 31, 2020 and 2019 included inventory write-downs of \$1,315 thousand and \$212, respectively.

Inventories pledged as collateral for bank borrowings are set out in Note 8.

5) Financial assets at fair value through other comprehensive income

	<u>December 31</u>	
	2020	2019
<u>Non-current</u>		
Domestic unlisted ordinary shares	<u>\$ 3,400</u>	<u>\$ 3,400</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

6) Subsidiaries

a. Subsidiaries included in the consolidated financial statements

Investor	Investee	Proportion of Ownership (%)	
		2020	2019
The Corporation	Merida International (B.V.I) Ltd. ("Merida B.V.I.")	100	100
	Merida & Centurion Germany GmbH (Merida & Centurion)	51	51
	Merida Benelux B.V. ("Merida Benelux")	60	60
	Merida Polska Sp.z.o.o ("Merida Polska")	74	74
	Merida Bicycles Ltd. ("Merida U.K.")	81	81
	Merida Japan Co., Ltd. ("Merida Japan")	90	70
	Merida Norge As. ("Merida Norge")	75	75
Merida B.V.I.	Merida Industry (Hong Kong) Co., Ltd. ("Merida Hong Kong")	100	100
	Merida International (SAMOA) Ltd. ("Merida SAMOA")	70	70
Merida Hong Kong	Merida Bicycle (China) Co., Ltd. ("Merida China")	100	100
	Merida Bicycle (Shandong) Co., Ltd. ("Merida Shandong")	100	100
Merida SAMOA	Merida Bicycle (Jiangsu) Ltd. ("Merida Jiangsu")	100	100
Meroda Norge	Merida Sverige AB ("Sverige")	100	100
Merida Japan	Miyata Cycle Co., Ltd. ("Miyata")	100	-
Merida &Centurion	Merida Europe GmbH	100	100
	Merida R&D Center GmbH	100	100

Refer to Tables 8 and 9 following the Notes to Consolidated Financial Statements for information on the place of incorporation and principal places of business for each subsidiary.

In December 2019, the Corporation increased its capital in Stians Sport AS by acquiring 164,000 of its ordinary shares through cash in the amount of 121,679 thousand. After the capital increase, the Corporation's shareholding proportion increased to 75%, and the Corporation has obtained control over Stians Sport AS and included it in the Group's consolidated financial statements since December 1, 2019. In addition, Stians Sport AS was re name d as Merida Norge AS in May 2020.

In July 2019, the Corporation acquired 500 ordinary shares of Miyata Cycle Co., Ltd. through cash in the amount of \$23,766 thousand. After the acquisition, the Corporation's shareholding proportion increased to 70%, and the Corporation has obtained control over Miyata Cycle Co., Ltd. and included it in the Group's consolidated financial statements since July 1, 2019. Miytan Cycle Co., Ltd. was re name d as Merida Japan Co., Ltd. in July 2020. Due to the business needs, Merida Japan Co. Co., Ltd. established a new company, Miyata Cycle Co., Ltd. The Corporation acquired 400 ordinary shares of Merida Japan Co., Ltd. through cash in the amount of \$15,195 thousand. After the acquisition, the Corporation's shareholding proportion increased to 90%.

Except for Merida Benelux's 2019 financial statements, the financial statements of the other subsidiaries have been audited. Management believes that there would not be a significant impact on the Group's consolidated financial statements had the financial statements of Merida Benelux been audited.

b. Details of subsidiaries that have material non-controlling interests

Name of Subsidiary	Proportion of Ownership and Voting Rights Held by Non-controlling Interests (%)	
	December 31	
	2020	2019
Merida SAMOA	30	30

Summarized financial information in respect of Merida SAMOA and subsidiaries that have material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

	December 31	
	2020	2019
Current assets	\$ 529,246	\$ 439,556
Non-current assets	830,711	962,403
Current liabilities	(419,732)	(649,942)
Non-current liabilities	<u>(263,410)</u>	<u>(8,858)</u>
Equity	<u>\$ 676,815</u>	<u>\$ 743,159</u>
Equity attributable to:		
Owners of Merida SAMOA	\$ 473,770	\$ 520,211
Non-controlling interests of Merida SAMOA	<u>203,045</u>	<u>222,948</u>
	<u>\$ 676,815</u>	<u>\$ 743,159</u>
	For the Year Ended December 31	
	2020	2019
Revenue	<u>\$ 738,498</u>	<u>\$ 636,441</u>
Net loss for the year	\$ (73,958)	\$ (106,779)
Other comprehensive loss for the year	<u>43,703</u>	<u>(12,574)</u>
Total comprehensive loss for the year	<u>\$ (30,255)</u>	<u>\$ (119,353)</u>
Loss attributable to:		
Owners of Merida SAMOA	\$ (51,771)	\$ (74,745)
Non-controlling interests of Merida SAMOA	<u>(22,187)</u>	<u>(32,034)</u>
	<u>\$ (73,958)</u>	<u>\$ (106,779)</u>
Total comprehensive loss attributable to:		
Owners of Merida SAMOA	\$ (21,179)	\$ (83,547)
Non-controlling interests of Merida SAMOA	<u>(9,076)</u>	<u>(35,806)</u>
	<u>\$ (30,255)</u>	<u>\$ (119,353)</u>

	For the Year Ended December 31	
	2020	2019
Net cash outflow from:		
Operating activities	\$ (63,364)	\$ (61,559)
Investing activities	66,228	(1,567)
Financing activities	<u>(47,888)</u>	<u>34,335</u>
Net cash outflow	<u>\$ 45,024</u>	<u>\$ (28,791)</u>

7) Investments accounted for using the equity method

	December 31	
	2020	2019
<u>Unlisted shares</u>		
Specialized Bicycle Components, Inc. (“SBC”)	\$ 13,544,791	\$ 10,440,751
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H. (“SAIL & SURF”)	114,561	92,846
Merida Bikes SWE, S.A (“Merida Bikes SWE”)	70,268	57,167
Merida Czech s.r.o (“Merida Czech”)	42,587	31,745
Merida Slovakia s.r.o (“Merida Slovakia”)	25,978	21,178
Merida Korea Inc. (“Merida Korea”)	14,329	11,202
WideDoctor (International) Enterprise Co., Ltd. (“WideDoctor”)	3,880	4,016
Merida Italy S.r.l (“Merida Italy”)	<u>11,822</u>	<u>-</u>
	<u>\$ 13,828,216</u>	<u>\$ 10,658,905</u>
Credit Balance of Investments Accounted for Using the Equity Method		
Merida Italy	<u>\$ -</u>	<u>\$ 1,740</u>

The proportion of ownership and voting rights with investments in associates for the Group was as follows:

	December 31	
	2020	2019
SBC	35%	35%
SAIL & SURF	40%	40%
Merida Bikes SWE	36%	36%
Merida Czech	45%	45%
Merida Slovakia	30%	30%
Merida Korea	40%	40%
WideDoctor	26%	26%
Merida Italy	27%	27%

Refer to Table 8 “Information on Investees” following the Notes to Consolidated Financial Statements for the nature of activities, principal place of business and country of incorporation of the Group’s associates.

The aggregate financial information of associates is as follows:

	For the Year Ended December 31	
	2020	2019
The Group's share of:		
Profit for the year	\$ 3,385,363	\$ 1,350,284
Other comprehensive loss for the year	<u>(129,124)</u>	<u>(252)</u>
 Total comprehensive income for the year	 <u>\$ 3,256,239</u>	 <u>\$ 1,350,032</u>

Except for Merida Italy for the year ended December 31, 2020 and Merida Italy, Merida Korea, Merida Bikes SWE and WideDoctor for the year ended December 31, 2019, investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of these associates which have not been audited.

8) Property, plant and equipment

	For the Year Ended December 31, 2020						
	Beginning Balance	Acquisitions through Business Combination	Additions	Disposals	Reclassifi- cations	Effect of Foreign Currency Exchange Difference	Ending Balance
<u>Cost</u>							
Land	\$ 475,694	\$ -	\$ -	\$ -	\$ 349	\$ (32)	\$ 476,011
Buildings and improvements	2,284,701	-	34,469	(9,753)	-	36,160	2,345,577
Machinery and equipment	1,202,637	-	14,161	(19,188)	36,250	13,977	1,247,837
Transportation equipment	35,984	-	1,779	(3,171)	509	(368)	34,733
Miscellaneous equipment	205,950	-	23,389	(21,030)	26	1,749	210,084
Construction in progress	<u>72,260</u>	-	<u>345,768</u>	<u>(295)</u>	<u>-</u>	<u>16,460</u>	<u>434,193</u>
	<u>\$ 4,277,226</u>	<u>\$ -</u>	<u>\$ 419,566</u>	<u>\$ (53,437)</u>	<u>\$ 37,134</u>	<u>\$ 67,946</u>	<u>\$ 4,748,435</u>
<u>Accumulated depreciation</u>							
Buildings and improvements	955,197	\$ -	\$ 95,653	\$ (9,148)	\$ -	\$ 14,840	1,056,542
Machinery and equipment	733,184	-	87,734	(18,213)	-	10,795	813,500
Transportation equipment	27,875	-	2,508	(2,968)	-	(257)	27,158
Miscellaneous equipment	<u>160,149</u>	-	<u>24,843</u>	<u>(20,979)</u>	<u>26</u>	<u>1,594</u>	<u>165,663</u>
	<u>1,876,435</u>	<u>\$ -</u>	<u>\$ 210,738</u>	<u>\$ (51,308)</u>	<u>\$ 26</u>	<u>\$ 26,972</u>	<u>2,062,863</u>
	<u>\$ 2,400,791</u>						<u>\$ 2,685,572</u>

For the Year Ended December 31, 2020

	Beginning Balance	Acquisitions through Business Combination	Additions	Disposals	Reclassifi- cations	Effect of Foreign Currency Exchange Difference	Ending Balance
<u>Cost</u>							
Land	\$ 475,720	\$ -	\$ -	\$ -	\$ -	\$ (26)	\$ 475,694
Buildings and improvements	2,175,331	5,519	163,047	(4,278)	11,128	(66,046)	2,284,701
Machinery and equipment	1,202,547	36,593	7,110	(33,115)	24,827	(35,325)	1,202,637
Transportation equipment	25,826	10,292	2,023	(1,912)	458	(703)	35,984
Miscellaneous equipment	201,775	18,301	17,849	(26,626)	1,001	(6,350)	205,950
Construction in progress	4,199	-	81,382	-	(11,128)	(2,193)	72,260
	<u>\$ 4,085,398</u>	<u>\$ 70,705</u>	<u>\$ 271,411</u>	<u>\$ (65,931)</u>	<u>\$ 26,286</u>	<u>\$ (110,643)</u>	<u>\$ 4,277,226</u>
<u>Accumulated depreciation</u>							
Buildings and improvements	895,899	\$ 632	\$ 89,083	\$ (3,708)	\$ -	\$ (26,709)	\$ 955,197
Machinery and equipment	678,251	18,911	90,867	(30,648)	-	(24,197)	733,184
Transportation equipment	17,618	9,856	2,695	(1,823)	-	(471)	27,875
Miscellaneous equipment	150,646	15,557	24,871	(25,500)	-	(5,395)	160,179
	<u>\$ 1,742,414</u>	<u>\$ 44,956</u>	<u>\$ 207,516</u>	<u>\$ (61,679)</u>	<u>\$ -</u>	<u>\$ (56,772)</u>	<u>\$ 1,876,435</u>
	<u>\$ 2,342,984</u>						<u>\$ 2,400,791</u>

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

Buildings and improvements	
Main buildings	25-60 years
Ancillary work	5-55 years
Machinery and equipment	3-15 years
Transportation equipment	5 years
Miscellaneous equipment	3-15 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 8.

9) Lease arrangements

a. Right-of-use assets

	<u>December 31</u>	
	2020	2019
<u>Carrying amounts</u>		
Land	\$ 232,104	\$ 327,529
Buildings	102,236	188,715
Machinery	262	409
Transportation equipment	17,392	21,979
Miscellaneous equipment	<u>1,334</u>	<u>1,873</u>
	<u>\$ 353,328</u>	<u>\$ 540,505</u>

	For the Year Ended December 31	
	2020	2019
Depreciation charge for right-of-use assets		
Land	\$ 11,269	\$ 13,125
Buildings	33,816	28,449
Machinery	131	139
Transportation equipment	11,244	10,660
Miscellaneous equipment	<u>532</u>	<u>269</u>
	<u>\$ 56,992</u>	<u>\$ 52,642</u>

b. Lease liabilities

	December 31	
	2020	2019
<u>Carrying amounts</u>		
Current	<u>\$ 41,716</u>	<u>\$ 57,107</u>
Non-current	<u>\$ 92,976</u>	<u>\$ 174,038</u>

Range of discount rate for lease liabilities was as follows:

	December 31	
	2020	2019
Land	1.15%-1.50%	1.15%-1.64%
Buildings	1.15%-4.60%	1.15%-4.60%
Machinery	1.50%	1.64%
Transportation equipment	0.80%-3.00%	0.80%-3.65%
Miscellaneous equipment	0.80%-1.50%	0.80%-1.64%

c. Material lease-activities and terms (the Group is lessee)

The Group leases certain, land, buildings, transportation equipment, machinery, and miscellaneous equipment for product manufacturing and operational uses with lease terms of 1 to 7 years. According to the lease contract, the Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

Merida China acquired the right to use land in the Bao'an district of Shenzhen city, mainland China for 50 years; Merida Shandong acquired the right to use land from the Dezhou Economic Development Zone in Shandong province for 50 years; Merida Jiangsu acquired the right to use land from the Nantong Economic and Technological Development Zone in Jiangsu province for 50 years. During the period of land use, the lessee enjoys land use rights, income rights, transfer and leasing rights and is responsible for the various taxes and fees payable for the use of the land. The land is used for the construction of production plants, office buildings and staff dormitories.

d. Other lease information

	For the Year Ended December 31	
	2020	2019
Expenses relating to short-term leases	<u>\$ 20,388</u>	<u>\$ 19,692</u>
Expenses relating to low-value asset leases	<u>\$ 2,268</u>	<u>\$ 2,688</u>
Total cash outflow for leases	<u>\$ 72,329</u>	<u>\$ 72,649</u>

The Group leases certain office equipment and miscellaneous equipment which qualify as short-term leases and 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.

10) Investment properties

	December 31	
	2020	2019
Land	\$ 20,309	\$ 20,309
Buildings	23,977	23,977
Parking garages	6,953	6,953
Air-conditioning units	<u>3,068</u>	<u>3,068</u>
	54,307	54,307
Less: Accumulated depreciation	<u>(19,471)</u>	<u>(18,904)</u>
	<u>\$ 34,836</u>	<u>\$ 35,403</u>

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	55 years
Parking garages	49 years

The fair value of investment properties for the years ended December 31, 2020 and 2019 was \$54,045 thousand and \$48,462 thousand, respectively. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

11) Borrowings

a. Short-term bank borrowings

	December 31	
	2020	2019
Line of credit borrowings	\$ 452,829	\$ 922,769
Letters of credit - due after 180 days of acceptance	1,161,358	845,965
Secured borrowings (Note 8)	<u>20,762</u>	<u>112,039</u>
	<u>\$ 1,634,949</u>	<u>\$ 1,880,773</u>
<u>Rate of interest rates per annum (%)</u>		
Line of credit borrowings	0.90-4.35	0.90-5.00
Letters of credit	No more than 0.820	No more than 2.659
Secured borrowings	1.90-2.20	2.55-4.55

b. Long-term bank borrowings

	<u>December 31</u>	
	2020	2019
<u>Unsecured loans</u>		
Bank loans (1)	\$ 1,020,888	\$ 503,498
<u>Secured loans</u>		
Mortgaged loans (2)	<u>6,319</u>	<u>11,314</u>
	1,027,207	514,812
Less: Current portion	<u>(33,017)</u>	<u>(158,982)</u>
Long-term borrowings	<u>\$ 994,190</u>	<u>\$ 355,830</u>

- 1) The bank loans were due in July 2026. As of December 31, 2020 and 2019, the effective interest rate range of the bank loans was 0.80%-4.65% and 0.80%-3.45% per annum, respectively.
- 2) As of December 31, 2020 and 2019, the weighted average effective interest rate of the bank borrowings secured by the Group's freehold land, buildings and inventories (see Note 8) was 1.53% per annum and 2.93% per annum, respectively. Such loans are due in September and October 2021.

12) Other payables

	<u>December 31</u>	
	2020	2019
Payables for compensation to employees	\$ 330,272	\$ 208,319
Payables for salaries and bonuses	155,590	147,445
Payables for remuneration of directors	143,118	90,271
Others	<u>456,009</u>	<u>367,109</u>
	<u>\$ 1,084,989</u>	<u>\$ 813,144</u>

13) Retirement benefit plans

a. Defined contribution plans

The Corporation 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.

Merida & Centurion, Merida Benelux, Merida Polska, Merida U.K., Japan, and Norge do not have established pension plans but pay annuity and certain types of insurance under the local regulations. Merida China, Merida Shandong and Merida Jiangsu pay a basic endowment insurance for its local employees on a monthly basis under the regulations of local governments. The related departments of the local governments have the authority to arrange and pay the employees' pensions. The aforementioned belongs to the defined contribution retirement policy.

Merida B.V.I., Merida Hong Kong and Merida SAMOA are holding companies so these companies are not required to establish a retirement policy.

b. Defined benefit plans

The defined benefit plans adopted by the Corporation in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contribute amounts equal to 6% 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 Corporation 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 Corporation 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 Corporation has no right to influence the investment policy and strategy. According to the regulations for employees' retirement policy, the Corporation reserves 4% of monthly salaries and wages of appointed managers as an employee retirement reserve (recognized as net defined benefit liabilities).

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

	December 31	
	2020	2019
Present value of defined benefit obligation	\$ 676,381	\$ 692,214
Fair value of plan assets	<u>(567,990)</u>	<u>(497,007)</u>
Net defined benefit liabilities	<u>\$ 108,391</u>	<u>\$ 195,207</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2019	\$ 654,877	\$ (482,155)	\$ 172,722
Service costs			
Current service costs	8,964	-	8,964
Net interest expense (income)	<u>7,950</u>	<u>(5,841)</u>	<u>2,109</u>
Recognized in profit or loss	<u>16,914</u>	<u>(5,841)</u>	<u>11,073</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(16,369)	(16,369)
Actuarial loss - changes in financial assumption	38,104	-	38,104
Actuarial loss - experience adjustments	<u>(1,938)</u>	<u>-</u>	<u>(1,938)</u>
Recognized in other comprehensive income	<u>36,166</u>	<u>(16,369)</u>	<u>19,797</u>
Contributions from the employer	-	(8,385)	(8,385)
Benefits paid	<u>(15,743)</u>	<u>15,743</u>	<u>-</u>
Balance at December 31, 2019	<u>692,214</u>	<u>(497,007)</u>	<u>195,207</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Service costs			
Current service costs	\$ 8,312	\$ -	\$ 8,312
Net interest expense (income)	<u>5,377</u>	<u>(3,851)</u>	<u>1,526</u>
Recognized in profit or loss	<u>13,689</u>	<u>(3,851)</u>	<u>9,838</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(16,580)	(16,580)
Actuarial loss - changes in financial assumption	20,485	-	20,485
Actuarial loss - experience adjustments	<u>(41,016)</u>	<u>-</u>	<u>(41,016)</u>
Recognized in other comprehensive income	<u>(20,531)</u>	<u>(16,580)</u>	<u>(37,111)</u>
Contributions from the employer	-	(59,543)	(59,543)
Benefits paid	<u>(8,991)</u>	<u>8,991</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 676,381</u>	<u>\$ (567,990)</u>	<u>\$ 108,391</u> (Concluded)

Through the defined benefit plan under the Labor Standards Law, the Corporation 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 and corporate 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 plans' 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:

	<u>December 31</u>	
	2020	2019
Discount rate(s)	0.40%	0.80%
Expected rate(s) of salary increase	2.25%	2.25%

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

	December 31	
	2020	2019
Discount rate(s)		
0.50% increase	<u>\$ (25,447)</u>	<u>\$ (27,634)</u>
0.50% decrease	<u>\$ 27,118</u>	<u>\$ 29,515</u>
Expected rate(s) of salary increase		
0.50% increase	<u>\$ 26,490</u>	<u>\$ 28,949</u>
0.50% decrease	<u>\$ (25,129)</u>	<u>\$ (27,394)</u>

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

	December 31	
	2020	2019
Expected contributions to the plans for the next year	<u>\$ 9,609</u>	<u>\$ 9,027</u>
Average duration of the defined benefit obligation	7.7 years	8.2 years

14) Equity

a. Common shares

	December 31	
	2020	2019
Number of shares authorized (in thousands)	<u>350,000</u>	<u>350,000</u>
Shares authorized	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>298,984</u>	<u>298,984</u>
Shares issued	<u>\$ 2,989,838</u>	<u>\$ 2,989,838</u>

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

b. Capital surplus

The capital surplus arising from shares issued in excess of par (including common shares issued in excess of par, conversion of bonds, treasury share transactions and the difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition) and donations may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

Capital surplus arising from investments accounted for using the equity method, employee share options and share warrants may not be used for any purpose.

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Corporation 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 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 Corporation'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 after the amendment, refer to Note 6(16).

According to the dividends policy of the Corporation, the total dividends distributed shall be 10% to 80% of the distributable retained earnings of the current year. In addition, cash dividends distributed should be at least 10% of the total dividends distributed.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. The legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 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 Corporation.

The appropriations of earnings for 2019 and 2018 approved in the shareholders' meetings in June 2020 and 2019, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2019	2018	2019	2018
Legal reserve	\$ 250,244	\$ 170,884		
Appropriation to (Reversal of) special reserve	393,559	(38,135)		
Cash dividends	1,255,732	1,046,443	\$ 4.2	\$ 3.5

The appropriation of earnings for 2020 had been proposed by the Corporation's board of directors on March 25, 2021. The appropriations and dividend per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 402,250	
Special reserve	511,314	
Cash dividends	2,092,887	\$ 7.0

The appropriation of earnings for 2020 are subject to the resolution of the shareholders in the shareholders' meetings to be held on June 25, 2021.

15) Revenue

	<u>For the Year Ended December 31</u>		
	2020	2019	
Revenue from contracts with customers			
Revenue from sale of goods	<u>\$ 27,072,342</u>	<u>\$ 28,243,214</u>	
a. Contract balances			
	December 31,	December 31,	January 1,
	2020	2019	2019
Notes and trade receivables	<u>\$ 1,855,772</u>	<u>\$ 2,516,710</u>	<u>\$ 2,432,633</u>
Contract liabilities - current	<u>\$ 160,028</u>	<u>\$ 33,916</u>	<u>\$ 32,309</u>

b. Disaggregation of revenue

Refer to Note 15 for information about the disaggregation of revenue.

16) Employee benefits expense, depreciation and amortization expenses

	Operating Costs	Operating Expenses	Total
<u>For the Year Ended December 31, 2020</u>			
Short-term employee benefits	\$ 1,011,862	\$ 871,128	\$ 1,882,990
Post-employment benefits			
Defined contribution plans	17,945	16,179	34,124
Defined benefit plan	7,446	2,392	9,838
Other employee benefits	27,173	171,965	199,138
Depreciation expenses	145,611	122,686	268,297
Amortization expenses	2	7,906	7,908
<u>For the Year Ended December 31, 2019</u>			
Short-term employee benefits	996,890	654,581	1,651,471
Post-employment benefits			
Defined contribution plans	41,123	27,841	68,964
Defined benefit plan	8,639	2,434	11,073
Other employee benefits	33,254	116,890	150,144
Depreciation expenses	156,219	104,507	260,726
Amortization expenses	2	10,244	10,246

Employees' compensation and remuneration of directors

According to the Corporation's Articles of Incorporation, the Corporation accrued employees' compensation and remuneration of directors at rates of no less than 5% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2020 and 2019, which have been approved by the Corporation's board of directors on March 25, 2021 and March 24, 2020, respectively, are as follows:

Cash	For the Year Ended December 31			
	2020		2019	
	Accrual Rate	Amount	Accrual Rate	Amount
Employees' compensation	6%	\$ 330,272	6%	\$ 208,319
Remuneration of directors	2.6%	143,118	2.6%	90,271

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 is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018.

Information on the employees' compensation and remuneration of directors resolved by the Corporation's board of directors in 2021 and 2020 is available at the Market Observation Post System website of the TWSE.

17) Taxes

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2020	2019
Current tax		
In respect of the current year	\$ 266,233	\$ 460,551
Income tax on unappropriated earnings	28,362	27,382
Adjustments for prior years	<u>8,071</u>	<u>11,958</u>
	<u>302,666</u>	<u>499,891</u>
Deferred tax		
In respect of the current year	<u>826,004</u>	<u>202,805</u>
Income tax expense recognized in profit or loss	<u>\$ 1,128,670</u>	<u>\$ 702,696</u>

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

	For the Year Ended December 31	
	2020	2019
Income tax expense calculated at the statutory rate	\$ 1,073,859	\$ 631,127
Nondeductible expenses in determining taxable income	568	3,096
Tax-exempt income	(4,854)	(3,073)
Income tax on unappropriated earnings	28,362	27,382
Unrecognized deductible temporary differences	2,737	(1,801)
Unrecognized loss carryforwards	19,927	34,007
Adjustments for prior years' tax	<u>8,071</u>	<u>11,958</u>
Income tax expense recognized in profit or loss	<u>\$ 1,128,670</u>	<u>\$ 702,696</u>

The Income Tax Act in the ROC is 20%. The tax rate applicable to the subsidiaries in China is 25%; the tax amounts generated from other districts are calculated by the tax rates applicable in each relevant district.

In July 2019, the President of the ROC announced the amendments to the Statute of Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings.

b. Current tax liabilities

	December 31	
	2020	2019
Current tax assets		
Advance income tax (recognized as other current assets)	<u>\$ 55,432</u>	<u>\$ 46,445</u>
Current tax liabilities		
Income tax payable	<u>\$ 171,422</u>	<u>\$ 301,936</u>

c. Changes in deferred tax assets and liabilities

	For the Year Ended December 31, 2020			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 130,864	\$ (89,576)	\$ -	\$ 41,288
Defined benefit obligation	35,621	(10,077)	(7,422)	18,122
Unrealized impairment loss on assets	12,498	-	-	12,498
Unrealized foreign currency exchange losses	6,605	(6,605)	-	-
Unrealized provision for loss on inventory	<u>3,403</u>	<u>757</u>	<u>-</u>	<u>4,160</u>
	<u>\$ 188,991</u>	<u>\$ (105,501)</u>	<u>\$ (7,422)</u>	<u>\$ 76,068</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Investments accounted for using the equity method	\$ 2,601,979	\$ 716,194	\$ -	\$ 3,318,173
Reserve for land revaluation increment tax	100,934	-	-	100,934
Unrealized foreign currency exchange gains	<u>-</u>	<u>4,309</u>	<u>-</u>	<u>4,309</u>
	<u>\$ 2,702,913</u>	<u>\$ 720,503</u>	<u>\$ -</u>	<u>\$ 3,423,416</u>

For the Year Ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 92,850	\$ 38,014	\$ -	\$ 130,864
Defined benefit obligation	31,250	412	3,959	35,621
Unrealized impairment loss on assets	12,498	-	-	12,498
Unrealized foreign currency exchange losses	-	6,605	-	6,605
Unrealized provision for loss on inventory	4,063	(660)	-	3,403
	<u>\$ 140,661</u>	<u>\$ 44,371</u>	<u>\$ 3,959</u>	<u>\$ 188,991</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Investments accounted for using the equity method	\$ 2,351,526	\$ 250,453	\$ -	\$ 2,601,979
Reserve for land revaluation increment tax	100,934	-	-	100,934
Unrealized foreign currency exchange gains	3,277	(3,277)	-	-
	<u>\$ 2,455,737</u>	<u>\$ 247,176</u>	<u>\$ -</u>	<u>\$ 2,702,913</u>

- d. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized

	December 31	
	2020	2019
Loss carryforwards	\$ 684,876	\$ 593,754
Deductible temporary differences	<u>46,275</u>	<u>39,588</u>
	<u>\$ 731,151</u>	<u>\$ 633,342</u>

- e. Income tax assessments

The income tax returns of the Corporation through 2018, have been assessed by the tax authorities.

18) Earnings per share

	Net Profit Attributable to Owners of the Corporation	Number of Shares	Earnings Per Share (NT\$)
<u>For the Year Ended December 31, 2020</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	\$ 3,993,317	298,983,800	<u>\$13.36</u>
Effect of potentially dilutive common shares:			
Employees' compensation	-	<u>1,953,698</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	<u>\$ 3,993,317</u>	<u>300,937,498</u>	<u>\$13.27</u>
<u>For the Year Ended December 31, 2019</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	\$ 2,502,443	298,983,800	<u>\$ 8.37</u>
Effect of potentially dilutive common shares:			
Employees' compensation	-	<u>1,391,304</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	<u>\$ 2,502,443</u>	<u>300,375,104</u>	<u>\$ 8.33</u>

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

19) Business combinations

a. Subsidiaries acquired

Name of Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred (Cash)
Japan	Sale of bicycles	July 1, 2019	25	<u>\$ 23,766</u>
Norge	Sale of bicycles	December 2, 2019	41	<u>\$ 121,679</u>

Acquisition of Japan and the cash capital increase of Norge were for the purpose of expanding the Group's market share in the local bicycle market.

b. Assets acquired and liabilities assumed at the date of acquisition

	Merida Norge	Merida Japan
Current assets		
Cash and cash equivalents	\$ 7,317	\$ 77,599
Trade receivables	98,108	65,343
Inventories	324,460	204,598
Other current assets	6,992	12,169
Non-current assets		
Property, plant and equipment	19,110	6,648
Right-of-use assets	93,455	6480
Other non-current assets	10,450	11,269
Current liabilities		
Short-term bank borrowings	(197,255)	(57,720)
Trade and other payables	(233,074)	(60,704)
Current tax liabilities	-	(74)
Lease liabilities - current	(19,201)	(2,414)
Other current liabilities	(11,540)	(46,313)
Non-current liabilities		
Lease liabilities - non-current	(73,624)	(4,083)
Other non-current liabilities	<u>-</u>	<u>(139,211)</u>
	<u>\$ 25,198</u>	<u>\$ 73,587</u>

c. Goodwill arising on acquisitions

	Merida Japan
Consideration transferred	\$ 23,766
Less: Fair value of identifiable net assets acquired	<u>(18,397)</u>
Goodwill recognized on acquisition	<u>\$ 5,369</u>

Goodwill generated from the acquisition of Japan is mainly derived from the control premium. In addition, the consideration paid by the Group includes the expected consolidated synergies, revenue growth, future market development and employee value. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

d. Change in net value of equity due to capital increase in cash

	Merida Norge
Consideration transferred	\$ 121,679
Less: Net value of equity acquired from capital increase in cash	<u>(101,585)</u>
Less: Acquisition of equity from seasoned equity offering	
Change in net value of equity of associate accounted for using the equity method	<u>\$ 20,094</u>

Change in net value is mainly derived from the capital increase in cash of Norge subscribed at a percentage different from its existing ownership percentage.

e. Net cash inflow on the acquisitions of subsidiaries

	Merida Norge	Merida Japan
Consideration paid in cash	\$ -	\$ 23,766
Less: Cash and cash equivalent balances acquired	<u>(7,317)</u>	<u>(77,599)</u>
	<u>\$ (7,317)</u>	<u>\$ (53,833)</u>

f. Impact of acquisitions on the operating of the Group

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

	Merida Norge	Merida Japan
Operating revenue	<u>\$ 17,688</u>	<u>\$ 342,783</u>
Profit (loss)	<u>\$ (21,087)</u>	<u>\$ 3,163</u>

20) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Corporation (comprising issued capital, reserves, retained earnings and other equity).

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and the amount of new debt issued or existing debt redeemed.

21) Financial instruments

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

The carrying amounts of the Group's financial assets and liabilities that are not measured at fair value approximated their fair values.

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

a) The Group's financial assets at FVTPL and financial assets at FVTOCI are measured at fair value using Level 1 inputs.

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

b) Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Derivatives	Discounted cash flow method. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 1,563,734	\$ 1,078,809
Financial assets at amortized cost	5,892,621	5,910,187
Financial assets at FVTOCI - Equity instruments	3,400	3,400
<u>Financial liabilities</u>		
Financial liabilities at amortized cost	8,832,589	7,742,001

The balances include financial assets at amortized cost, which comprise cash and cash equivalents, notes and trade receivables, other receivables and refundable deposits.

The balances of financial liabilities above include financial liabilities measured at amortized cost, which comprise short-term and long-term bank borrowings, notes and trade payables, other payables and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables, borrowings, and lease liabilities. The Group's corporate treasury function provides services to the business, coordinates access to financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors and compliance with policies and exposure limits was reviewed according to the internal control policies on a continuous basis.

a) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into forward foreign exchange forward contracts to hedge the exchange rate risk arising on imports and exports.

i. Foreign currency risk

The Group has foreign currency denominated sales and purchase, which expose the group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 13.

Sensitivity analysis

The Group was mainly exposed to the USD.

Assuming a 1% increase in the NTD against the USD, the pre-tax profit for the years ended December 31, 2020 and 2019 would have decreased by \$20,176 thousand and \$34,113 thousand, respectively. 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 was 1% for the years ended December 31, 2020 and 2019.

ii. Interest rate risk

The Group is 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.

	December 31	
	2020	2019
Fair value interest rate risk		
Financial assets	\$ 397,529	\$ 679,907
Financial liabilities	1,298,797	1,095,727
Cash flow interest rate risk		
Financial assets	3,524,569	2,574,964
Financial liabilities	1,498,051	1,531,003

Sensitivity analysis

The sensitivity analysis was determined based on the Group's exposure to interest rates at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of each liability outstanding at the end of the reporting period was outstanding for the whole year. A 0.25% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.25% higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2020 and 2019 would have increased by \$5,066 thousand and \$2,610 thousand, respectively.

b) Credit risk

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

- i. The carrying amount of the respective recognized financial assets as stated in the balance sheets; and
- ii. The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Group's concentration of credit risk was mainly from customer A, which accounted for 60% and 59% of the total trade receivables as of December 31, 2020 and 2019, respectively.

c) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2020 and 2019, the Group had available unutilized bank loan facilities of \$6,673,589 thousand and \$6,379,871 thousand, respectively.

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

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed upon 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. 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 upon repayment dates.

	On Demand or Less than 1 Year	1-2 Years	More than 2 Years
<u>December 31, 2020</u>			
Non-interest bearing liabilities	\$ 6,140,329	\$ -	\$ -
Lease liabilities	43,517	37,819	56,416
Variable interest rate liabilities	823,051	2,616	672,384
Fixed interest rate liabilities	<u>844,915</u>	<u>122,721</u>	<u>196,469</u>
	<u>\$ 7,851,812</u>	<u>\$ 163,156</u>	<u>\$ 925,269</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years
Lease liabilities	<u>\$ 43,517</u>	<u>\$ 94,235</u>	<u>\$ -</u>

	On Demand or Less than 1 Year	1-2 Years	More than 2 Years
<u>December 31, 2019</u>			
Non-interest bearing liabilities	\$ 5,313,318	\$ -	\$ -
Lease liabilities	62,210	58,317	178,115
Variable interest rate liabilities	1,254,512	11,809	264,682
Fixed interest rate liabilities	<u>785,244</u>	<u>22,169</u>	<u>57,169</u>
	<u>\$ 7,415,284</u>	<u>\$ 92,295</u>	<u>\$ 499,966</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years
Lease liabilities	<u>\$ 62,210</u>	<u>\$ 201,491</u>	<u>\$ 34,941</u>

7. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries 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 below.

a. Related Party Categories/Names

<u>Related Party</u>	<u>Relationship with the Group</u>
SBC Group	Associate
SAIL & SURF	Associate
Merida Bikes SWE	Associate
Merida Czech	Associate
Merida Slovakia	Associate
Merida Korea	Associate
Merida Italy	Associate
WideDoctor	Associate
Rai Bi Bicycle Co., Ltd.	Other
Cheng Shin Rubber Industry Co., Ltd. ("Cheng Shin")	Other
Cheng Shin Rubber (Xiamen) Ind., Ltd. ("Cheng Shin (Xiamen)")	Other
Tianjin Tafeng Rubber Industry Co., Ltd. ("Tianjin Tafeng")	Other
Wolfgang Renner	Other

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31	
	2020	2019
Associates		
SBC Group	\$ 15,935,709	\$ 19,272,511
Others	<u>867,865</u>	<u>1,721,805</u>
	16,803,574	20,994,316
Others	<u>1,559</u>	<u>2,245</u>
	<u>\$ 16,805,133</u>	<u>\$ 20,996,561</u>

The selling price and gross profit of the products that the Group sells to related parties are quoted based on the differences in the products and the acceptance of the market. The quoted price is different from that of OEM products.

c. Purchase of goods

Related Party Category	For the Year Ended December 31	
	2020	2019
Other related parties	\$ 242,857	\$ 231,121
Associates	<u>2,948</u>	<u>3,816</u>
	<u>\$ 245,805</u>	<u>\$ 234,937</u>

The purchase price is quoted based on market prices.

d. Receivables from related parties

Related Party Category/Name	December 31	
	2020	2019
<u>Trade receivables</u>		
Associates		
SBC Group	\$ 1,120,335	\$ 1,484,798
Others	106,067	260,397
Other related parties	<u>247</u>	<u>-</u>
	<u>\$ 1,226,649</u>	<u>\$ 1,745,195</u>
<u>Other receivables</u>		
Associates		
Merida Italy	\$ -	\$ 37,379
Others	<u>529</u>	<u>3,652</u>
Other related parties	<u>-</u>	<u>41,031</u>
	<u>\$ 529</u>	<u>\$ 41,210</u>

e. Payables to related parties

Related Party Category	December 31	
	2020	2019
<u>Trade payables</u>		
Other related parties	<u>\$ 58,689</u>	<u>\$ 46,543</u>

f. Other transactions with related parties

1) Selling and marketing expenses - promotional and advertising expenses and others

Related Party Category	For the Year Ended December 31	
	2020	2019
Associates	<u>\$ -</u>	<u>\$ 3,474</u>

2) Interest income

Related Party Category	For the Year Ended December 31	
	2020	2019
Associates		
SBC group	\$ 2,150	\$ 12,501
Merida Czech	3,484	5,291
Others	<u>1,452</u>	<u>9,664</u>
	<u>\$ 7,086</u>	<u>\$ 27,456</u>

The Corporation receives interest from overdue trade receivables at an interest rate agreed upon in the terms of the transactions.

3) Acquisition of property, plant and equipment

Related Party Category	Asset item acquired	Acquisition Price
<u>December 31, 2020</u>		
Other related parties	Equipment	<u>\$ 26,432</u>
<u>December 31, 2019</u>		
Other related parties	Plant (including land)	<u>\$ 107,488</u>

g. Compensation of key management personnel

	For the Year Ended December 31	
	2020	2019
Short-term employee benefits	\$ 215,008	\$ 110,313
Post-employment benefits	<u>661</u>	<u>491</u>
	<u>\$ 215,669</u>	<u>\$ 110,804</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

8. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank loans:

	December 31	
	2020	2019
Inventory	\$ 84,498	\$ 367,549
Property, plant and equipment	25,062	30,407
Trade receivables	<u>49,506</u>	<u>-</u>
	<u>\$ 159,066</u>	<u>\$ 397,956</u>

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2020 and 2019 were as follows:

- a. As of December 31, 2020 and 2019, unused letters of credit for purchases of raw materials amounted to approximately \$872,179 thousand and \$713,889 thousand, respectively.
- b. Unrecognized commitments are as follows:

	December 31	
	2020	2019
Acquisition of property, plant and equipment	<u>\$ 32,596</u>	<u>\$ 20,088</u>

- c. Product liability insurance

The Corporation purchased product liability insurance over the products manufactured by the Corporation and its subsidiaries. The insured amount of the sales in USA and Canada is US\$4,000 thousand and it covers accidents happening after September 18, 2000. The maximum indemnity claims for the single original cause of a liability is US\$3,000 thousand. The insured amount for sales, other than those within the USA and Canada, is US\$1,000 thousand, and covers accidents happening after January 7, 1999. The maximum indemnity claims for the single original cause of a liability is US\$1,000 thousand.

10. OTHER ITEMS

Due to the impact of the COVID 19 pandemic, some of the Group's factories have suspended operations, resulting in a substantial decline in operating revenue from February 2020 to May 2020. With the easing of the epidemic and loosening of government policies, the Group expects that operations will gradually return to normal.

11. SIGNIFICANT LOSSES FROM DISASTERS

No such incident.

12. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No such incident.

13. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31, 2020			December 31, 2019		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>						
Monetary items						
USD	\$ 118,927	28.48	\$ 3,387,041	\$ 161,039	29.98	\$ 4,827,949
JPY	142,015	0.2763	39,239	830,282	0.276	229,158
Non-monetary items						
Associates accounted for using the equity method						
USD	463,810	28.48	13,209,309	345,745	29.98	10,365,435
EUR	6,226	35.02	218,035	5,302	33.59	178,094
<u>Financial liabilities</u>						
Monetary items						
USD	48,084	28.48	1,369,432	47,253	29.98	1,416,645
JPY	3,157,283	0.2763	872,357	2,267,019	0.2760	625,697

The Group is mainly exposed to the USD. The following information was aggregated by functional currencies of group entities, and the exchange rates between respective functional currencies and the presentation currency are disclosed. The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

Foreign Currency	For the Year Ended December 31			
	2020		2019	
	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Gain
NTD	1(NTD:NTD)	\$ (106,578)	1(NTD:NTD)	\$ 45,203
RMB	4.282(RMB:NTD)	(18,331)	4.472(RMB:NTD)	12,570
EUR	33.71(EUR:NTD)	(4,154)	34.61(EUR:NTD)	18,157

14. 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 investments in subsidiaries and associates). (Table 3)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 4)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)

- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
- 9) Trading in derivative instruments.

The Corporation has no outstanding forward contracts as of December 31, 2020 and 2019. The net profit from trading in derivative instruments was \$318 thousand for the years ended December 31, 2019.

10) Intercompany relationships and significant intercompany transactions. (Table 7)

11) Information on investees. (Table 8)

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 of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 9)
- 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 5)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 5)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the year and their purposes. (Table 2)
 - e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)

15. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the location of operations. The Group focuses on the manufacture and sale of bicycles and bicycle components. The Group's reportable segments are determined by products manufactured and the location of sales as follows:

- a. Domestic operations - products manufactured and sold in Taiwan
- b. Asia operations - products manufactured and sold in China and Hong Kong
- c. Europe operations - products sold in Europe

1) Analysis of reportable segments

	For the Year Ended December 31, 2020				
	Domestic Operations	Asia Operations	Europe Operations	Reconciliation and Elimination	Total
<u>Revenue</u>					
Revenue from external customers	\$ 18,390,246	\$ 2,712,318	\$ 5,969,778	\$ -	\$ 27,072,342
Inter-segment revenue	1,839,168	434,700	182,347	(2,456,215)	-
Interest income	27,928	19,646	2,314	(15,563)	34,325
Share of profit of associates accounted for using the equity method	<u>3,580,526</u>	<u>-</u>	<u>-</u>	<u>(195,163)</u>	<u>3,385,363</u>
Total revenue	<u>\$ 23,837,868</u>	<u>\$ 3,166,664</u>	<u>\$ 6,154,439</u>	<u>\$ (2,666,941)</u>	<u>\$ 30,492,030</u>
Interest expenses	\$ 4,586	\$ 21,682	\$ 37,516	\$ (11,778)	\$ 52,006
Depreciation and amortization	67,557	123,150	85,498	-	276,205
Income tax expense	1,037,827	22,576	68,267	-	1,128,670
Segment profit and loss	3,993,317	(23,067)	337,060	(195,163)	4,112,147
<u>Assets</u>					
Investments accounted for using the equity method	\$ 17,323,550	\$ -	\$ -	\$ (3,495,334)	\$ 13,828,216
Non-current assets	18,500,843	1,203,278	876,112	(3,562,761)	17,017,472
Segment assets	26,470,917	4,299,309	3,207,969	(4,295,718)	29,682,477
Segment liabilities	10,436,781	1,333,032	1,867,787	(735,710)	12,901,890

For the Year Ended December 31, 2019

	Domestic Operations	Asia Operations	Europe Operations	Reconciliation and Elimination	Total
<u>Revenue</u>					
Revenue from external customers	\$22,400,877	\$ 1,879,180	\$ 3,963,157	\$ -	\$28,243,214
Inter-segment revenue	2,603,333	823,947	147,697	(3,574,977)	-
Interest income	64,239	35,253	2,626	(21,444)	80,674
Share of profit of associates accounted for using the equity method	<u>1,261,953</u>	<u>-</u>	<u>-</u>	<u>88,331</u>	<u>1,350,284</u>
Total revenue	<u>\$26,330,402</u>	<u>\$ 2,738,380</u>	<u>\$ 4,113,480</u>	<u>\$ (3,508,090)</u>	<u>\$29,674,172</u>
Interest expenses	\$ 9,381	\$ 18,090	\$ 32,734	\$ (16,331)	\$ 43,874
Depreciation and amortization	69,170	136,207	65,595	-	270,972
Income tax expense	670,944	149	31,603	-	702,696
Segment profit and loss	2,502,443	(129,295)	39,504	88,332	2,500,984

Assets

Investments accounted for using the equity method	\$ 13,809,163	\$ -	\$ -	\$ (3,150,258)	\$10,658,905
Non-current assets	14,990,586	1,369,275	591,055	(3,217,688)	13,733,228
Segment assets	22,740,284	4,159,947	3,989,239	(5,208,680)	25,680,790
Segment liabilities	8,961,599	1,152,211	3,007,160	(1,844,040)	11,276,930

Non-current assets do not include assets that are classified as deferred tax assets.

2) Information about major customers

Name	For the Year Ended December 31			
	2020		2019	
	Amount	%	Amount	%
Customer A	<u>\$15,935,709</u>	<u>59</u>	<u>\$19,272,511</u>	<u>68</u>

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Amount Borrowed	Interest Rate (%)	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
													Item	Value		
0	The Corporation	Merida U.K.	Other receivables from related parties	Yes	\$ 14,086	\$ -	\$ -	3.30	For short-term financing needs	\$ -	Operating capital	\$ -	-	\$ -	\$ 6,413,654 (Note 1)	\$ 8,017,068 (Note 3)
		Merida Norge	Other receivables from related parties	Yes	471	-	-	3.96	For short-term financing needs	-	Operating capital	-	-	-	6,413,654 (Note 1)	8,017,068 (Note 3)
		Merida Polska	Other receivables from related parties	Yes	158,151	86,545	62,339	6.48	For short-term financing needs	-	Operating capital	-	-	-	6,413,654 (Note 1)	8,017,068 (Note 3)
		Merida Bikes SWE	Other receivables from related parties	Yes	5,892	-	-	4.50	For short-term financing needs	-	Operating capital	-	-	-	1,063,413 (Note 2)	8,017,068 (Note 3)
		Merida Italy	Other receivables from related parties	Yes	38,451	9,651	-	4.00	For short-term financing needs	-	Operating capital	-	-	-	1,063,413 (Note 2)	8,017,068 (Note 3)
1	Merida Shandong	Merida Jiangsu	Other receivables from related parties	Yes	RMB 70,000	RMB 70,000	RMB 21,250	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 78,656 (Note 4)	RMB 78,656 (Note 4)
2	Merida China	Merida Jiangsu	Other receivables from related parties	Yes	RMB 60,000	RMB 36,000	RMB 8,000	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 37,204 (Note 5)	RMB 37,204 (Note 5)
3	Merida Hong Kong	The Corporation	Other receivables from related parties	Yes	USD 17,000	USD 17,000	USD -	-	For short-term financing needs	-	Operating capital	-	-	-	HKD 191,117 (Note 6)	HKD 191,117 (Note 6)

Note 1: 40% of the net assets of the Corporation in their latest financial statements.

Note 2: 10% of the net assets of the Corporation in their latest financial statements.

Note 3: 50% of the net assets of the Corporation in their latest financial statements.

Note 4: 40% of the net assets of Merida Shandong in their latest financial statements.

Note 5: 40% of the net assets of Merida China in their latest financial statements.

Note 6: 40% of the net assets of Merida Hong Kong in their latest financial statements.

Note 7: Significant intercompany accounts and transactions have been eliminated.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits 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	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 2)	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
		Name	Relationship										
0	The Corporation	Merida U.K.	Subsidiary	\$ 4,810,240	EUR 500 GBP 4,000	EUR 500 GBP 4,000	EUR - GBP 3,978	\$ -	1.08	\$ 8,017,068	Yes	-	-
		Merida & Centurion	Subsidiary	4,810,240	EUR 27,000	EUR 27,000	EUR 21,800	-	5.90	8,017,068	Yes	-	-
		Merida Jiangsu	Indirectly owned subsidiary	4,810,240	USD 3,750 RMB 60,000	USD 3,750 RMB 60,000	USD 250 RMB 60,000	-	2.30	8,017,068	Yes	-	Yes

Note 1: 30% of the net assets of the Corporation in their previous year's financial statements.

Note 2: 50% of the net assets of the Corporation in their previous year's financial statements.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2020			
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Fair Value (Note 2)
The Corporation	<u>Mutual funds</u>						
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at FVTPL - current	46,095	\$ 480,695	-	\$ 480,695
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	27,706	350,474	-	350,474
	Cathay Taiwan Money Market Fund	-	Financial assets at FVTPL - current	23,942	300,100	-	300,100
	Yuanta Wan-Tai Money Market Fund	-	Financial assets at FVTPL - current	16,399	250,177	-	250,177
	Yuanta De-Bao Money Market Fund	-	Financial assets at FVTPL - current	10,752	130,208	-	130,208
	<u>Share capital</u>						
	Leechi Enterprises Co., Ltd.	-	Financial assets at FVTPL - current	113	1,607	-	1,607
	Cheng Shin	The Corporation's chairman is their director	Financial assets at FVTPL - current	1,146	50,473	-	50,473
	Merida Benelux (Note 1)	-	Financial assets at FVTOCI - non-current	2,749	89,220	-	89,220
	SR Suntour Inc.	-	Financial assets at FVTOCI - non-current	110	3,000	-	3,000
	Taifong Golf Course	-	Financial assets at FVTOCI - non-current	30	400	-	400
	Long Jee Holdings Pte. Ltd.	-	Financial assets at FVTOCI - non-current	330	-	2	-

Note 1: The preference shares investments have been eliminated.

Note 2: Refer to Note 6(21) for information on the fair values.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars, Shares and Units)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount (Note)
The Corporation	Jin Sun Money Market Fund	Financial assets at FVTPL - current	-	-	20,192	\$ 300,414	10,055	\$ 150,000	30,247	\$ 450,946	\$ 450,000	\$ 946	-	\$ -
	Yuanta De-Bao Money Market Fund	Financial assets at FVTPL - current	-	-	24,903	300,426	14,889	180,000	29,039	350,834	350,000	834	10,752	130,208
	Franklin Templeton Sinoam Money Market Fund	Financial assets at FVTPL - current	-	-	24,116	250,301	50,901	530,000	28,922	300,803	300,000	803	46,095	480,695
	Cathay Taiwan Money Market Fund	Financial assets at FVTPL - current	-	-	8,022	100,168	47,912	600,000	31,992	400,450	400,000	450	23,942	300,100
	Mega Diamond Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	27,706	350,000	-	-	-	-	27,706	350,474

Note: The net asset values are measured as of the balance sheet date.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2020
 (In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivables (Payables)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	SBC Group	Investment accounted for using the equity method	Sale	\$ (15,935,709)	(79)	O/A 60 days	\$ -	-	\$ 1,120,335	61	
	Merida & Centurion	Subsidiary	Sale	(809,475)	(4)	D/A or O/A 150 days	-	-	21,956	1	
	Merida U.K.	Subsidiary	Sale	(310,446)	(2)	O/A 60 days	-	-	7,460	-	
	Merida Korea	Investment accounted for using the equity method	Sale	(291,832)	(1)	O/A 120 days	-	-	7,346	-	
	Merida Benelux	Subsidiary	Sale	(201,676)	(1)	O/A 180 days	-	-	129,192	7	
	SAIL & SURF	Investment accounted for using the equity method	Sale	(196,481)	(1)	T/T 14 days or D/A 180 days	-	-	12,090	1	
	Merida Bikes SWE	Investment accounted for using the equity method	Sale	(178,896)	(1)	T/T 14 days or O/A 120 days	-	-	42,184	2	
	Merida Japan	Subsidiary	Sale	(146,039)	(1)	O/A 90 days	-	-	36,052	2	
	Merida Norge	Subsidiary	Sale	(130,413)	(1)	T/T 14 days or D/A 120 days	-	-	118,620	6	
	Merida Jiangsu	Third-tier subsidiary	Sale	(125,567)	(1)	O/A 90 days	-	-	40,943	2	
	Merida Polska	Subsidiary	Sale	(115,170)	(1)	O/A 150 days	-	-	104,280	6	
	Merida Czech	Investment accounted for using the equity method	Sale	(104,280)	(1)	D/A 150 days	-	-	29,631	2	
	Merida China	Third-tier subsidiary	Purchase	369,292	2	T/T 90 days	-	-	(82,407)	(2)	
Merida Jiangsu	Merida Shandong	Associate	Sale	RMB (138,254)	(80)	T/T 90 days	-	-	RMB 10,673	95	

Note: Significant intercompany accounts and transactions have been eliminated.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Financial Statement Account	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Actions Taken		
The Corporation	SBC Group	Investment accounted for using the equity method	Trade receivables from related parties	\$ 1,120,335	12.23	\$ -	-	\$ 1,120,335	\$ -
	Merida Benelux	Subsidiary	Trade receivables from related parties	129,192	1.29	-	-	51,418	-
			Other receivables from related parties	2,584	-	-	-	1,028	-
	Merida Norge	Subsidiary	Trade receivables from related parties	118,620	0.73	-	-	29,829	-
			Other receivables from related parties	11,431	-	-	-	397	-
	Merida Polska	Subsidiary	Trade receivables from related parties	104,280	0.86	-	-	-	-
			Other receivables from related parties	62,339	-	62,339	Continued collection	25,347	-

Note: Significant intercompany accounts and transactions have been eliminated.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars and Foreign Currencies)**

No.	Investee Company	Counterparty	Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets
0	The Corporation	Merida & Centurion	1	Sales	\$ 809,475	D/A or O/A 150 days	3
		Merida U.K.	1	Sales	310,446	O/A 60 days	1
		Merida Benelux	1	Sales	201,676	O/A 180 days	1
		Merida Japan	1	Sales	146,039	O/A 90 days	1
		Merida China	1	Cost of goods sold	369,292	T/T 90 days	1
1	Merida Jiangsu	Merida Shandong	2	Sales	RMB 138,254	T/T 90 days	2

Note: Flow of transactions numbered as follows: (1) From parent company to subsidiary; (2) From subsidiary to subsidiary.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2020
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Investor Company	Investee Company (Note 3)	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2020	December 31, 2019	Number of Shares (In Thousands)	%	Carrying Amount			
The Corporation	<u>Share capital</u> SBC	California, United States of America	Design, development, manufacture and sale of bicycles	\$ 887,013	\$ 887,013	\$ 3,410	35	\$ 13,544,791	USD 321,297	\$ 3,359,564	
	Merida B.V.I.	British Virgin Islands	International investment	1,362,597	1,362,597	42,500	100	2,686,883	USD (117)	(3,444)	Subsidiary
	Merida & Centurion	Stuttgart, Germany	Sale of bicycles	103,725	103,725	-	51	491,153	EUR 7,251	124,660	Subsidiary
	Merida Polska	Gliwice, Poland	Sale of bicycles and bicycle components	113,170	113,170	-	74	66,506	PLN 1,961	10,990	Subsidiary
	Merida Norge	Lysaker, Norway	Sale of bicycles	151,459	151,459	198	75	97,759	NOK 7,116	16,737	Subsidiary
	SAIL & SURF	Strobl, Austria	Sale of bicycles	116,195	116,195	-	40	114,561	EUR 978	13,183	
	Merida Czech	Brno, Czech Republic	Sale of bicycles	21,042	21,042	-	45	42,587	CZK 9,870	5,644	
	Merida Bikes SWE	Madrid, Spain	Sale of bicycles	18,646	18,646	1	36	70,268	EUR 512	6,270	
	WideDoctor	Changhua, Taiwan	Marketing of daily necessities	16,900	16,900	690	26	3,880		(534)	(136)
	Merida Slovakia	Partizanska, Slovakia	Sale of bicycles	40	40	-	30	25,978	EUR 192	1,940	
	Merida Japan	Kanagawa, Japan	Sale of bicycles	118,875	103,679	2	90	68,877	JPY 9,258	2,307	Subsidiary
	Merida Italy	Reggio Emilia, Italy	Sale of bicycles	19,011	5,164	559	27	11,822	EUR (510)	(4,686)	
	Merida Benelux	Beekbergen, Netherlands	Sale of bicycles	65,400	65,400	766	60	(67,098)	EUR 166	3,368	Subsidiary
	Merida U.K.	Nottingham, United Kingdom	Sale of bicycles	40,309	40,309	482	81	84,156	GBP 1,314	40,545	Subsidiary
	Merida Korea	Seoul, Republic of Korea	Sale of bicycles	10,598	10,598	77	40	14,329	KRW 354,185	3,584	
Merida B.V.I.	<u>Share capital</u> Merida Hong Kong	Hong Kong	International investment and trade	USD 27,087	USD 27,087	202,800	100	USD 61,685	HKD 12,141	(Note 1)	Indirectly owned subsidiary
	Merida SAMOA	Samoa	International investment	USD 24,500	USD 24,500	24,500	70	USD 16,635	USD (2,503)	(Note 1)	Indirectly owned subsidiary
Merida Norge	<u>Share capital</u> Merida Sverige AB	Gothenburg, Sweden	Sale of bicycles	NOK 814	NOK 814	-	100	NOK 4,081	SEK 2,265	(Note 1)	Indirectly owned subsidiary
Merida & Centurion	<u>Share capital</u> Merida Europe GmbH	Stuttgart, Germany	Brand promotion and cycling team management	EUR 25	EUR 25	-	100	EUR 1,132	EUR 331	(Note 1)	Indirectly owned subsidiary
	Merida R&D Center GmbH	Stuttgart, Germany	Design and development of bicycles	EUR 25	EUR 25	-	100	EUR 310	EUR 35	(Note 1)	Indirectly owned subsidiary
Merida Japan (Note 2)	<u>Share capital</u> Miyata	Kanagawa, Japan	Sale of bicycles	JPY 62,371	-	-	100	JPY 61,942	JPY (429)	(Note 1)	Indirectly owned subsidiary

Note 1: Not applicable.

Note 2: Merida Japan split the "MIYATA" brand business into a newly established 100% subsidiary: Miyata Cycle Co., Ltd.

Note 3: Significant intercompany accounts and transactions have been eliminated.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars and Foreign Currencies)

Cadastral District Number	Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2020 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2020
						Outward	Inward						
4403	Merida China	Manufacture and sale of bicycles	\$ 349,734 (USD 12,280)	The investment was made through a corporation established in a third country, which, in turn, invested in companies located in mainland China	\$ 315,758 (USD 11,087)	\$ -	\$ -	\$ 315,758 (USD 11,087)	\$ (56,492)	100	\$ (56,492)	\$ 407,122	\$ 1,273,255 (USD 44,707)
3714	Merida Shandong	Manufacture and sale of e-bikes and bicycles	455,680 (USD 16,000)	The investment was made through a corporation established in a third country, which, in turn, invested in companies located in mainland China	455,680 (USD 16,000)	-	-	455,680 (USD 16,000)	103,503	100	103,503	860,721	738,287 (USD 25,923)
3206	Merida Jiangsu	Manufacture and sale of bicycles	996,800 (USD 35,000)	The investment was made through a corporation established in a third country, which, in turn, invested in companies located in mainland China	469,920 (USD 16,500)	-	-	469,920 (USD 16,500)	(74,228)	70	(51,960)	443,534	-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2020	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by the Investment Commission, MOEA	Accumulated investment amount from Taiwan due to disposal of companies in mainland China at the end of the current period (including sales, liquidation, dissolution, mergers and bankruptcy)	Repatriation of investment income from disposal of companies in mainland China as of the end of the current period (including sales, liquidation, dissolution, mergers and bankruptcy)
\$ 1,241,358 (USD 43,587)	\$ 1,301,963 (USD 45,715) (Note 2)	\$ 10,068,352 (Note 3)	\$ -	\$ -

Note 1: The investment gain (loss) and carrying amount as of December 31, 2020 are recognized according to the financial statements audited by the Corporation's independent auditors.

Note 2: The amount includes the upper limit of the investment amount for Merida China of USD13,215 thousand, USD 16,000 thousand for Merida Shandong and USD16,500 thousand for Merida Jiangsu.

Note 3: Amounts are based on the upper limit of the investment amount regulated by the "Regulation for Screening of Application to Engage in Technical Cooperation in Mainland China".

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES**INFORMATION OF MAJOR SHAREHOLDERS****December 31, 2020**

Name of Major Shareholder	Shares	
	Number of Shares	Percentage of Ownership (%)
Michael S.T. Tseng	48,664,715	16.27%

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Corporation as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.